Major Energy Users Inc.

Australian Energy Markets Commission

Consultation Paper on National Reliability Standards

Comments on the Consultation Paper

Submission by

The Major Energy Users Inc

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Summary

The Major Energy Users Inc (MEU) most strongly supports the principle of developing national consistency in the reliability standards and targets that apply to transmission network service providers (TNSPs) and distribution network service providers (DNSPs) in the National Energy Market (NEM).

The current approaches to reliability standards derive from a time when the electricity supply system was built around jurisdictionally based energy markets. The last 20 years of reform has been one of moving gradually – very gradually in some instances – towards an efficiently functioning and truly national energy market.

The MEU stresses the importance of a seamless national energy market to its organisational members, and also to the productivity of the overall economy and the welfare of the community at large.

Therefore, the MEU has generally supported the reviews conducted over the last 2 years by the Australian Energy Market Commission (the AEMC). As a result of its most recent reviews, the AEMC has supported the need for implementing a national framework for determining network reliability standards.

The AEMC's current consultation paper, *Review of the national frameworks for transmission and distribution reliability* (Consultation Paper)[1] represents the next step in the process. That is, having confirmed its support for a national framework for transmission and distribution reliability, the AEMC's Consultation Paper proposes a methodology for developing and implementing national reliability standards.

The MEU acknowledges that the AEMC's approach to the national reliability framework has been constrained by the terms of reference set by the Standing Council of Energy (SCER) ministers. Nevertheless the MEU is disappointed in many areas of the approach proposed by the AEMC in the Consultation Paper.

The MEU believes that both the SCER and the AEMC have missed an opportunity to significantly reform the regulatory processes and thereby contribute to developing a truly national and efficient electricity network system. As the Productivity Commission said in their Final Report on the broader network regulatory framework:[2]

[1] AEMC, 2013, *Review of the national frameworks for transmission and distribution reliability*, Consultation paper, 12 July 2013, Sydney.
[2] Productivity Commission 2013, *Electricity Network Regulatory Framework,* Report no. 62, Canberra, page 7.

> "The 'National' in the NEM is progressing too slowly … State and territory governments, and their regulators, still play too large a role in setting reliability standards…"

The MEU agrees with the Productivity Commission's view. The MEU considers that the AEMC's proposed process for setting reliability standards and targets will perpetuate rather than remedy the issues raised by the Productivity Commission in their report.

In particular, the MEU notes that the Consultation Paper focuses on establishing a framework for developing common nationally consistent definitions of reliability measures and a common process for determining these measures, at a very high level.

This is to be commended - as far as it goes. However, the AEMC's more detailed process for setting actual reliability standards and targets continues to place jurisdictional ministers (as the "standard setter") at the centre of the process,[3] and to allow them a significant degree of 'flexibility' in what aspects of reliability are measured and what standards are set.[4]

The MEU considers that the central role of jurisdictional ministers in setting reliability standards is particularly deleterious when determining reliability standards for transmission service providers (TNSPs).

It is hard to see any useful purpose in providing a central role for jurisdictional ministers in setting the transmission standards, as transmission is the backbone of the effective operation of the geographically interlinked NEM. For example, the efficient operation of the electricity generation market depends on the ability of the transmission system to optimise electricity flows across the NEM, particularly with the growth in large-scale renewable energy generation.

There is a very real risk that making each of the jurisdictional ministers responsible for TNSP reliability standards for in their jurisdiction will result in a plethora of additional measures (above the core mandated measures) and variable standards on these measures, in turn leading to different investment decisions by TNSPs, depending on which side of the state border they sit.

As a result of this, and the continued use of deterministic input standards for TNSPs (albeit with an initial economic analysis – the so-called 'economic redundancy' approach) the AEMC has also created a process that is complex

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[3] Jurisdictional ministers may choose to transfer this responsibility to another party such as the jurisdictional regulator or the AER. However, the fundamental decision maker is the jurisdictional minister.

[4] Although the AEMC has specified some core reliability measures, such as SAIDI and SAIFI for distribution, and N-x redundancy standard for TNSPs, it also allows significant discretion for the jurisdictional minister or their nominee to set the level of performance on these measures and to propose additional reliability measures.

and lengthy, with multiple overlapping roles. Thus, not only is national electricity supply efficiency compromised, so too are the links to other regulatory processes and the potential for sustained consumer engagement in the process.

The MEU further elaborates on the key areas of concern in section 2. In brief, the MEU considers the AEMC has:

- A lack of focus on progressing a truly national energy market (the ultimate goal as detailed above) by providing jurisdictional ministers with the right to set standards and targets, even when these are sub-optimal on the economic cost/benefit test or are 'unmeasurable'.

- Unnecessarily retained the continued use of rigid input targets for TNSP reliability measures, albeit based on initial economic analysis (i.e. the economic redundancy approach) – the AEMC's apparent suggestion to add additional output measures or reliability complicates the process but does not, in our view, resolve these problems;

- Omitted to properly consider linkages between all the regulatory instruments (including revenue determinations and service target performance Incentive schemes) and the impact of rigid input standards on disrupting these links; and

- Not fully recognised the barriers to effective consumer engagement created most particularly by the length and complexity of the process itself.

Section 3 provides detailed response to the specific questions in the Consultation Paper.

Finally, the MEU is most concerned that the AEMC appears to have paid little attention to the concerns raised by the Australian Energy Regulator (AER) and, more particularly, the Australian Energy Market Operator (AEMO) in their responses to the AEMC's proposed use of 'economic redundancy' standards for TNSPs rather than the more dynamic and flexible economic output measures.

The AEMO has had considerable experience with economic output measures of reliability, as well as the problems caused by the looming overhang of investment and the ongoing inflexibility created by the redundancy approach to transmission reliability. The AEMO's concerns with the redundancy approach are particularly relevant given the relatively rapid changes in supply and demand in the NEM.

The MEU shares this concern and believes there is a real risk of further perpetuating the over-investment in transmission infrastructure at considerable cost to the long-term interests of consumers.

1. Introduction

The Major Energy Users, Inc (MEU) welcomes the opportunity to respond to the AMEC's Consultation Paper, *Review of the national frameworks for transmission and distribution reliability* (Consultation Paper).[5]

1.1 An overview on the approach to reliability setting

This is the sixth submission the MEU has made to the AEMC in recent times on reliability standards for electricity distribution and/or transmission networks in the National Energy Market (NEM). This reflects the importance to the MEU places on the matter of condensing the many and varied approaches to setting the reliability standards currently used, as well as a frustration at the slow progress in energy market reform.

