

24 April 2020

Brett Everett
Director, Pricing
Independent Pricing and Regulatory Tribunal
2-24 Rawson Place
Sydney, NSW, 2000

Submitted via IPART electronic submission form

Energy Networks Australia submission to IPART Review of distribution reliability standards Issues Paper

Dear Mr Everett,

Energy Networks Australia appreciates the opportunity to comment on IPART's review of distribution reliability standards. Ensuring customers have access to a safe, reliable and secure supply of electricity is of critical importance to Distribution Network Service Providers (DNSPs).

Energy Networks Australia is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

Key messages

- » There are national assessment frameworks and ongoing national processes that IPART should be cognisant not to duplicate and should instead leverage off in order to deliver value to customers.
- » Minimum standards for reliability should be maintained in jurisdictional licence conditions while the AER Service Target Performance Incentive Scheme framework should be utilised to reveal the efficient level of reliability.
- » NSW distribution networks are already making the transition to probabilistic network planning, as promoted under the national regulatory framework. There is a risk that the benefits to customers delivered by IPART's modelling may not exceed the associated costs.

Energy affordability

Energy affordability remains a key focus for DNSPs nationally. Substantial steps have been taken by DNSPs across Australia to ensure that the network portion of a customer's bill has been declining, reducing the pressure of electricity bills.

DNSPs across the National Energy Market have reduced their contribution to residential customer bills from over 52 per cent in 2014-15¹ to just 44 per cent in 2019-20². Affordability and reliability are closely related, with improvements in reliability expected to come at a cost to customers. However, New South Wales (NSW) DNSPs have delivered lower prices³ while maintaining reliability levels⁴.

Role of standards and incentive schemes

The NSW reliability standards, set as part of state-based licence conditions, ensure that all customers connected to the distribution network receive a minimum level of reliability. These reliability standards play an important role in protecting customers in areas of the network with lower levels of reliability that might be difficult or expensive to improve.

Reliability incentives serve a separate but equally important purpose to deliver reliability outcomes across all customers on a network. Incentive regulation, in force in Australia and administered by the Australian Energy Regulator (AER), is designed to replicate the forces of a competitive market and encourage monopoly businesses to further reduce costs and improve efficiency, without compromising the standard of service to customers.

It is recognised as a powerful form of regulation as it drives businesses to reveal their efficient costs to serve customers. This information then helps a regulator set ever more challenging benchmarks for performance in the future.

The nationally administered Service Target Performance Incentive Scheme (STPIS) incentivises DNSPs to identify and implement cost-effective solutions that will realise the largest improvements in reliability for the largest number of customers. After allowing network businesses to earn more from these additional improvements for a short period, the benefits are passed on to customers - forever.

Energy Networks Australia's *Rewarding Performance - How customers benefit from incentive-based regulation*⁵ published last year demonstrates that the STPIS is delivering value to customers through valuable reliability improvements. Compared to

¹ Australian Energy Market Commission, *Residential Electricity Price Trends 2015*, p. 77.

² Australian Energy Market Commission, *Residential Electricity Price Trends 2019*, p. 4.

³ Australian Energy Market Commission, *Residential Electricity Price Trends* series

⁴ Australian Energy Regulator, *Distribution performance data 2006-2018 - Electricity distribution network service provider data report, SAIDI and SAIFI*

⁵ Available at <https://www.energynetworks.com.au/resources/reports/rewarding-performance-how-customers-benefit-from-incentive-based-regulation/>

2006, Australian electricity customers with the STPIS framework in place are off supply an average of 24% less and have 37% less supply interruptions.

Introducing additional granular reliability requirements or incentives under jurisdictional licences risks duplicating and potentially subverting regulatory outcomes under the STPIS. The AER's periodic STPIS reviews are extensive and have undertaken broad consultation to determine SAIDI and SAIFI calculations, appropriate revenue at risk and customer payments for given performance levels that are in the best interests of customers.

