

Mr John Pierce
Chairman
Australian Energy Market Commission
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Dear Mr Pierce

Australian Energy Regulator maintenance and update of guideline for common definitions for distribution network reliability measures

The Council of Australian Governments Energy Council (Energy Council) has agreed to submit a rule change request to the Australian Energy Market Commission (AEMC) that changes the National Electricity Rules (the Rules) to give the Australian Energy Regulator (AER) responsibility for producing and updating a guideline of common distribution network reliability definitions.

The guideline will ensure the AER has clear responsibility to maintain and update common reliability definitions, drawing on advice developed by the AEMC in its *Review of Distribution Reliability Measures*. The guideline will lead to continued and wider use of common reliability definitions in incentive schemes and benchmarking reports.

I formally request that the AEMC commence a rule change process to introduce changes to the Rules for the AER to:

- develop, publish and maintain the guideline in consultation with stakeholders under the distribution consultation procedures in the Rules;
- have regard to the guideline when developing the Service Target Performance Incentive Scheme for distribution network service providers and preparing distribution network service provider performance reports, including annual benchmarking reports; and
- review the guideline at least every five years after the guideline is first published.

The attached document provides additional information in support of this request.

Should you have any further enquiries, please contact Ms Kristen Palmer, Manager of the Energy Council Secretariat, on (02) 6243 7107.

Yours sincerely



John Ryan
COAG Energy Council Senior Committee of Officials

25 May 2015

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**Australian Energy Regulator maintenance and update of guideline for
common definitions for distribution network reliability measures**

New rule request and proposal

22 May 2015

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Name and address of rule change request proponent

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1. New rule proposal

This proposal relates to amendments to the National Electricity Rules (the Rules) to require the Australian Energy Regulator (AER) to have responsibility for a Distribution Reliability Measures Guideline.

In developing the initial guideline, the AER is expected to draw on the menu of common reliability definitions developed by Australian Energy Market Commission (AEMC) in its *Review of Distribution Reliability Measures*.

The proposed rules will require the AER to have regard to the guideline when developing the Service Target Performance Incentive Scheme (STPIS) for distribution network service providers, and preparing distribution network service provider performance reports, including annual benchmarking reports.

The proposed guideline is consistent with the AER's statutory functions, as it will inform the setting of economic incentives schemes and performance reports for network businesses.

It is proposed that amendments to the Rules be made requiring the AER to:

- develop, publish and maintain the guideline in consultation with stakeholders under the distribution consultation procedures in the Rules;
- have regard to the guideline when developing the STPIS for distribution network service providers and preparing distribution network service provider performance reports, including annual benchmarking reports; and
- review the guideline at least every five years after the guideline is first published.

The Senior Council of Officials (SCO) considers the guideline will promote stakeholder confidence, transparency and consistency in distribution reliability reporting and incentives. The guideline may also facilitate wider use of common reliability definitions by distribution network businesses and jurisdictional governments and regulators.

2. Background to the proposal for a new rule

On 27 September 2013, the AEMC provided its final report, *Review of the National Framework for Distribution Reliability* (Review), to the Council of Australian Governments' Energy Council (Energy Council), formerly the Standing Council for Energy and Resources.

The final report recommended the development of common definitions for reliability, amongst other things.

On 21 January 2014, the Energy Council requested the AEMC develop common definitions for expressing distribution network reliability targets across the National Electricity Market (NEM). The Energy Council noted the development of common definition for reliability would assist the AER and other stakeholders to compare the reliability performance of distribution businesses in the NEM.

On 18 September 2014, the AEMC published its final report on its *Review of Distribution Reliability Measures*. The report presented common definitions for distribution network reliability targets and outcomes across the NEM with the aim to provide greater transparency and consistency. The AEMC developed harmonised definitions giving a menu of proposed distribution network reliability measures to be applied by the AER and participating jurisdictions for their reporting, benchmarking and incentive schemes. The AEMC considered that the use of these common definitions would increase transparency and consistency of distribution reliability measurements and improve stakeholder confidence. Key stakeholders, including distribution network businesses, consumer groups, the AER, jurisdictional governments and regulators, and the Australian Energy Market Operator (AEMO) were consulted throughout the development of the report.

3. Statement of Issues

Distribution network reliability measures and the definitions used to define them can vary significantly between the AER, jurisdictions, regulators and network businesses. This has implications for how data is collected and compared for use in the STPIS as well as the extent to which reliability performance can be compared in performance reports, including annual benchmarking reports. The proposed rule changes will have most benefit to the following AER functions.