The MEU notes that the AEMC has proposed in its most recent Consultation Paper some improvements in the process for setting distribution standards, particularly the replacement of input standards with the more efficient and responsive output reliability targets. This is welcome although does not go far enough.

However, our overwhelming concern is with the failure, first of the Standing Council of Energy (SCER) and then of the AEMC to address the barriers to establishing a truly national transmission network. It is exceedingly disappointing to the MEU that both SCER and the AEMC, by placing jurisdictional ministers at the centre of the process for setting reliability standards, fails to accept the importance of a truly national approach in transmission.

The AEMC Consultation Paper continues to promote the use of input measures for transmission reliability despite the evidence that they are inflexible in response to changes in supply and demand and have lead to overinvestment in assets with higher costs for consumers.

The AEMC's proposal to use input standards for transmission networks has been opposed by the AEMO who have considerable expertise in this area. The proposal for ongoing jurisdictional intervention in transmission standards also contradicts the conclusions of the Productivity Commission in their recent review of electricity network regulation where it succinctly sums up the MEU frustrations where it states in its final report to the Council of Australian Governments[6]:

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[5] AEMC, 2013, n 1.
[6] Productivity Commission 2013, *Electricity Network Regulatory Framework,* Report no. 62, Canberra, pp 15-16.

> "It would be bizarre if regulatory customs that were reasonable enough when electricity networks were isolated with boundaries persisted when the wires spanned the borders."

The MEU urges both the SCER and the AEMC to rethink their approach to transmission reliability standards and to restore a focus on establishing a truly national energy market that is both efficient and adaptable to the challenges ahead. The proposal embedded in the AEMC Consultation Paper fails to do this.

1.2 On overview of the Consultation Paper

The Consultation Paper builds on previous work undertaken by the Commission in response to a request by COAG's Standing Council on Energy and Resources (SCER) to review national reliability standards and targets for transmission and distribution.[7]

Following these previous reviews, the AEMC concluded that a national framework for developing and implementing distribution and transmission reliability standards and targets would improve overall efficiency in the provision of the interconnected networks.

A national framework approach would provide greater transparency and a more flexible approach to setting reliability standards and targets. A national framework would also enhance the ability of the AER to benchmark performance and service related costs across network businesses, and for networks themselves to plan their investments across jurisdictions.

The MEU strongly supports the adoption of a national framework developed in consultation with consumers and based around an effective suite of output measures that reflect consumers' willingness to pay for a given level of reliability.

The MEU has emphasised the importance of these outcomes in its extensive submissions[8] to the AEMC's investigations into reliability standards for distribution and for transmission. The MEU has also provided detailed

[7] Most specifically, in relation to transmission, the current proposal builds on the AEMC's review into transmission reliability standards (AEMC, *Updated Final Report on its Transmission Reliability Standards Review*, November 2010) and the 2011 SCER response to that review. In relation to distribution, the current proposal builds on the work undertaken by the AEMC to develop a national framework for distribution reliability (see AEMC, *Draft Report on Review of Distribution Reliability Outcomes and Standards – National Workstream*, November, 2012).

[8] See for example, MEU, *Response to the AEMC national reliability standards*, January 2013; MEU, *National framework for transmission reliability – issues paper,* 1 May 2013.

responses to the AEMC's earlier investigation of NSW reliability standards for distribution businesses.[9]

This current submission builds on the MEU's previous submissions. However, the emphasis in this submission is on the processes proposed by the AEMC to develop and implement these reliability standards and targets rather then the targets themselves.

The MEU understands that the purpose of the current AEMC's Consultation Paper is to propose a common and consistent process for developing and implementing reliability standards and targets for both transmission and distribution businesses. The AEMC considers that there is sufficient similarity in the issues for there to be a common process for transmission and distribution standard and target setting, albeit the detailed outcomes may differ between transmission and distribution.

The MEU also understands that it is not the purpose of the Consultation Paper to establish specific national reliability standards.

The AEMC's proposal places the prime responsibility for setting the standards and targets with the jurisdictional ministers after consultation with network service providers (NSPs), economic experts, standard setters and consumers.

The AEMC sums up the purpose of the proposed framework approach as follows:[10]

> "The intention of the proposed frameworks is not to result in a single harmonised level of reliability that will apply across the NEM. Rather, **the focus is on implementing effective frameworks for setting, delivering, and reporting on required reliability levels and outcomes."** [MEU emphasis]

The AEMC considers that their proposed framework will allow a more transparent approach to setting, delivering and reporting on reliability standards and targets.

In establishing a common framework, however, the AEMC highlights a number of challenges. These include:

- Reconciling the differences in current jurisdictional approaches;
- Determining the trade-off between cost and reliability;
- Understanding the implications for the broader regulatory frameworks;

[9] See for example, MEU, Review of Distribution Reliability Outcomes and Standards, Comments on the Draft Report – NSW Workstream, June 2012.
[10] AEMC, 2013, n 1, p ii.

- Establishing the appropriate governance arrangements for the frameworks.

The MEU is most supportive of a national framework, and the AEMC's proposals with respect to establishing common processes and definitions.

However, while the MEU understands that the AEMC has been constrained by the terms of reference set by the SCER, the MEU is very concerned with a number of aspects of the proposed process and these are discussed in Section 2.

2. The Proposed Framework

2.1 A focus on a truly national reliability framework is missing.

The MEU is particularly frustrated at the continued resistance by policy makers (through the SCER) and the AEMC (in this instance) to progress to a truly seamless national electricity market. It would seem another opportunity for genuine national reform and consistency has been missed.

The AEMC's proposal for a national framework, in setting out a common process and with some common definitions, is a tentative step in that direction, but it is a small step, and one that will not deliver on the expectations of the MEU's members for real national energy market reform.

The MEU can see no reason why decisions on reliability standards, particularly standards for transmission, should be left in the hands of each jurisdictional minister. As the generation market becomes more complex and inter-dependent, it is inconceivable that there is such 'caution' in moving towards an integrated transmission system operating under the same suite of reliability measures.[11]

Instead, more than 20 years after jurisdictions committed to a nationally integrated electricity market and more than 10 years of investigation into transmission issues, the National Electricity Market continues to be a system where jurisdictional ministers can choose state based transmission standards that include:

- A N-x input reliability standard where the 'x' is set by the jurisdictional minister on local rather than national concerns; and

- May include other 'measurable' and 'non-measureable' input or output parameters.

Although the AEMC has attempted to bring some consistency into the process by requiring economic cost/benefit studies to be conducted by an independent economic assessor, the AEMC proposal allows jurisdictional minister be not obliged to accept the scenarios that deliver the greatest benefit and can add their own measures and standards, including the so called 'non-measurable' standards.

