

9 August 2012

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

Via website: www.aemc.gov.au

Attention: Mr Richard Owens

Dear Mr Pierce,

#### **Review of Distribution Reliability Outcomes and Standards: Issues Paper**

We welcome the opportunity to make this submission on the AEMC's National Workstream 'Review of distribution reliability outcomes and standards'. SP AusNet supports a level of consistency in the national framework for reliability to the extent that this is beneficial to the National Electricity Objective. Our detailed response is attached.

We consider that there are a number of steps that could be taken to improve national consistency, particularly in relation to reliability outputs. These include the use of common output measures, a common NEM wide performance reporting regime, single NEM accountability for determining the value of customer reliability (VCR) and alignment with the AER's Service Target Performance Incentive Scheme.

SP AusNet considers that the planning approach and performance accountability for distribution network reliability as adopted in Victoria represents best practice. We agree that adoption nationally, of a stronger reliance on the Service Target Performance Incentive Scheme, would provide a significant degree of consistency relatively easily.

However, it is not clear that the magnitude of the benefits would support the more significant changes necessary to achieve consistency in expressing input standards, and SP AusNet does not support these options which lead away from direct economically derived service reliability levels and accountability. Therefore, it is important that a full analysis of the costs and benefits is undertaken before it is decided whether or not, and to what extent, a national framework should be adopted.

We look forward to continued participation in the review. Please contact Charlotte Coster, Regulatory Economist, ph. 03 9695 6309 for any inquiries regarding this submission.

Yours sincerely,

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Kelvin Gebert Manager Regulatory Frameworks







## Attachment

# SP AusNet Submission on Issues Paper – Review of Distribution Reliability Outcomes and Standards

### Introduction

SP AusNet welcomes the AEMC's review of distribution reliability outcomes and standards. SP AusNet has long been an advocate of well-designed, financially material performance incentive schemes as an efficient means of driving performance improvement.

It is difficult to consider the success of an abstract nationally consistent framework in the absence of a formulated proposal. The overall benefit of moving to a more nationally consistent framework will ultimately depend on the appropriateness of specific standards and incentives for each jurisdiction, interacting with those aspects of the regime assigned national oversight and consistency.

As with every regulatory change there is a need to clarify the shortcomings of the current arrangements and assess that there are material benefits to be gained before undertaking to make changes. The Issues Paper embarks upon this journey. SP AusNet's overall assessment is that there are a number of practical steps that can be made to beneficially improve national consistency; however, more significant changes, such as aligning input standards methodology would require substantial evidence of the potential benefits before committing to such an approach.

In Victoria, distribution network reliability is governed by an economic benefits based probabilistic planning approach, coordinated with the AER Service Target Performance Incentive Scheme (STPIS). Both elements are based on an assessment of the value of customer reliability (VCR). The approach represents best practice for electricity distribution network services, particularly having regard to the high needle peak in demand on extreme temperature summer days compared to average demand. The approach also satisfies the best practice criteria identified by the Brattle Group<sup>1</sup>.

The Issues Paper identifies several potential ways of achieving a nationally consistent framework (page 41). In each case, the proposal is for consistency in the approach to setting reliability input standards / criteria. As noted above SP AusNet considers that the case to move to this level of national consistency has yet to be made, as it is not clear that the benefits will stack up against the costs of implementation. However, of the potential national approaches presented only the third option assures retention of a best practice approach for Victoria. This states that:

'Given that the AER's STPIS already provides for a consistent framework for incentive schemes and GSL payments, a third approach would be for jurisdictions to remove at least some of their current jurisdictional reliability requirements and rely

<sup>&</sup>lt;sup>1</sup> The Brattle Group, Approaches to setting electric distribution reliability standards and outcomes, Jan 2012

instead on the AER's STPIS. As discussed in Chapter 4, there are costs and risks of inconsistent incentives if there is duplication between jurisdictional requirements and the requirements of the STPIS. A significant degree of consistency could be achieved relatively easily by simply removing some of the existing jurisdictional requirements that may no longer be needed once the STPIS is in place.' (p. 41)

The following discussion addresses some of the questions posed by the Issues Paper.

## Q3. Reliability planning

SP AusNet strongly supports the continued use of a probabilistic approach to distribution planning in Victoria. Such an approach gives explicit consideration to the marginal costs to the community of network reliability (at a regional level) and ensures that investment is undertaken only where it is efficient. This ensures optimal reliability levels are achieved, and contributes to achieving the National Electricity Objective (NEO) which has explicit regard to promoting efficient investment. The approach is particularly appropriate for application in Victoria where there is a high needle peak in demand on extreme temperature summer days compared to average demand.