➤ *Distribution network service provider performance reports*

Under section 28V of the National Electricity Law, the AER may prepare a report on the financial performance or operational performance of one or more network service providers in providing electricity network services. Amongst other things, these reports may deal with the financial or operational performance of distribution network service providers in complying with distribution service standards or standards relating to the provision of electricity network services to network service users or end users.

Under clause 6.27 of the Rules, the AER must prepare and publish a network service provider performance report (an annual benchmarking report) the purpose of which is to describe, in reasonably plain language, the relative efficiency of each distribution network service provider in providing direct control services over a 12 month period.

The guideline will assist the AER to use consistent definitions for distribution network service providers in different jurisdictions, which will improve the accuracy of reliability performance reporting between distribution network businesses.

➤ *Service Target Performance Incentive Scheme*

The STPIS is designed to ensure that increases in efficiency are not at the expense of deterioration in service performance for customers. The reliability component of the STPIS provides a financial incentive for distribution network business to maintain and

improve reliability service performance on average by assigning rewards or penalties to a distribution network business where performance is either better or worse than the past average performance level respectively.

The guideline of common reliability definitions will reduce the risk of data collected using one set of definitions from being interpreted inaccurately for the STPIS. The guideline will therefore improve the transparency, quality and accuracy of data reported to, and used by, the AER.

The reliability of distribution networks is generally measured as the average number of minutes of interrupted supply per customer per annum (System Average Interruption Duration Index – SAIDI) and the average number of interruptions per customer per annum (System Average Interruption Frequency Index - SAIFI). However, the parameters of how distribution network reliability measures are defined vary between the AER and within and across jurisdictions. For example, one jurisdiction may define a sustained interruption as being an interruption occurring for a period of more than one minute, while another may define a sustained interruption as occurring for more than three minutes. Some jurisdictions also measure momentary interruptions, that is interruptions that occur less than the definition of a sustained interruption.

A distribution network business may collect data on interruptions using a different set of definitions to those required by the AER for STPIS reporting. Some data collected that would otherwise be comparable, may fall into different categories. For instance, some interruption events could be categorised as sustained interruptions while others may be recorded as momentary interruptions. Therefore the data collected using categories defined by the network business may not necessarily meet the reporting requirements of STPIS. This misaligned data could also lead to results in the AER’s annual benchmarking report being based on different definitions and therefore not directly comparable.

3.1. Distribution Reliability Measures Guideline

In the Review, the AEMC developed common definitions to be as broad as practicable to provide the level of flexibility over time. However it is likely that some amendments to the existing definitions or some additional definitions may be required to reflect changes in how the reliability measures are applied and changes to the associated assumptions that underlie the measures. For example, the definitions may need to be amended if there are improvements in the understanding of the impact of interruptions on customers or there are future technological improvements, such as innovations in distribution automation systems or the systems that monitor interruptions. The review and update of the Distribution Reliability Measures Guideline will ensure the consumers reliability expectations are updated in line with changes in network use.

The AEMC also considered it would be beneficial for the AER to have ongoing responsibility for the guideline. It will assist the AER and other stakeholders to better compare the reliability performance of distribution businesses in the NEM. In turn the AER will be able to undertake more accurate benchmarking that can be considered in the development of its revenue determinations for each distribution business.

The AEMC’s intention was for the guideline of common reliability definitions to:

- be used by standard setters to set reliability targets;
- provide consistency in reporting on performance against reliability targets and;
- assist distribution network businesses, the AER and other stakeholders compare reliability performance across the NEM.

SCO proposes changes to the Rules to specify the AER as the responsible body for drafting, publishing and maintaining the guideline. The AER would be required to follow the distribution consultation procedures in the Rules. SCO considers the AER is the appropriate body to have responsibility for the guideline because of its role in setting incentive schemes as part of the revenue determination of distribution network businesses.

SCO supports the types of distribution reliability measurements, definitions and exclusions published in Appendix B of the AEMC's *Review of Distribution Reliability Measures*. This includes the distribution reliability measurements of SAIDI, SAIFI, and Momentary Average Interruption Frequency Index (MAIFI) and Momentary Average Interruption Frequency events (MAIFIE).