[11] This is not to say that there should not be variation in standards for different transmission connection points (for example). However, these differences should reflect real physical differences or differences in the mix of consumers, not state borders and jurisdictional ministers parochialism.

This is a recipe for continued failure for effective national planning of the transmission system – the backbone of national electricity supply. Where transmission systems are built around meeting jurisdictional requirements, then operated on an interlinked system, this does not provide an efficient level of reliability for the NEM as a whole.

The Productivity Commission highlighted in their final report on network regulation the risks of parochialism to any 'coherent transmission reliability framework'. The Productivity Commission went on to state:[12]

> "It would be bizarre if regulatory customs that were reasonable enough when electricity networks were isolated within state boundaries persisted when the wires spanned the borders."

The MEU finds it bizarre that the SCER itself does not recognise this risk, and cannot come to an agreement on what suite of standards should apply across all jurisdictions, particularly for transmission, following the economic cost benefit studies. Despite this, the MEU expects that the AEMC will itself address this need for consistency across state borders.

2.2 Reliability Input Standards versus Output Targets

The AEMC is proposing the following framework approach:

- *For DNSPs*: reliability input standards should be replaced by reliability output targets, with a minimum set of targets to include SAIDI and SAIFI targets with others included at the discretion of the jurisdictional minister.

- *For TNSPs:* reliability input standards should be retained using the 'economic redundancy or 'N-x' approach (or in the case of Victoria, implemented in place of the current economic output standards), although the jurisdictional minister could also include a range of output standards.

In both instances, the AEMC considers the output targets (DNSPs) or the input standards (TNSPs) should be set ex-ante, that is, prior to the commencement of the regulatory determination period.

The fundamental question to be answered in considering these two approaches and the use of ex-ante targets and standards is: How well do the recommended approaches ensure that the right investment is delivered to customers at the right cost in the right place at the right time? This must be the primary focus of the AEMC review and analysis.

[12] Productivity Commission, 2013, n 2, pp 15-16.

Distribution Targets

The MEU is pleased to see the shift to outputs targets will apply for all DNSPs, as the application of N-x redundancy type input standards for DNSPs has been a major factor in driving excessive expenditure in the networks, without commensurate and consistent improvements in reliability performance across all the DNSPs.

The MEU also supports the AEMC's proposal that the targets for DNSPs are not mandatory in the sense that they must be achieved each and every year of the 5-year regulatory period. However, it is expected that they will be achieved with reasonable consistency over time.

The targets can also be explicitly linked to the regulatory revenue and service performance target incentive schemes (the STPISs) so that DNSPs are rewarded or penalised through a transparent process conducted by the AER depending on whether they exceed or fail to achieve the reliability targets captured in the STPIS.

Transmission Standards: The 'economic redundancy' (N-x) approach

In contrast to their progress on the distribution reliability targets, the AEMC is proposing to employ deterministic input reliability standards for TNSPs in the N-x form; a form that has already proven to be too rigid in its application to adapt to changing demand and supply conditions. The inclusion of an up-front economic analysis as a prelude to setting the redundancy standards does not alter the fact that rigid reliability standards will apply for the forward regulatory period.

The MEU therefore agrees with AEMO's response to the AEMC's Issues Paper on applying transmission reliability input standards. AEMO states:[13]

> "While seeking to set redundancy standards on an economic basis is a step forward from the use of rigid and arbitrary standards, they still remain redundancy standards."

The MEU is particularly concerned that the AEMC appears to have largely ignored the very useful commentary provided by the AEMO on the relative merits of the 'economic' and the redundancy approaches to setting transmission standards in their response to the AEMC's Issues Paper.

[13] AEMO, *Issues Paper on Review of the National Framework for transmission reliability,* 22 May, 2013. See covering letter, page 1.

The AEMO is in a position to compare the economic approach used to set reliability standards for the Victorian transmission network (based on the use of output standards[14]) with both the redundancy approach (adopted in NSW – TransGrid and Queensland – Powerlink) and South Australia's economic redundancy approach applying to Electranet. The AEMO concludes: [15]

> "AEMO's analysis suggests that the requirement to maintain the same level of reliability excludes the opportunity to consider non-network support which would be a viable option due to changes in recent demand forecasts. Therefore, the economic-redundancy approach still drives inefficient investment as a connection point's original level of reliability is required to be maintained regardless of current or future economic factors."

Given the importance of the AEMC's decision on this matter to the long term interests of consumers, the MEU would have expected a more thorough consideration of the AEMO's views than has been provided in the Consultation Paper.

Instead of addressing the issues raised in AEMO's analysis, the AEMC simply repeats its previous objections to the economic approach and suggests that perhaps additional reliability output measures can be included to 'bolster' the focus on fixed input standards. The AEMC analysis overlooks the success of the AEMO approach in Victoria!

However, this will not, and cannot, address the fundamental problem that input reliability standards (whether economically derived as proposed by the AEMC, or otherwise) are set well in advance of their application. Building in this level of technical redundancy locks in the TNSP to invest in high cost assets that may not be needed or valued by consumers in the face of changing economic circumstances and energy demand and supply conditions.

The MEU considers that the process should not lead to continued over-investment in the electricity supply system at significant cost to all consumers, particularly given current trends in demand.[16]

As a final point on this important issue, the MEU notes the AEMC's concern that the nature of transmission is such that output measures would not identify potential problems early enough to prevent supply issues. The AEMO has given

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[14] The MEU notes that the AEMO approach, which the AEMC proposes be changed has delivered high level reliability to consumers at a much lower cost than experienced in other regions of the NEM

[15] AEMO, 2013, n 12, p 7.

[16] The most recent forecast of both peak and annual demand have been adjusted downwards again by AEMO, implying that (unlike the past), demand will not grow sufficiently to 'mop-up' excess capacity investment in a reasonable time; an outcome which will mean even higher unit cost for electricity consumers.

a fairly comprehensive response to this issue too. In addition, the MEU responds to this concern by noting:

- Economic reliability standards have applied in Victoria for over 10 years and do not appear to have lead to major supply issues or inefficient investment in the network (although the MEU recognises the role of AEMO in transmission planning);
- The AEMC overlooks the fact that each TNSP is incentivised to maintain reliability through the actions of the STPIS. This means that each TNSP should be actively looking forward to identify potential issues that would impact future reliability. Failure by the TNSP to do so will result in it suffering financial penalties under the STPIS. Setting of output reliability standards combined with incentives is commensurate with the principle of incentive regulation and overcomes the need for input standards; and.
- The AER in its recent report on TNSPs performance, referred to its December 2012 final decision on an expanded electricity service target performance incentive scheme (transmission STPIS), and noted that the AER will 'focus more on lead indicators of reliability'. [17]

Worst Served Customers.

