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Alisa Toomey
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Dear Ms Toomey

Submission on proposed rule change – establishing values of customer reliability

Thank you for the opportunity to comment on the proposed rule change to give the AER responsibility for establishing values of customer reliability. The Tribunal has asked me to make this submission on its behalf.

IPART supports the proposed rule change to give the AER responsibility for establishing values of customer reliability. We also support the proposed timing of the review(s) and the level of guidance provided in the draft rule.

The remainder of this submission discusses IPART's role and interest in the value of customer reliability (VCR) estimates and outlines our views on the main elements of the proposal.

IPART's role

In 2015-16 IPART reviewed and made recommendations on electricity transmission reliability standards for NSW. The terms of reference for that review required us to have regard to estimates of VCR published by AEMO. The resulting reliability standards will come into force on 1 July of this year.

We applied an economic approach to determining the standards. We estimated both the cost of providing reliability and the cost to customers of experiencing outages.¹ We then identified the amount of expected unserved energy that would minimise the sum of these costs. Estimates of VCR are critical to this analysis. If those estimates do not reflect customers' actual preferences the resulting reliability standards will not meet customers' expectations.

In most cases we used the AEMO VCR values, as we considered they were the best estimates available. However, we agreed with stakeholders that these estimates have a number of shortcomings. For the Inner Sydney (CBD) area we did not use the AEMO VCRs

¹ We developed a model that estimates the amount of unserved energy at each supply point under various reliability settings (different combinations of asset redundancy, load at risk and repair/restoration times) and calculates the costs associated with this by multiplying the expected unserved energy by the relevant VCR.

in our analysis but instead adopted a higher VCR value estimated by HoustonKemp for TransGrid. We recognised that there was uncertainty around what would be an appropriate VCR value for Inner Sydney and received stakeholder comments that were critical of both estimates. On balance, we considered that where there is uncertainty around key inputs, we should be conservative in setting the allowances for expected unserved energy and noted that the use of the HoustonKemp estimates resulted in reliability that was closer to the current level and that the AEMO VCR values would result in a much higher value of expected unserved energy.

As part of this review, we made recommendations to the NSW Minister for Energy designed to ensure that more accurate and relevant VCRs are available for future reviews of transmission reliability standards. We agreed that a nationally consistent approach would be preferable.

Comments on the proposed rule change

The draft rule change sets out some guidance as to the methodology but largely leaves it to the AER to determine. We agree that it would be difficult to enshrine a methodology in the national electricity rules that is comprehensive, fit for purpose and that will remain relevant into the future. We consider that it is appropriate to set out the objectives in the rules and to allow the AER to develop a suitable methodology.

Requirement to consider fitness for purpose (both current and future)

We support the proposal to require the AER to have regard to current and future uses of VCRs in developing its methodology and to ensure that the VCR values it calculates are fit for these purposes. However, we consider that the rule change should make it clear that in particular, the AER must consider regulatory decisions on reliability when reviewing VCRs. We recommend the following addition to section 8.12(c)i.:

- i. Any current and potential uses for values of customer reliability, in particular any regulatory decisions on reliability; and

Other requirements in relation to methodology

The proposed draft would require the AER to directly engage retail customers (such as through surveys). We support the inclusion of this requirement. The proposed draft also specifies that the AER must have regard to the range and geographic location of retail customers in each network. We expect that these two elements would be important drivers of the customer VCR and as such, we support their inclusion in the indicative draft rule change.

We are likely to require VCRs at a greater level of granularity than specified in the proposal. The approach we took at the last review requires a VCR value for every bulk supply point across TransGrid's network (approximately 90 locations). However, as the proposed rule requires the AER to develop VCR values that must be suitable for this purpose, we consider that it is unnecessary to provide further guidance in the rules themselves.

Consultation

The draft rule proposes that the AER must follow the consultation procedures in the rules and does not specify consultation with any particular parties. In order to ensure that the approach is suitable for and consistent with IPART's use of VCRs in recommending electricity reliability standards for NSW, we consider that in practice the AER would need to consult with IPART and other jurisdictional regulators who use VCR estimates, even if they are not explicitly listed. The amendment we have suggested above should ensure that the AER makes itself aware of such decisions and explicitly takes them into account when reviewing VCRs.

Timing

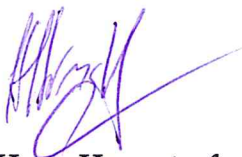
In our final report on NSW transmission reliability standards, we recommended that IPART should review the standards again in five years' time. We also recommended that updated VCRs should be available in time for the next review, which we expect would occur in 2020-21.

The proposed rule change would require the AER to complete its first review of VCRs, including publishing revised estimates, by 31 December 2019. We support both the proposed timing and the inclusion of this requirement in the rule change. We also support the proposal to require the AER to publish VCR estimates annually as well as to update the estimates at least once every five years. We consider that this timing would work well with the expected timing of transmission reliability reviews in NSW.

The proposed rule change requires the AER to undertake regular reviews of its methodology but does not fix the timing of these reviews. We consider that this is reasonable. Some flexibility around timing is appropriate given that the AER is required to ensure its approach is consistent with and suitable for any current and potential uses for values of VCR and these may change over time. It would also allow the AER to bring forward a review of the methodology if necessary.

IPART's contact officer for this matter is Ineke Ogilvy, Director, contactable on (02) 9290 8473.

Yours sincerely



Hugo Harmstorf
Chief Executive Officer