3.2. Updates to common definitions

In light of the potential for changes in the way reliability measures are expressed and applied, set out above, regular reviewing of the suitability of the definitions is also required. The rules will need to outline a requirement for the common definitions to be reviewed by the AER at least five years after the guideline is first published and no more than every five years thereafter. The AER would need to follow the distribution consultation procedures when reviewing the guideline. A five yearly interval between reviews provides sufficient time to update definitions to reflect changes in reliability requirements and technological change, while also providing regulatory certainty for distribution network businesses'.

The AER would have the option to review the guideline more frequently. For example, if a request was made by industry or jurisdictions for new or improved definitions.

3.3. Service Target Performance Incentives Scheme

The proposed rules will need to stipulate that the AER must have regard to the Distribution Reliability Measures Guideline when developing and applying the reliability component of STPIS for distribution network service providers.

4. Contribution to the National Electricity Objective

The National Electricity Objective is set out in section 7 of the Law. The National Electricity Objective (NEO) states:

“The objective of this Law is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:

- a) price, quality, safety, reliability and security of supply of electricity; and*
- b) the reliability, safety and security of the national electricity system.”*

The Energy Council considers the proposed rules contribute to the NEO by providing consistency and transparency in the specification and reporting on distribution reliability measures. This will assist distribution network service providers, the AER and other stakeholders to compare the reliability performance of distribution network service providers across the NEM and to allow more meaningful reporting and benchmarking exercises to occur. It is also expected to improve the effectiveness of the STPIS by improving the transparency, quality and accuracy of the data reported to, and used by, the AER.

More effective benchmarking and incentive schemes will better enable the AER to determine appropriate revenue allowances for distribution network service providers that appropriately

balance price and reliability outcomes for consumers. For example, consumers will benefit from more accurate incentive schemes which ensure that improvements in operating and capital expenditure efficiency are not at the expense of deterioration in service performance for consumers.

The proposed rule will therefore promote the efficient investment in, and operation of, electricity services for the long term interests of consumers with respect to price and reliability.

5. Expected costs and benefits associated with the rule change proposal

5.1. Distribution network businesses

The costs of the rule change on network businesses will be minimal. SCO notes the adoption of the common definitions contained in the guideline may require network businesses to change the collation of interruption data. However, the adaptation of existing processes used to collate interruption data should accommodate the adoption of the common definitions. SCO considers the only other material impact on network businesses will be through the consultation process when the AER develops and reviews the definitions through its guideline.

Development of the guideline by the AER will benefit distribution network businesses. The guideline will provide a clear explanation on how the AER will consider the definitions in the STPIS and the preparation of distribution network service provider performance reports. This will provide distribution network businesses with longer term certainty on common definitions and allow network businesses to anticipate AER requirements.

During development of the guideline, the AER will consult with stakeholders. This process will give distribution network businesses an opportunity to provide input on how the guideline will impact their business, including financial and regulatory effects. This process will allow the AER to take account of stakeholder feedback and make more informed decisions, in particular minimising the regulatory burden on business.

5.2. Consumers

The AER will have ongoing responsibility for the guideline. This means that consumers will have access to more transparent and consistent information to allow them to more confidently compare the distribution network reliability performance. Consumers will also benefit from more accurate incentive schemes, like the STPIS, which ensures improvements in operating and capital efficiency are not at the expense of deterioration in service performance for consumers.

5.3. AER

The AER will incur costs to develop and publish a guideline for a common set of definitions for distribution reliability measures. There will also be ongoing costs associated with stakeholder consultation during the guideline maintenance process as well as the ongoing five year review of distribution common definitions.

The common definitions developed by the AEMC were based on the AER STPIS definitions. Therefore, it is expected that the cost of implementing the definitions into future STPIS for network businesses will not be significant.

The AER will benefit from the introduction of the guideline by reduced administrative burden because data collection for STPIS and performance reporting will be consistent with

the AER's requirements. It will also allow the AER to promote the introduction of improved reliability measures by including them in the guideline.

5.4. Jurisdictional Regulators

Jurisdictional regulators may incur some costs associated with the AER's consultation process to review and update the guideline.

The regulators will benefit from having access to more transparent and consistent reliability definitions used by the AER for the STPIS and performance reporting.

6. Timing

The proposed rules should ideally be made by mid-2016. It is proposed that the rules include transitional arrangements for the AER to make the initial guidelines and amend the STPIS having regard to the guidelines. The amended STPIS will only apply to distribution determinations made after the amendment. However, businesses will need time to change their systems to allow for provision of information to the AER in accordance with any amendments to the STPIS. Depending on when the rule is made, transitional rules may need to be made in relation to the application of the guideline in the context of the AER's annual benchmarking report.