The reliability output measures track performance at an aggregate level. It has been argued, therefore, that the regulatory package does not provide sufficient incentives for DNSPs and TNSPs to address supply issues in areas which incur lower standards of supply quality (e.g. it may be cheaper to increase reliability above the target in areas that are already well serviced).

At the most basic level, as a matter of equity, the MEU considers that consumers of the same class in the same DNSP region receiving a lower reliability should not pay the same as another consumer getting better service.

The MEU considers that this issue is partly resolved by the requirement to set reliability standards or targets at the level of a connection point (transmission) or a network feeder (distribution).

However, it may be necessary to enhance this incentive by strengthening the Guaranteed Service Level (GSL) schemes which will, in effect, set a minimum level of network performance on key service reliability measures. The aim of strengthening the GSL scheme is to create a stronger economic incentive on the service provider to improve poorly serviced supply points or supply areas to a minimum standard (which might increase over time).

[17] AER, *Transmission Network Service Providers; Electricity Performance Report 2010-11,* July 2013, p 93.

For instance, GSL penalties could be graded; a small penalty for the first event, a larger one for the next event at that supply point, and so on,[18] such that there is a real incentive for the NSP to invest in preventing multiple supply loss events for these consumers.

2.3 Linking the Regulatory Instruments

The last few years has seen the development of various aspects of the regulatory regime for TNSPs and DNSPs, largely in response to the gaps in the ability of the current regime to drive efficient national investment. These regulatory instruments include, inter alia:

- Reliability standards/targets;
- Revenue determinations;
- Performance benchmarking;
- Regulatory Investment Test for Transmission (RIT-T), and (in the future) for Distribution (RIT-D);
- Capital and operating expenditure efficiency sharing schemes;
- Service performance incentive schemes (STPISs);
- Guaranteed Service Level scheme (GSL);
- Annual performance measurement and reporting.

Going forward, the MEU believes it is essential that reforms to the network regulation framework should proceed with a real commitment to explicitly linking the various regulatory instruments into an overarching framework of reform. Much energy and good work has been spent on considering individual components, but the benefits will only be realised when they are all brought together in a package of regulatory instruments.

Distribution Reliability Targets

The changes to the DNSP reliability standards go some way towards this, a step that is much welcomed by the MEU.

In particular, the use of economic output reliability targets coupled to a STPIS (versus input reliability standards such as N-x) provides an important input into the DNSP's regulatory revenue determination, including the setting of capital and operating expenditure allowances and to subsequent RIT-D processes. These in turn link to the efficiency sharing/incentive schemes (both the capital expenditure sharing scheme (CESS) and the operating expenditure efficiency

[18] The GSL schemes allow for exemptions for special circumstances and that could continue to apply.

benefit sharing scheme (EBSS)[19], that are designed to encourage improved efficiency in investment.

In particular, the CESS will include an ex-post review process that will assess (inter alia) whether capital expenditure during the regulatory period was efficient (where this expenditure was in excess of the regulatory allowance). Reliability measures that are output based, and built up on economic or cost/benefit analysis, will contribute to this ex-post assessment.

Transmission Reliability Input Standards (N-x)

However, it is considerably less clear how the key transmission reliability input standards proposed by the AEMC will fit into the overall regulatory framework.

For instance, once in place, the requirement to invest in capital assets to achieve a technical level of redundancy (versus actual redundancy for the revealed demand conditions) are fixed and limit the opportunity to explore other options through (for instance) the RIT-T process. Similarly, an ex-post capital expenditure review will be limited in how it can assess efficiency if the NSP was obliged to make the additional investment in system redundancy, even if the investment is no longer economically efficient due to changes in circumstances.

Importantly, and not sufficiently discussed in the Consultation Paper, input reliability standards remove management discretion and therefore reduce the responsibility and accountability of TNSP management for the performance the actual reliability of their transmission assets. That is, once in place, the obligation to comply with input standards removes the focus of management from the quality of the outputs to the satisfaction of technical redundancy standards set up to 7 years ahead.

The suggestion that these weaknesses in the ex-ante redundancy standard approach can be addressed by adding a number of output measures is, as indicated above, an ineffective and inefficient way to solve the problem – it is much better to directly focus on the outputs, and leave management to be accountable for determining the best mix of inputs (and they are probably better placed to do this than a regulator).

The MEU has noticed that the service performance of TNSPs has significantly exceeded that of DNSPs, even to the extent that, during the recent review by the AER of the transmission STPIS, it has been considered that reliability should be set against the lack of performance rather than actual performance. The reason for this is that the penalty/bonus system must now be set asymmetrically because of the inability to further improve performance. This clearly indicates that the transmission system reliability is probably beyond the

[19] The AER is currently in the process of developing a Guideline for implementation of incentive schemes that includes a new capital expenditure sharing scheme and an amendment to the existing operating efficiency benefit sharing scheme.

point where the cost for achieving this level of reliability has exceeded the benefit consumers' gain from this level, especially when it is compared to the performance of the distribution networks which deliver much lower reliability to consumers.

The MEU considers this outcome is a direct result of the over-investment that has been driven by the extensive use of input redundancy standards, and the lack of responsiveness of these standards to changes in electricity supply and demand conditions.

2.4 Consumer Engagement

The MEU supports the reform objective of involving consumers in the process of setting reliability standards. It is consumers who pay for implementation of these standards and targets, and it is only consumers that can judge the appropriate trade-off between costs and reliability.

The AEMC's proposal identifies 3 areas where consumers are to be actively engaged in the setting of reliability standards and targets. They are:

1. Assessing the value of customer reliability (VCR), in discussion with AEMO and/or the AER.[20]
2. Determining the areas of reliability that are particularly important to consumers, in discussion with the relevant NSPs.
3. Consultation with the economic assessor following the publication of the draft report on the costs and benefits of each reliability scenario.

In addition, the jurisdictional minister may choose to conduct a separate consultation process to receive direct input from customers on the proposed standards or targets.

The MEU considers that these are key points in the process and therefore appropriate timeframes are needed for the relevant parties to consult with consumers. However, it is essential that these various consultations are conducted appropriately and that a variety of consultation mechanisms are utilised.

For instance, the consultation process should be:

- Comprehensive – cover a range of consumers in a range of ways;
- Objective and unbiased – not based around predetermined outcomes;

[20] This is a separate exercise to the remaining steps proposed in setting reliability standards and targets. Currently AEMO is conducting the consultation on VCR. However, the AEMC proposes this responsibility should be transferred to the AER in the future. The MEU does not consider this proposal is appropriate in the circumstances. – see detailed response to the AEMC's questions (Chapter 5, question 4c).

