

8 August 2012



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

Dear Mr Pierce

**REVIEW OF DISTRIBUTION RELIABILITY OUTCOMES AND STANDARDS – NATIONAL WORK STREAM (EPR0031)**

Thank you for the opportunity to comment on the issues paper on the AEMC's Review of Distribution Reliability Outcomes and Standards. Endeavour Energy is generally supportive of a move to a nationally consistent framework for the regulation of reliability standards and outcomes if the costs of changing management and reporting systems are justified by the benefits to be achieved. We would particularly recommend that any national framework that is adopted be based around defining the outputs required as we believe that this will result in more efficient outcomes.

We have the following comments to make in response to the issues raised in the paper.

**Question 1 Analysis of NEM jurisdictional approaches to reliability**

*Should the AEMC consider any other aspects of existing NEM jurisdictional approaches to reliability?*

Endeavour Energy considers that the aspects of existing NEM jurisdictional approaches to reliability detailed in the issues paper are appropriate for the current review.

**Question 2 Approach to the national work stream**

*Should the AEMC consider any other aspects in its approach to the national work stream?*

Endeavour Energy considers that the aspects of its approach detailed in the issues paper are appropriate for the current review.

**Question 3 Reliability planning**

- a) *What are the most appropriate administration arrangements for distribution reliability planning?*
- b) *What are the different approaches that could be adopted for distribution reliability planning and how could these approaches employ a proper analysis that incorporates an estimate of the value of customer reliability or willingness to pay?*

Endeavour Energy notes the general approaches to regulating reliability performance discussed in the paper and submits that any national framework should take an output-based approach. We consider that individual DNSPs are in a better position than a regulator to determine the most cost-effective means of achieving desired reliability outcomes. The achievement of such outcomes may further be incentivised through a scheme such as the AER's STPIS that includes an appropriate value of customer reliability to provide the correct signals for investment in reliability works by DNSPs.

We do note however that, in submissions to the AEMC's draft report on the review of distribution reliability standards and outcomes in NSW, there is a wide range of views on the value of customer reliability and that the use of this measure as part of a future national framework for regulating

reliability would require proper analysis to ensure the desired efficient investment. In particular, relying on the VCR derived as part of the NSW work stream, with the attendant caveats that were placed on it, would not be appropriate.

#### **Question 4 Reliability standards**

- a) *What are the expected costs and benefits associated with consistency in expressing reliability standards and how can locational differences between jurisdictions be accommodated?*

Consistency of reliability standards and the definitions of these standards will enable comparison of reliability performance within and across jurisdictions. In the case where a dual governance structure exists for reporting, consistency will result in lower reporting costs.

- b) *Is there merit in having one entity regulating both reliability standards and investments and what are the possible alternatives to this approach?*

Currently NSW reliability standards are set within the DNSP Design, Reliability and Performance Licence Conditions, while the AER has responsibility for approval of the capital and operating expenditure necessary to achieve the required standards. A single entity that has responsibility for both the setting of reliability standards and determining the allowed investment necessary to meet those standards provides an opportunity for a more consistent approach leading to more sustainable reliability improvements over the longer term and is likely to result in more efficient outcomes.

- c) *What are the important elements of distribution reliability reporting and is there value in a nationally consistent approach?*

Reliability reporting should be carried out at an appropriate level of disaggregation that enables reasonable like for like comparisons to be drawn between distributors and does not inappropriately group results for different classes of outages or feeders. The level of reporting should also not be so disaggregated that excessive volatility is introduced into the reported results.

We note in particular the discussion on the exclusion of certain events from the calculation of reliability performance measures. The AEMC should note that the purpose of defining excluded events is not so much to avoid distorting the measurement through outlier events or events that are beyond the reasonable control of the DNSP (although this is an outcome), but more the need to recognise that different types of outage have different characteristics and require different management techniques. For example, planned outages affect a defined number of customers for a defined period of time and efforts to minimise the impact of these are different from the efforts made to minimise the impact of unplanned outages. Similarly, outages that occur on major event days are subject to a different management response because of the volume of such outages that occur simultaneously. Excluding these types of outages from the reporting of "normal" outages allows appropriate management action to be taken for each different category of outage. A national framework for regulating reliability performance must include an exclusion methodology that recognises the desirability of excluding some events from reported reliability results.



