

29 August 2012

Mr John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Level 9  
99 Gawler Place  
Adelaide SA 5000  
**Postal Address:**  
GPO Box 2010  
Adelaide SA 5001  
T 1300 858 724  
F 08 8410 8545

By email

Dear John

**RE: Issues Paper on Distribution Reliability Outcomes and Standards Review – National Workstream**

AEMO welcomes the opportunity to provide feedback on the AEMC's National Workstream Issues Paper on the review of distribution reliability outcomes and standards. AEMO notes the national workstream requires the AEMC to provide an analysis of the different approaches to achieving distribution reliability across the NEM and to consider if there is merit in developing a nationally consistent framework for expressing, delivering, and reporting on distribution reliability outcomes<sup>1</sup>.

AEMO supports changes to the planning framework which promote efficient outcomes and transparency. AEMO considers that distribution and transmission networks should deliver a level of reliability that most effectively balances the costs of investment with the benefits of reliable supply to customers. A price-service approach to reliability planning would ensure network service providers are focussed on providing reliable and secure electricity to customers.

As discussed in our submission to the NSW review of distribution reliability outcomes and standards draft report, AEMO believes sizeable reductions to electricity prices<sup>2</sup> will result from applying an economic cost-benefit approach when determining the level of network reliability required. This approach considers the value customers place on having an uninterrupted supply of electricity and can be tailored to reflect customer sector types. It therefore provides a more accurate and effective price-service balance for consumers and prevents inefficient over investment in network assets.

AEMO proposes to conduct further economic analysis on projects across the NEM which will be provided as a supplementary submission.

---

<sup>1</sup> AEMC Issues Paper – National Workstream

<sup>2</sup> Economic analysis on two of Ausgrid's projects was performed and reported in the NSW Review

AEMO also considers that it is essential to ensure not only that sufficient investment is made to maintain reliability but also that those assets are actively managed to deliver the most appropriate service outcomes and pricing outcomes for customers.<sup>3</sup> To achieve this, an economic approach must be coupled with monitoring against an efficient level of SAIDI and SAIFI targets. Further, by limiting or capping the value of energy at risk<sup>4</sup> (expressed as a \$/MWh value) at connection points, a smoother transition to a probabilistic form of reliability standard would result. This would also improve the transparency of the current probabilistic method applied in Victoria as market participants would be aware of the total amount of energy that can be lost at a particular connection point before augmentation is required.

AEMO supports the use of a value of customer reliability (VCR) or willingness to pay factor in distribution reliability planning. These factors align with a service-focussed approach and provide opportunity for a more rigorous cost-benefit analysis to be undertaken for investment planning to lower network costs. AEMO will be commencing its National VCR project<sup>5</sup> in late 2012 following notice from the SCER to undertake the work and will reflect more regional-specific values that customer's place on an uninterrupted supply of electricity.

Given the timing of the AEMC's national work stream review and AEMO's national VCR project, we will work closely with the AEMC to discuss how our findings can be incorporated into the workstream.

If you have any questions please do not hesitate to contact Louis Tirpcou on (03) 9609 8415.

Yours sincerely



 David Swift  
**Executive General Manager  
Corporate Development**

---

<sup>3</sup> In accordance with the SCER's terms of reference

<sup>4</sup> This approach was explained in AEMO's submission to the NSW Review and would need to be monitored by the AER and accompanied with penalties for non-compliance

<sup>5</sup> This project will update the 2010 Oakley Greenwood re-weighted figures