- Fit for purpose – content should be adapted to the task and the competencies of the different consumer types;
- Measurable outcomes – there must be appropriate ex-post assessment of the consultation processes; and
- Provide feedback to consumers – consumers should know how their input has influenced the outcomes

The MEU recommends that the AEMC also take into account the principles set out by the AER in their guideline, *Consumer Engagement guideline for network service providers*.[21]

The AER states that its Consumer Engagement Guideline is not prescriptive but it does set out a framework for networks to better engage with their consumers. The framework is being developed as a result of extensive consultation with consumers and other experts and therefore establishes a sound foundation for the current consumer engagement processes.

This consistency with the AER's guideline is particularly important if, as the AEMC suggests, the NSPs engagement with consumers for reliability standards and targets is subsumed into the NSPs engagement with consumers for the revenue determinations.

The MEU appreciates the value of such synergies. However, it must be recognised that both processes (reliability standards and revenue determinations) are long and complex processes.

Therefore, a key design question is: How to engage consumers for such a lengthy period of time in a multi stage process where the outcomes are not visible for some years? Moreover, combining the two NSP consumer engagement processes will mean that the revenue proposal consultation will be taking place some 3 years before the actual determination period.

The MEU is open to further exploring ways in which consumers, including members of the MEU, can continue to be engaged and feel relevant to both consultation processes for such an extended period.

[21] The guideline relates to consumer input into the network revenue determination. The AER issued the draft guideline in July 2013 for consultation. A final guideline will be published in November 2013.

3. Responses to AEMC questions

The MEU provides the following responses to the specific questions raised in the Consultation Paper. The MEU has endeavoured to keep its answers as concise as possible and refers to the commentary in the preceding sections to amplify its reasoning.

Chapter	#	AEMC question	MEU response
4	**1(a)**	**Does the proposed removal of input planning standards for distribution networks compromise the ability to deal with high impact low probability events such as city wide supply interruptions?**	No, the MEU does not believe the removal of input standards for distribution networks compromises the ability of networks to deal with high impact, low probability events. Rather, the removal of input planning standards enhances the flexibility of the DNSP to manage their performance overall while balancing the risks and costs of high impact events. There is no evidence, for instance, that Victorian consumers are more exposed to such events even though there are no input standards set, only output reliability measures. However, the MEU recognises that an important additional deterrence that ensures DNSPs address this risk is the inclusion of an effective regime of GSL penalty payments (in addition to the STPIS). In this way, a DNSP must consider not only the high level penalties of the STPIS regime, but the prospect of substantial GSL payments in the event of wide-spread and/or prolonged interruptions to supply. It is important of course, that the DNSP is not then able to recover the cost of the GSL payments in their current or future revenue allowances.

4	**1(b)**	**Does the expression of distribution reliability measures by feeder type accommodate the specific locational characteristics of individual jurisdictions while achieving the benefits of national consistency?**	Yes. Disaggregation of distribution reliability targets down to the level of feeder type may assist in improving the validity and reliability of comparisons between the performances of different NSPs on these targets, given the different mixes of consumer types. However, disaggregation also adds to complexity in the analysis and reporting. It is also an important factor in how consumers can meaningfully contribute to the process of framing reliability standards, for instance, how different consumers can contribute to setting reliability targets for different feeder types. Improved consumer engagement practices will be needed to ensure the maximum benefit is derived from the greater granularity that results.
4	**1 (c)**	**Is it possible to achieve consistency in the definitions of distribution reliability measures across the NEM, including consistency in exclusion criteria?**	Yes. The MEU considers that there are no substantive barriers to achieving consistency in definitions of distribution reliability, and that all effort should be made to address this as soon as possible. The overall regulatory revenue determination processes, including benchmarking will benefit from early alignment of definitions. The MEU expects that NSPs will make claims that early action to align definitions will come at a substantial cost; such an observation needs to be carefully examined independently as the MEU considers that much of the information already exists or should be gathered by a competent business serving its customers..
4	**1 (d)**	**Is the AER the appropriate body to be responsible for developing the national reference standard template for distribution? If not, which body**	Yes. The MEU considers that the AER is the most appropriate body for developing national reference standard templates for distribution businesses.

		should be responsible for this task.	In addition to already having the responsibility to provide sufficient revenue for the achievement of reliability, the AER has built up considerable experience in the past few years in developing and implementing consistent standards, and has a separate obligation under the Rules for annual performance reporting. The MEU considers there are, and should be, significant synergies between these two activities.
4	**2(a)**	**What would be the effect of expressing transmission reliability standards on an N-x basis and complementing this with inclusion of additional parameters?**	The MEU has opposed the use of deterministic input standards such as N-x for both DNSPs and TNSPs, and continues to do so, even if these standards are initially derived through economic cost/benefit assessment as currently proposed by the AEMC. Once set, the standards apply at least for a regulatory period (usually 5 years[22]), reducing the flexibility of the TNSPs to respond efficiently to changes in demand, technology, embedded generation etc. That is, setting fixed input standards risks driving excessive network investment and reduces the ability of the TNSP to respond to changes in demand or to growing non-network solutions.[23] Moreover, a reliance on input standards breaks the important links between management accountability, investment decisions, service delivery, revenue determinations and performance incentive schemes. Where a transmission company is obliged to invest to service a N-x standard, it can no longer be held accountable for the efficiency of its investment decisions.

[22] In a practical sense the input standards will drive investment up to 7 years after they are established because of the timing of the reliability assessment process (2 years prior to the 5 year regulatory period).
[23] While the AEMC's proposal includes a mechanism for updating the reliability standards during a regulatory period, there are (quite correctly) significant criteria to be satisfied before this can be proposed and approved. This restricts its ability as a mechanism to respond to gradual declines in demand.

			In the MEU's view, the AEMC has paid insufficient heed to the issues raised by both the AER, and AEMO in response to the AEMC's Issues Paper.[24] The AEMC also fails to note the 2012 study by AEMO[25] which illustrates the potential benefits of the economic planning approach, particularly under conditions of demand forecast uncertainty. The AEMC appears to have attempted to address the issues raised with input standards by suggesting other standards and output measures can be used in addition to the N-x. However, the MEU finds it difficult to see how adding additional measures will address the inherent inefficiency of setting fixed input standards. This is not to say that these additional measures do not have some value, only that they are not a way of solving the problems (identified in earlier consultations by the AEMC) specifically identified with using input standards rather than output targets for transmission.
4	**2(b)**	**Is AEMO the appropriate body to be responsible for developing the national reference standard template for transmission? If not, which body should be responsible for this task?**	The MEU agrees that the AEMO should be responsible for developing the national reference standard template because of its technical expertise in the operation of the NEM transmission network and its role as National Transmission Planner. The synergies from having AEMO carry out this work outweigh the benefits that having the AER responsible for it.