Victoria is the only Australian jurisdiction to adopt a probabilistic approach to planning. SP AusNet believes this should be maintained. Deterministic planning approaches do not have regard to the value of additional investment to customers and therefore risk leading to sub-optimal investment decisions. As noted by the AEMC in the Issues Paper, there is also potential for inconsistent incentives where jurisdictional reliability targets apply in tandem with the AER's STPIS. It should be noted that the application of the STPIS is relatively new for DNSPs in a number of jurisdictions, and so this inconsistency has yet to be fully realised. On the other hand this form of incentive has now been applied in Victoria in the last three regulatory control periods. For these reasons, and as highlighted in SP AusNet's submission to the NSW workstream of this review, SP AusNet regards economic benefits based probabilistic planning as the strongly preferred approach if a nationally consistent approach to setting reliability input standards / criteria was determined to be desirable.

The cost – benefit analysis of service reliability levels requires assessment of the Value of Customer Reliability (VCR). SP AusNet considers that a national approach to determining VCR would facilitate confidence in the application of this input parameter. An independent body could be tasked to determine the appropriate VCR values for each network on a consistent basis, building on the current approach used for Victoria by AEMO. This body could become a centre of excellence regarding the VCR, through developing a best practice methodology, consulting with stakeholders and providing information. AEMC's Reliability Panel is a potential candidate for this role.

The use of input or output planning standards also differs between jurisdictions. SP AusNet agrees with the Brattle Group's best practice recommendation, which acknowledged the limitations of imposing such input standards on Distribution Network Service Providers (DNSPs):

'By imposing input standards, regulators risk becoming overly involved in the utility's distributor planning process. Theoretically, rigid planning standards could be counter-productive because they can prevent distributors implementing innovative approaches to improving reliability. We conclude that prescription of input standards should be considered as a last resort, when distributors appear unable to improve reliability levels.' (p. 160)

The Issues Paper refers to a potential hybrid approach to network planning, which combines the use of probabilistic planning, through taking into account the value of customer reliability (VCR), with setting input standards. This approach has been developed for transmission use in South Australia and SP AusNet believes it has merit in that context. However, for distribution networks an inconsistency with the incentives of the STPIS would likely remain. SP AusNet, therefore, considers that this hybrid approach is inferior to the status quo in Victoria. Economically based reliability planning, coordinated with an economically derived performance incentive scheme such as the STPIS, provides the most efficient network service outcomes for consumers.

#### Q4. Reliability standards

Consistent reporting on reliability outputs and trends can benefit stakeholders, and provide efficiency benefits in the NEM. For example, the AER's comparative performance reporting process could be strengthened by using an agreed methodology for expressing output measures (such as SAIDI and SAIFI) on a common basis. While certain aspects such as the specific major event day thresholds may vary by DNSP, consistent determination of these thresholds based on agreed criteria would facilitate comparisons.

Comparisons across DNSPs could also benefit from consistent definitions of 'worst served customers' and 'worst performing feeders' across the NEM.

SP AusNet recognises that direct comparison of DNSP reliability performance must take account of network features and externalities peculiar to individual networks. For example, SP AusNet's network covers a relatively higher proportion of remote, regional areas compared with other networks in Victoria and therefore a direct comparison of reliability standards is misleading. This emphasises the importance of disaggregating the network for comparison, for instance through long-rural, short-rural, urban and CBD categorisation. Similar absolute levels in performance outcomes should not be expected, as investment and reliability levels should reflect the local economic justifications. It is therefore important to provide context alongside these quantitative measures.

The report by the Brattle Group identifies this same consideration, that , for example noting that '...Australia's relatively low of reliability performance is explained in part by the low customer density, and the challenging terrain and system topology for significant portions of the country. High costs and low levels of reliability in rural areas contrast with the performance in the country's urban areas ...<sup>e</sup>.

<sup>&</sup>lt;sup>2</sup> The Brattle Group, *Approaches to setting electric distribution reliability standards and outcomes,* Jan 2012, p 13

In Victoria, reliability performance is driven by the strong incentives provided by the AER's STPIS scheme. A reliability performance benchmark for the STIPS is derived at each pricing review, for the forward 5 year regulatory control period, based on prior performance. This allows for the unique circumstances of each DNSP. The success of this approach is demonstrated by improved reliability outcomes of SP AusNet's distribution network, as shown in Figure 1 below.





We wish to point out to the AEMC that Figure 3.1 in the Issues Paper incorrectly represents SAIDI performance of the Victorian DNSPs. The information is based on data for the average duration of unplanned sustained interruptions (CAIDI) from the AER's annual performance report<sup>4</sup>, rather than the average number of minutes a customer can expect to be without electricity over a specified period. The data for 'unplanned minutes-off-supply' should be used from this report instead (p. 41). SP AusNet's correct SAIDI for 2010 was 179 minutes which differs from the target of 172 minutes by just 4%.