### **Question 5      Incentives**

- a) *What are the expected costs and benefits associated with existing jurisdictional incentive schemes for distribution reliability performance and the movement towards a more consistent approach across the NEM?*
- b) *How could a nationally consistent incentive scheme for distribution reliability performance accommodate worst served customers?*
- c) *What are the important considerations for GSL schemes and is there value in a nationally consistent approach?*

Any nationally consistent reliability standards framework needs to recognise not just average network reliability performance but also the performance of the worst performing parts of the network. These parts of the network often have low customer densities and augmentation projects can be difficult to justify using a VCR to determine cost benefit. A national framework needs to recognise that an incentive scheme may not have much value in assisting these customers. A guaranteed service level scheme, based on an agreed VCR, which compensates the worst served customers may be a more cost-effective way of accommodating these customers.

- d) *What are the expected costs and benefits associated with customer communications?*

Endeavour Energy recognises the benefits of being able to provide customers with information on fault cause, expected restoration time etc in the event of an unplanned outage. Depending on the level of detail to be provided though, there can be significant costs associated with the IT systems necessary for implementation. The inclusion of any requirement of this nature in a national reliability reporting framework would need to be accompanied by a detailed cost benefit analysis that considers both the initial implementation costs and the ongoing costs associated with operating such a communications system.

### **Question 6      The meaning of a nationally consistent framework**

- a) *What should a nationally consistent framework mean, and what should it not mean?*
- b) *How should a "nationally consistent framework" be interpreted and what degree of consistency/harmonisation is appropriate?*
- c) *In the context of setting and enforcing regulatory requirements, is it appropriate for the same body (eg the AER, a jurisdictional regulator, or a jurisdictional minister) to be responsible for both setting and enforcing reliability standards and outcomes?*

Endeavour Energy agrees that a nationally consistent framework should be one in which the expressing, delivering and reporting on reliability outcomes is consistent nationally. The levels of reliability to be achieved should not form part of a national framework, as these are highly dependent on network type, location, etc and may be more effectively set by the jurisdictions and / or the regulator. A national framework should neither conflict with, nor duplicate any jurisdictional / regulatory requirements that may exist.

### **Question 7      Costs and benefits of a nationally consistent framework**

*What are the expected costs and benefits of moving to a nationally consistent framework?*

We note that from the perspective of an individual distributor, there are few benefits to moving to a nationally consistent framework, particularly if this would involve costs in changing management and reporting systems. We do however see benefits in aligning national and jurisdictional reporting requirements where duplicate reporting regimes are to be maintained (for example the AER's STPIS and jurisdictional requirements).

**Question 8     The National Electricity Objective**

- a) *How would a nationally consistent framework be likely to contribute to the achievement of the NEO?*
- b) *How material are the current jurisdictional differences in reliability standards and outcomes to consumers? What impact do those differences have on consumers' locational decisions?*

Endeavour Energy's experience is that the reliability of supply is generally a secondary consideration to consumers when they are making locational decisions, with proximity to markets, lifestyle considerations etc being far more significant factors in their decision making process.

**Question 9     Implementation of a nationally consistent framework**

- a) *What are the important considerations in moving away from existing jurisdictional frameworks to an approach that is nationally consistent?*
- b) *What issues are likely to arise in the process of moving from existing jurisdictional frameworks to an approach that is nationally consistent and how could these best be managed or overcome?*
- c) *What implementation costs would likely to be incurred in moving to a nationally consistent framework?*

Implementation issues and costs will depend to a large extent on the differences between the national framework and the existing jurisdictional schemes. It is likely that a transition period will be required, for example to build capability to develop robust probabilistic forecasts that will be necessary to support the case for efficient investment in network reliability improvement.

If you have any questions regarding this submission, please do not hesitate to contact our Regulatory Technical Manager, Rick Wallace, on (02) 9853 6648.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Rod Howard', with a long, sweeping horizontal flourish extending to the right.

Rod Howard  
**Interim Chief Operating Officer**