[24] See: AER, Submission to the AEMC Issues Paper, Review of national framework for transmission reliability, May 2013; AEMO, Submission to the AEMC Issues Paper on Review of the National Framework for transmission reliability.
[25] AEMO, *Economic Planning Study Report, National Electricity Market*, 2012.

			However, the AEMO should do so in very close consultation with the AER to ensure that • There is consistency between the AER requirements for setting revenues and the template. • There is maximum level of consistency in definition and form between the templates developed by the AER for DNSPs and those developed by the AEMO Consistency between DNSP and TNSP is fundamental to ensuring adequate levels of engagement by consumers in the process.
5	**3(a)**	**Is the proposed timeframe for undertaking the standard setting process able to be achieved in practice?**	The complexity of the process proposed by the AEMC means that the process takes 12 months in total, before incorporation into the NSPs regulatory proposals – in effect, it commences some 3 years before actual implementation. Given the rate of change in energy policy, consumption patterns and technology, there is a risk of the standards and targets being out of date before coming into effect. As noted by the Productivity Commission in their final report on network regulation the energy market governance, policy and rule making processes are too slow to respond to change[26]. A similar risk arises here, as both consumers' and jurisdictional ministers' priorities can be expected to change over time. Consumer engagement is also reduced where processes extend over multiple years. Given this, although the timetable is challenging taking into account the 8 steps involved (excluding guidelines, VCR and regulatory

[26] See for instance, Productivity Commission 2013, n.2, pp 8 -10,

			proposals), it should not be extended beyond those set out in the Consultation Paper, with a preference for reducing the time.
5	**3(b)**	**Are there any specific jurisdictional arrangements that would need to be considered in adopting the proposed frameworks, including how the responsibilities could be allocated?**	There may be jurisdictional differences in environmental, Health & Safety regulation, and similar legislation that may affect the detailed operation of the frameworks. However, the MEU believes that the focus should be on ensuring national consistency in the application of the framework, and any claims to the contrary should be vigorously tested. As a matter of principle, the MEU is disappointed with the extent of flexibility provided to jurisdictional ministers to choose standards and targets and add additional standards and targets to the core ones mandated in this process (such as SAIDI and SAIFI). This has the potential to detract from rather than enhance national consistency, and is particularly deleterious and unnecessary for transmission standards (where it is the characteristics of the connection point, and the consumers downstream of that connection point that should define the reliability standard, not the jurisdiction.
5	**4(a)**	**Which aspects of the proposed frameworks should be covered in the economic assessment process guidelines?**	As the AEMC notes, the economic assessment guidelines will be an important tool in ensuring consistency in approach to economic evaluations, whether conducted by the AER or another delegated body. The guidelines should also set out how any additional reliability standards/targets, including the so-called 'non-measurable' targets

			that have been specified by (e.g.) a jurisdictional minister, should be assessed objectively, even when they are not strictly part of an economic-cost benefit. The MEU is of the view that the setting of reliability levels and the cost of providing the service are inextricably entwined. The closer the relationship between the two, the better. The current arrangement for setting reliability levels by one party and providing revenue for their achievement is a fundamentally flawed process.
5	**4(b)**	**Is the AER the appropriate body to develop the guidelines, in light of its other roles under the proposed frameworks? If not, which body should be responsible for this task**	The AER is the appropriate body to develop the Guidelines, although it should do so in consultation with the AEMO (in particular) (who will be responsible for transmission national reference standard template), NSPs and other stakeholders. The AER has expertise in independent economic analysis and its involvement in the guidelines will support both national consistency and ongoing links to the revenue determinations and performance monitoring responsibilities of the AER.
5	**4(c)**	**Is the AER the appropriate body to be responsible for updates to the VCR? If not, which body should be responsible for this task? Should the CPI be used to escalate VCRs each year?**	AEMO was initially the developer of the VCR as it needed a measure for assessing the cost/benefit calculation for augmentations in the Victorian transmission system for which it had responsibility as the operator. Because of this earlier work, AEMO is also the body that is currently undertaking the development of a national VCR methodology at the request of SCER in its role as the National Transmission Planner, where assessing a value for customer reliability is an integral part. Equally, balancing the cost of

			reliability against the benefits could be carried out by the AER because this is integral to the AER tasks. The MEU considers it is less appropriate for the AER, whose expertise is in economic and performance regulation, to take over the role of setting the VCR methodology and outcomes in the future. AEMO has the expertise and the flexibility to provide VCR measures for a variety of purposes in the NEM (beyond reliability standard setting). On balance, the MEU sees no added value in transferring this responsibility to the AER in the future. The MEU notes, for instance, that AEMO has observed that there are 'clear differences between the VCR of different customers groups, especially on a sectorial basis[27], and that a degree of 'granularity' in the application of the VCRs is required to reflect customers' preferences for reliability. AEMO's proposed direction is therefore to calculate a range of VCRs for each transmission connection point in the NEM, based on the weighting of each of 4 customer classes for that connection point. AEMO also proposed to provide a platform for future VCR updates as more detailed customer information and data becomes accessible. As well as significant experience in assessing VCR, AEMO has unique and direct access to this type of data at the level of each connection point and feeder type. AEMO also has the necessary understanding of the transmission system and the independence to investigate the issue in its role as Transmission Planner.

[27] AEMO, *Value of Customer Reliability Directions Paper*, 31 May 2013, p 9.

			AEMO has also noted that the VCR is used for a number of purposes: '*AEMO considers the VCRs calculated through this review will benefit many processes in the NEM…'* [28]*.* Although VCR is a key input into the reliability process its measurement is not necessarily contingent on that process.
6	**5(a)**	**How should the customer consultation process be conducted to provide sufficient information to the standard setter to make an informed decision on the selection of a range of reliability scenarios**	The MEU recommends further investigation of this issue to ensure that the consultation process is thorough, objective and appropriately representative of the consumer base. It should also include a variety of consultation methodologies including surveys, workshops, focus groups, community consultations etc. While the AEMC proposes that the NSP will discuss the content and form of the consultation process with the economic advisor (which may be the AER) and the standard setter, it is not clear how formal this process will be, or what obligations there are on the NSP to adopt the recommendations of these other parties with respect to both content and form. Both the NSP and the jurisdictional Minister (to the extent the latter draws on the consultation processes) may come to the consultation with an 'agenda', particularly when the reliability targets/standards that flow from this, are ones that affect the ultimate revenue determination, or impact on supply reliability at specific geographic areas.