We note that the Brattle Group's report also uses the incorrect definition for SAIDI.

 $<sup>^3</sup>$  The performance outputs in Figure 1 for 2008 and 2009 in particular are significantly impacted by extreme events, above the threshold maximum event day (MED) applying to the STPIS in the current regulatory period.

<sup>&</sup>lt;sup>4</sup> AER 2012, 'Victorian Electricity Distribution Network Service Providers Annual Performance Report 2010'

### Q5. Incentives

The STPIS regime provides a well-designed, financially material incentive which has contributed to greatly improved reliability outcomes across Victorian DNSPs. Adoption of the STPIS by Tasmania, the ACT and NSW will bring greater consistency across the NEM. For such a scheme across the NEM to be successful, different weightings and caps and collars need to be set depending on the network's characteristics, including the proportion of rural and urban customers served, and the VCR in the particular network.

SP AusNet recognises that it is appropriate for an incentive scheme to have a supplementary component to recognise reliability for worst served customers. These are currently captured through weightings in the AER's STPIS, and Guaranteed Service Level (GSL) payments set by the Victorian Government. However, the GSLs typically do not provide the level of incentive necessary to justify investment in network reliability.

The STPIS also includes provision for GSLs, but have not been applied because of the existing jurisdictional scheme.

The current practice of reporting on and publishing plans for improving low-reliability feeders is an effective tool which should be continued as part of a nationally consistent framework. This reflects the Brattle Group's best practice principle that incentives to respond to worst-served customer do not necessarily have to be direct financial incentives.

SP AusNet supports setting reliability standards by feeder category – urban, short rural and long rural – as is the current practice in Victoria. SP AusNet does not consider that setting standards at a more disaggregated level (for example, for individual feeders) would be an efficient way to plan investment in reliability. The VCR should always be considered when appraising reliability investment. Generally, the worst performing feeders are in remote areas and improvements would be expensive. Accountability for the performance of low-reliability feeders through the current practice described above incorporates the VCR and allows more innovative solutions to be undertaken.

An example of where SP AusNet has implemented innovative, low cost solutions to improve reliability is in the remote Cann River region. This is served by a long radial component of the network, and duplication of assets cannot be economically justified. SP AusNet has undertaken a number of initiatives to reduce the risk of outages in Mallacoota. These include engaging with the community to soften peak load by staggering electricity use, advising on sustainable energy generation and undertaking physical enhancements to combat natural threats to the controlling line.

The Issues Paper discusses the merits of customer communication strategies. SP AusNet agrees with the AEMC that customers value forewarning of outages and information on anticipated service restoration. Effective financial incentives are provided under the STPIS for SP AusNet to improve the efficiency of customer communications. As well as providing written advance notice of planned outages, and a call centre service to respond to service problems SP AusNet has been proactive in also initiating more

current forms of customer communications for example, through using SMS and twitter to inform customers about outages and the estimated time of resolution. This reduces the customer impact of the loss of supply, and also benefits the business through reducing as call volumes.

## Q6. The meaning of a nationally consistent framework

If the AEMC decides to establish a national framework for planning criteria and reliability standards, SP AusNet considers that this should reflect best practice techniques to enhance the economic delivery of reliability. A national framework should only impose criteria or standards on a jurisdiction that bring greater alignment with best practice than current practice.

A national framework should focus on methodological consistencies (for example, in planning practices, expression of standards and determination of the VCR) rather than identical performance targets for jurisdictions, or even for DNSPs within the same jurisdiction. This will allow flexibility to account for the different circumstances of DNSPs, and the customers they serve.

A nationally consistent framework should also benefit customers. This can be achieved through encouraging efficient investment and minimising costs to the DNSPs of any changes that are to be implemented.

SP AusNet broadly agrees with the third option for a nationally consistent framework, presented on page 41 of the Issues Paper. This option proposes that the AER's STPIS should be relied on across all jurisdictions, and superfluous jurisdictional requirements can then be removed. The Issues Paper observes that this would avoid misaligned incentives and inconsistencies between jurisdictional requirements and the STPIS, and enhance national consistency at a relatively low cost.

## Q8. The National Electricity Objective

The contribution of a nationally consistent framework to the achievement of the National Electricity Objective depends on the framework's content. If, as the Issues Paper suggests, there will be greater alignment between the VCR, planning and incentives (similar to the current Victorian system), then it is likely to promote efficient investment in all jurisdictions, and will link the long term interests of electricity consumers with the reliability, quality and price of electricity.

## **Q9.** Implementation of a nationally consistent framework

Before implementing a nationally consistent framework, it is essential for the AEMC to demonstrate that the potential benefits outweigh any costs, including implementation costs. These include changes to reporting systems, adjustments to planning frameworks and establishing a VCR on a consistent basis throughout the NEM.