

9 August 2012

Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

[www.aemc.gov.au](http://www.aemc.gov.au)

Dear Sir/Madam

**Issues Paper – National Workstream – Review of Distribution Reliability Outcomes and Standards**

Essential Energy appreciates the opportunity to respond to the Australian Energy Market Commission's (AEMC's) Issues Paper – National Workstream titled Review of distribution reliability outcomes and standards ('the issues paper').

**Costs and benefits of a national framework**

The terms of reference from the Standing Council on Energy and Resources (SCER) note that there will be no harmonisation of existing jurisdictional obligations, rather the approach to expressing, delivering and reporting of those standards or outcomes will be made more consistent under a national framework<sup>1</sup>.

Essential Energy considers that there must be benefits to customers and minimal costs involved in adopting a national framework to make the change worthwhile. We agree with the following paragraph contained in the issues paper:

*Consistency for the sake of consistency is likely to produce relatively limited benefits. However, a nationally consistent framework could potentially offer significant benefits if that framework represents best practice and is a substantial improvement on at least some aspects of the approaches currently adopted by jurisdictions<sup>2</sup>.*

For Distribution Network Service Providers (DNSPs) there will be costs involved in changing current management and reporting processes that are used to measure reliability. We estimate these changes will take 2 to 3 years to implement and a much longer period of time for customers to see any benefit. Given the possible costs and uncertain benefits we question the benefit of adopting a national framework at this stage.

**Service Target Performance Incentive Scheme**

The national framework proposed in the issues paper is similar to the reliability component of the Australian Energy Regulator's Service Target Performance

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<sup>1</sup> Australian Energy Market Commission, 2012, Issues Paper – National Workstream, Review of distribution reliability outcomes and standards, Pg 41

<sup>2</sup> Australian Energy Market Commission, 2012, Issues Paper – National Workstream, Review of distribution reliability outcomes and standards, Pg 9

Incentive Scheme (STPIS). The STPIS has an overarching national framework but sets different jurisdictional targets based on differences in the DNSPs location and operating conditions.

Transferring some jurisdictional reliability requirements to the STPIS program could occur at a minimal cost to DNSPs and customers and may remove some of the inconsistencies that currently exist between jurisdictional reliability requirements and the STPIS.

However, the STPIS, as currently structured, will encourage DNSPs to focus reliability improvements on parts of the network in urban areas that may already be performing quite well at the expense of poorly performing parts of the network in rural areas. Consequently, Essential Energy considers that establishing minimum service standards for feeder classes (similar to the NSW Design Reliability and Performance Licence Conditions) serves an important function in protecting the interests of worst served customers.

### **Lack of consultation of best practice framework**

The issue paper states that

*The terms of reference requires the AEMC to publish a final report setting out their recommended best practice framework four months after the SCER has provided a response to the draft report, and provide that final report to the SCER two weeks prior to publication<sup>3</sup>.*

In our opinion this does not allow adequate time for consultation on the best practice framework. We agree with the AEMC that the development of a best practice framework will require careful consideration and engagement with stakeholders. We support the AEMC's position that they discuss an additional consultation step with SCER prior to the publication of the AEMC's final report. This will allow DNSPs and other stakeholders to comment, and if necessary, make changes, to the framework. Given the impact the framework could have on DNSPs this additional step seems both necessary and logical.

### **Output methods and protecting worst served customers**

In response to the AEMC's recent draft report titled *NSW Workstream – Review of distribution reliability outcomes and standards* Essential Energy stated that setting reliability standards on a more outputs based approach could potentially lead to improved customer outcomes. Whilst we believe that an outputs based approach may benefit customers we also believe it will be equally important to include provisions to ensure that customers located in worst served areas are protected under an outputs based approach. Customers in worst served areas already experience reliability levels below the state average, and significantly worse than customers located in urban areas.

As outlined in the issues paper if adequate provisions are not included to protect customers located in worst served areas DNSPs will not be incentivised to improve reliability in those areas. Currently each jurisdiction has provisions for poor performing feeders as part of their approach to regulating reliability. Essential Energy considers that retaining similar provisions in any revised framework will be

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<sup>3</sup> Australian Energy Market Commission, 2012, Issues Paper – National Workstream, Review of distribution reliability outcomes and standards, Pg 9



necessary it may even be necessary to expand its application to incentivise improvements to the worst served parts of the network.

### **Standardisation under a national framework**

Essential Energy's considers it will be important for each jurisdiction to have standardised reporting and exclusion methodologies across each jurisdiction if a national framework is adopted. Standardisation of these two factors will allow comparisons to be made between DNSPs and to increase transparency.

Essential Energy agrees that having one regulatory body that sets reliability standards and also determines the amount of allowable expenditure to meet those standards may provide a more efficient outcome.

### **Customer communication requirements**

In recent submissions to the AEMC's NSW workstream Essential Energy suggested that network costs could be reduced by replacing network investments for reliability improvement with better communication to customers during outages. Examples of communication would include building systems and processes that answer the fundamental questions customers ask during an outage, such as:

1. How long before the power is back on?
2. What caused the outage?
3. Have the work crews been dispatched to the area?
4. How widespread is the outage?


As noted in the paper customer preferences for improved communication over greater levels of reliability were explored in the residential customer surveys as part of the NSW workstream. However, as previously noted in our submission to the AEMC's Draft Report – NSW Workstream Essential Energy was disappointed that the survey did not provide an approximate cost to increased communication verse increased reliability.

The cost of each alternative is especially important in this context as it would be significantly different for each alternative. One would expect that increasing communication with customers would be a minor cost when compared to the cost of upgrading the network. Essential Energy is of the view that, had each alternative included an estimated cost, customer responses to each option may have been quite different.

Essential Energy agrees that increased communications should not necessarily be mandated but could be adopted voluntarily by DNSPs where customers prefer increased communication and it is more cost effective than making network investments to improve reliability.

Essential Energy would be pleased to discuss this matter further with the AEMC. Should you require further information please feel free to contact Col Lambert on 02 6589 8851.

Yours sincerely

  
Col Ussher  
**Executive General Manager Infrastructure Strategy**