[28] AEMO, 2013, n 24, p 10.

			While combining the obligation on the NSP to consult on reliability requirements with the obligation on the NSP to consult with consumers as part of the regulatory proposal has appeal from an efficiency point of view, it may also bias the approach and outcomes of consultation in both areas. Procedures will need to be in place to protect consumers and the overall integrity of the process from the effect of such biases. The MEU suggests that the AEMC review the AER's 2013 Guideline for NSPs re model consultation processes with consumers for their regulatory proposals.[29] Whether or not the reliability and regulatory customer consultation processes occur together, the model consultation process should form the foundation of both.
6	**5(b)**	**Should limits or constraints be placed on the discretion that the standard setter has regarding the selection of reliability scenarios?**	The AEMC has identified that the selection of reliability scenarios must be constrained by the need for some compatibility between the reliability scenarios for the TNSPs and DNSPs in a jurisdiction. The MEU agrees with this position. Beyond that, the scenarios should be constrained to ones that are reasonably representative of the range of reliability outcomes identified in the consumer consultation process – assessing more extreme scenarios distorts rather than improves the evaluation process (the "paper tiger syndrome"). In addition, the MEU believes the medium to longer term goal must be one of greater national consistency in the parameters used and

[29] AER, *Draft consumer engagement guideline for network service providers*, July 2013.

			the targets/standards set. To that effect, there should be some constraints on the rights of jurisdictional decision-makers so that all jurisdictions progressively move towards the same reliability goals over time (i.e. not just the same framework, but much the same reliability outcomes for specified circumstances, e.g. rural supply, urban supply, city supply…). The MEU, therefore, leans towards to the proposal by the Total Environmental Centre for a binding range of permitted reliability standards or targets.[30]
6	**5(c)**	**Should the evaluation of measures to address worst served customers for DNSPs be included in the economic assessment process?**	The MEU considers that the purpose of the economic assessment process (along with its links to STPIS and revenue) is to focus on the average reliability across the network. Some of the issues arising from this, as identified by the AEMC (e.g. it may be cheaper for the NSP to improve average reliability by improving services to areas already well serviced), can be partly addressed by applying different reliability targets or standards to different distribution feeders or transmission connection points. While this may not fully address the issue of improving supply quality for the 'worst-served customers', the MEU does not necessarily believe the appropriate solution lies in adding further parameters and layers of complexity to the economic assessment process. An alternative is to strengthen the application of the GSL scheme,

[30] Cited in the AEMC Consultation Paper, p 47.

			for instance, by using a scaling factor where the GSL payment per supply point for an interruption event increases in proportion to the number of supply interruptions at that supply point.
7	**6(a)**	**What are the likely to be the main costs and resource implications for NSPs, economic advisers, and other stakeholders from the economic assessment process?**	The costs of the exercise are likely to be substantial at least in the initial stages, and will ultimately be borne by consumers. The costs are significantly increased by the AEMC's decision to use an ex-ante economic assessment process as it requires up-front consideration of all the relevant scenarios and investment decisions rather than limiting the economic evaluation to the time when the decision to invest is actually being made. As such, it is more costly in time and resources than either the pre-set standards or the Victorian economic planning approach. It the AEMC proceeds with this proposal therefore, every effort should be made to create synergies with the broader regulatory activities of consumer consultation, performance reporting, incentive scheme implementation and revenue determination. Similarly, the one process should cover all of a given jurisdiction (rather than separate processes for each DNSP/TNSP within a jurisdiction), albeit that the targets/standards themselves might be set at different levels.

7	**6(b)**	**What are the main risks associated with economic assessment process? Is the use of sensitivities during the economic assessment process likely to address risks around the uncertainty of key assumptions?**	The main risk with the economic assessment process is that the targets/standards that emerge from this process are set, ex-ante, for up to 5 years, and therefore reduce flexibility for the NSP to respond efficiently to changes in demand and other external circumstances. Sensitivity testing will provide some insights into alternative outcomes and the impact of assumptions, but at the end of the day, a target/standard is set, and provides the driver behind investment and performance evaluation for the next 5 years.
8	**7**	**Does the Commission's proposed approach provide sufficient information to the jurisdictional minister to allow the minister to make an informed decision on the levels of reliability that appropriately meets community expectations?**	Under the AEMC's proposed scheme, a jurisdictional minister will receive information provided in the economic adviser's final report on the costs and benefits of each scenario, and on the outcome of the NSPs initial consultation processes with consumers (and/or conduct their own consumer consultation process). The MEU considers these two sources of information should be sufficient for the jurisdictional minister to make an informed decision, particularly when also taking into account submissions made in response to the economic advisor's draft report. The concern is more with what other extraneous sources or influences will affect the minister's judgement and undermine the integrity of the system. The MEU acknowledges that the AEMC has tried to address this risk by requiring the jurisdictional minister to explain any decision they make that does not reflect the best outcome from the economic analysis. However, the MEU remains concerned that there is no specific constraint on the minister, within the range of scenarios included in the economic advisor's final report. This highlights the

			importance of setting realistic scenarios to provide the minister with a reasonable, but not unbounded, range of alternatives.
9	**8(a)**	**Should NSPs be required to align the consultation process at the commencement of the standard setting process with their consultation process on their regulatory proposal? Is this feasible and what costs or benefits may arise under this approach?**	Yes. The move towards greater consumer consultation is welcomed by the MEU. However, it is also places a heavy demand on those consumers and consumer organisations with the knowledge to contribute effectively to the process. In addition, consumer engagement will wane if processes are long-drawn out, repetitive, and occur some distance in time from the outcomes of the engagement process (in this case, there could be some 36 months between the initial consultations with the NSP and the implementation of the standards and targets). It is essential therefore that there is maximum synergy between the processes for consumer engagement in reliability targets and standards, and that for the NSP revenue proposal, noting that if run concurrently, the reliability standards/targets would be a sub-set of the broader revenue proposal issues. On the other hand, engaging consumers on both matters so early in the regulatory process (36 months), creates its own problems for the relevance of the future reliability measures, particularly in the context of ongoing changes in the energy environment (what are important issues at one point in time, may not be the same at a later point in time) and also for retaining consumers support of the process. One possibility might be to ‘re-engage’ consumers at Stage 3, (Step 8-9) of the reliability process to ‘confirm’ consumer perspectives for

