

21 JAN 2014



Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

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Dear Mr Pierce

Network reliability requirements –developing values of customer reliability

I am writing on behalf of the Standing Council on Energy and Resources (SCER) to thank you for the Australian Energy Market Commission's (AEMC) final reports for the *National Electricity Network Reliability Framework and Methodology* program.

SCER welcomed the AEMC's reports in its meeting on 13 December 2013 and agreed to the interim measures set out in the final report for its *Review of the National Framework for Distribution Reliability*. SCER considers the interim measures identified by the AEMC would be key steps towards the introduction of the national framework agreed in-principle by the Council of Australian Governments (COAG), which jurisdictions would be in a position to transfer responsibility for applying to the Australian Energy Regulator (AER).

Consequently, SCER agreed to request the AEMC develop common definitions for expressing distribution reliability targets across the National Electricity Market (NEM). SCER agrees with the AEMC's conclusion that this would be a useful tool to facilitate efficient investment, increase transparency and improve regulatory outcomes.

The following sets out the scope of this request.

SCER direction

Pursuant to section 6(b) of the *Australian Energy Market Commission Establishment Act SA (2004)*, the Ministerial Council on Energy (MCE) may direct the AEMC to provide advice. In September 2011, the COAG created SCER, which includes Ministers responsible for Energy. These Ministers comprise membership of the legally enduring MCE. SCER Ministers responsible for Energy are entitled to make requests under section 6(b) and have requested the AEMC to develop and publish a document containing advice to Energy Ministers on common definitions for expressing distribution reliability targets across the NEM.

Purpose of this advice

This advice will be used by standard setters to set distribution reliability targets and other reliability measures. It will also be used by distribution businesses to provide consistency in reporting on performance against their reliability targets and measures across the NEM. This will assist the AER and other stakeholders to compare the reliability performance of distribution businesses in the NEM. This will in turn assist the AER in undertaking benchmarking, which can be considered in the development of its revenue determinations for each distribution business.

Request for advice

In light of the above, the AEMC is requested to provide advice that sets out:

- a) the range of distribution output reliability measures which could be used to set distribution reliability targets;
- b) definitions for the expression of distribution output reliability measures, including a list of the events which will be excluded from the calculation of reliability performance;
- c) the classification of feeder types which will be used to set distribution reliability targets;
- d) any other reliability measures which could be used in setting reliability requirements for distribution businesses; and
- e) any relevant factors for the AER to have regard to in developing a methodology for undertaking an assessment of the trade-offs between reliability and cost in poorly served areas.

Relevant considerations

In developing the advice, the AEMC should have regard to:

- the need to ensure that the reliability measures can be practically applied across the NEM;
- the need for consistency in setting and reporting on the distribution reliability targets across the NEM;
- the need for consistency with the AER's Service Target Performance Incentive Scheme for distribution; and
- the National Electricity Objective.

Consultation

In developing the advice on common definitions, it is requested that the AEMC work with the AER, the relevant electricity distribution businesses, jurisdictional regulatory bodies, and governments. Further, where appropriate, it is requested the AEMC seek feedback from relevant transmission businesses and the Australian Energy Market Operator.

Timing

SCER requests that the AEMC provide this advice by end of July 2014. This will enable Energy Ministers' consideration of the advice in its second meeting of 2014.

The appropriate contact on this matter is Mr Brendan Morling, Chair of the Standing Council on Energy and Resources' Energy Market Reform Working Group, who can be contacted on (02) 6243 7300.

Sincerely



Ian Macfarlane

Chair

Standing Council on Energy and Resources