The STPIS is then applied to each distributor during each 5-year regulatory determination, considering how VCR should be applied and how performance targets and incentives should be set to deliver the best outcomes for customers. This rigorous process is a central aspect of the regulatory framework that should be relied upon to produce outcomes that are in the best interest of customers.

Energy Networks Australia believes that reliability standards in licence conditions should support minimum levels of reliability for customers while the STPIS should be utilised to promote and reveal efficient service delivery across networks. Inconsistency between jurisdictional and national frameworks introduces planning uncertainty, additional reporting burden and does not result in clear benefits to customers.

DER technologies

Distributed Energy Resources (DER) technologies are enabling customers to engage with the energy system and offer choices about how they can derive value from their electricity connection. This has created numerous benefits for customers and if orchestrated successfully, DER also has the potential to produce value for the system more broadly.

However, the electricity network was not historically designed for energy to flow both ways through the system, as IPART acknowledges. Rapid uptake of DER has seen an increase in exported electricity back into the electricity network, which has resulted in higher network voltages and more frequent localised reliability issues.

The national ARENA Distributed Energy Integration Program involving government agencies, market authorities, industry and consumers is progressing a work package to address the challenges, and take advantage of the opportunities, brought on as a result of DER uptake. The access and pricing aspect of the program is attempting to align consensus on equitable and efficient DER access and pricing arrangements that will incentivise efficient integration and use of DER technologies.

Energy Networks Australia considers it appropriate for IPART to be cognisant of national processes that are currently underway when assessing the implications of two-way energy flows. Leveraging off outcomes from extensive national processes will avoid duplication and is in the best interests of customers.

Stand-Alone Power Systems

The AEMC's proposed framework for distributor-led Stand-Alone Power Systems (SAPS) is based on the principle that no customer should be worse off when transitioning to a SAPS. Additionally, the customer experience should remain the same, meaning that customers can expect similar (or better) levels of reliability than they would experience if they were grid connected.

For SAPS legislation to be adopted in NSW, the NSW Government will either have to opt-in to the Australian Energy Market Commission's SAPS framework or separately design and legislate their own. Either way, SAPS reliability standards will need to be adopted by IPART.

DNSPs are keen to implement SAPS and make use of their potential benefits. SAPS are likely to bring significant benefits to customers through better reliability at lower overall cost, which will flow through to lower network charges.

Probabilistic planning should be encouraged

Previous deterministic standards that were applied to NSW DNSPs in 2005 resulted in reliability standards that had the effect of increasing network investment to maintain compliance. Since 2014, NSW DNSP's are now no longer subject to prescriptive licence conditions and are making the transition to probabilistic risk-management approaches.

The AER's *Industry practice application note on asset replacement planning* provides clarity on how the replacement expenditure planning of network assets should be reported and hence, applied. It is expected that DNSPs apply a risk-cost, or probabilistic approach.

The AER states that 'the principles and approaches in this Application Note accord with good asset management and risk management practices' and that they are generally consistent with international asset management and risk management standards⁶.

IPART's goal is for an economic model to estimate efficient reliability levels that provide the most value to customers. Developing such a model with the amount of sophistication required to estimate efficient reliability levels across different parts of the DNSP's network will be a complex and possibly costly endeavour.

The AER is obligated under section 6.2 of the *National Electricity Rules* to undertake a thorough review and evaluation of each DNSP's network capital expenditure during determinations.

The prescriptive capex criteria ensure a rigorous assessment of all proposed capex for prudence and efficiency that ultimately leads to DNSPs only recovering their efficient costs. There is a risk that the benefits to customers delivered by IPART's modelling

⁶ Australian Energy Regulator, *Industry practice application note on Asset replacement planning* (2019), p. 1.

may not exceed the associated costs, especially considering extensive modelling is already undertaken by the AER.

If you would like to discuss the contents of this submission, please contact Chris Gilbert at cgilbert@energynetworks.com.au or 0438 776 337.

Yours sincerely,



Garth Crawford
General Manager, Economic Regulation