			both the reliability and the revenue determination processes. This would be an optional step in the process and unlikely to lead to changes in the reliability targets and standards, but may influence the revenue proposal or, potentially, form part of any request by the NSP to update reliability standards and targets within the regulatory control period (see comment below).
9	**8(b)**	**What factors should the AER consider in taking into account any differences in the cost forecasts submitted during the standard setting process and in a NSP's regulatory proposal?**	The MEU agrees that using the data provided by the NSPs in their standard and target setting process to subsequently inform the AER's assessment of revenue requirements is an important benefit to consumers of this more rigorous process. Similarly, the MEU strongly supports co-ordination of all the regulatory processes as a way of limiting gaming across and within each of the regulatory schemes. While initially some tolerance could be allowed for differences between costs presented in the reliability assessment and the revenue proposals, these should converge over time, even if the reliability assessment is conducted at a higher level (as suggested by the AEMC, p 64). This is because the AER is implementing detailed annual performance and benchmarking reporting which will also contribute to both reliability and revenue assessments.

9	**9(a)**	**Are the Commission's proposed criteria for when an update can be sought appropriate for TNSPs and DNSPs, noting the differing characteristics of these networks?**	The MEU agrees with the principle that updates should be limited to updates that are material and which would have sufficient impact on revenue to justify a revenue pass through proposal to the AER. A link between adjustment to the standards/targets and adjustments to the regulated revenue are particularly important to ensure the efficacy of the regulatory incentives schemes for capex and opex, particularly as both TNSPs and DNSPs are subject to service performance incentives. The requirements set out by the AEMC appear to be appropriate for both TNSPs and DNSPs. The MEU is also pleased that the AEMC's approach allows for a better balance of interests, in that: • reliability standards/targets can be adjusted for **both** increases and decreases in costs and benefits (and NSP regulatory revenues), and • **both** the NSP and the standard setter have the right to seek an update of the standards/targets.
9	**9(b)**	**Do the Commission's proposed criteria represent a sufficiently high materiality threshold for updates?**	As any update proposal has to pass all of the 5 criteria set out by the AEMC, the MEU considers this is a sufficiently high threshold for updates and one which has a logical link to the other regulatory processes (including the RIT-D and RIT-T). However, with respect to transmission in particular, the MEU believes that allowing for updates of reliability standards is a poor substitute for the flexibility that has been lost by the AEMC applying

			input standards to transmission, rather than output targets.
9	**9(c)**	**Would the proposed mechanism affect the incentives for efficient investment that exist und incentives based ex ante revenue allowances?**	As above, the requirement to satisfy all 5 criteria, and the obligation on the NSP to submit a pass through application (for increase or decrease of revenue) to the AER should limit the use of the update process and therefore preserve the integrity of the incentive scheme. However, the MEU recommends that this be closely monitored to ensure that the number of applications for regulatory pass-throughs to the AER do not significantly increase as this would undermine some aspects of the incentive arrangements.
10	**10(a)**	**If the proposed framework for transmission reliability is adopted in Victoria, should AEMO be responsible for complying with Victorian transmission reliability standards?**	The MEU considers that the Victorian governance arrangements do add to the complexity of a reliability standards framework. AEMO is responsible for planning and implementing augmentations needed to the Victorian transmission system yet, once provided, the ongoing management of the reliability of the network lies with the owner of the networks[31] – predominantly ownership lies with SP Ausnet, although there are elements owned by others. Seen in this way, step changes in transmission reliability are the result of AEMO activities; the maintenance of them resides with SP Ausnet which is maintained by a STPIS under the control of the AER.

[31] The MEU notes the discussion at the Transmission Frameworks Review where this dichotomy of AEMO responsibilities (National Transmission Planner and has been discussed and has expressed a view that providing SP Ausnet with similar responsibilities to those of all other TNSPs and removing AEMO as operator of the Victorian transmission network should be investigated further

			Augmentations to the Victorian transmission system are implemented by AEMO on the basis of an economic cost/benefit analysis that includes the VCR calculated by AEMO and there is no definitive input standard used. This means that AEMO sets the standard to achieve the reliability through the use of VCR on a 'case by case' basis and, as a consequence, it then determines what augmentations are required. The MEU considers that, as the AEMO arrangements for augmentation are transparent and consistent, they meet the fundamental requirements implicit in the AEMC proposed framework. The MEU is aware that there have been discussions regarding the role AEMO has in the Victorian transmission arrangements and that AEMO might be seen having a conflict of interest being the transmission operator and the National Transmission Planner. However the issue of AEMO's approach to its use of output standards for transmission reliability is separate to the governance arrangements and should be assessed independently of the how governance is arranged.
10	**10(b)**	**Does there need to be any changes to the current STPIS in order to enable it to be used to promote compliance with reliability targets for DNSPs?**	The MEU considers that the reliability targets, the STPIS, and the GSL regime should be considered as a package of 'incentives' to address both average reliability standards and 'worst serve customer' standards. As such, the measures should be aligned in all the key measurement elements. The additional questions are (a) how

			'strong' should the penalties and rewards be in the incentive schemes and GSL (penalties only for GSL) to drive DNSPs' commitment to the output target standards, and (b) how should the combination of measures encourage a process of continuous improvement in performance.
10	**10(c)**	**How should independent audits of NSPs' internal processes be conducted to demonstrate that NSPs have processes in place to meet their standards and targets?**	Annual independent audits are important to maintaining the integrity of the system. However, they should be conducted in an efficient manner that minimises the cost and resources to all parties. Consideration should therefore be given to combining the audits of the NSP's reliability measures with the annual performance reporting requirements of the AER (which also, includes operating and capital expenditure by category). It is essential that the audit verify that the data provided is in accordance with the definitions provided in the national reference standard templates, and that there is an internal budgeting and management reporting framework that explicitly identifies reliability investment activities and outcomes.
10	**10(d)**	**What issues should be considered in specifying how performance reporting should be undertaken by TNSPs and DNSPs?**	The MEU considers that transparency and consistency should be central to the reporting framework. This includes clear presentations of performance against standards/targets in aggregate and at the feeder or connection points. The information should not only include comparison of performance against the standard/target but also trends over time (for instance a rolling 5 year average).

			Where there are special circumstances/exemptions, these should be fully detailed and listed so that their impact is understood.
11	**11**	**Do you have any views on the changes to the NEM regulatory architecture which may need to be made in light of our proposed frameworks?**	It is essential that the multiple changes to the regulatory architecture of the NEM (and overall energy market policy) over the last few years are considered holistically. There is a real risk that gaps will emerge as a result of so many changes, many of which have been made in an "ad hoc" manner.