

19 September 2014

Rebuilding NSW
GPO Box 5341,
SYDNEY NSW 2001

Rebuilding NSW Discussion Paper

Dear Sir/Madam,

The Energy Networks Association (ENA) welcomes the opportunity to respond to the *Rebuilding NSW* discussion paper (August 2014).

The ENA is the national industry association representing the businesses operating Australia's electricity transmission and distribution and gas distribution networks. Member businesses provide energy to virtually every household and business in Australia. ENA members own assets valued at over \$100 billion in energy network infrastructure.

ENA's submission focuses on three elements; the strong institutional framework that exists for electricity networks in the National Electricity Market (NEM), network reliability and bushfire mitigation response.

1. Strong institutional frameworks

Collectively, the institutional arrangements that underpin the regulation of electricity networks in Australia provide a source of fundamental strength and stability and comparative advantage internationally, in addition to important protections for electricity and gas customers.

These arrangements include the National Electricity Law (NEL), the National Gas Law (NGL) and the existence of robust independent energy-focused bodies. Key amongst these are the independent rule making and market development body, the Australian Energy Market Commission (AEMC) and the Australian Energy Regulator (AER) which administers network regulation under the national laws and associated rules. A critical element of accountability is also provided by access to a limited merits review to the Australian Competition Tribunal, under recently reformed arrangements.

These institutions have clear and independent processes, guided by the objective of advancing the long term interests of consumers. This stable, established and predictable regulatory framework applies to all electricity networks in the NEM, regardless of the ownership arrangements, and provides a source of some confidence for both investors and electricity customers.

The AER has recently finalised a range of new regulatory guidelines that will be applied for the first time through 2014-15 to upcoming decisions affecting NSW, ACT and Tasmanian energy networks. This will see significant changes in the way businesses' expenditure allowances are assessed and set; feature new powers to exclude recovery of future expenditures over a determined regulatory allowance that are established to be inefficient; and new approaches to estimating the cost of capital for over \$100 billion of existing network assets. It is a positive reflection on the existing regulatory frameworks that these reviews and reforms were able to be facilitated by the broad regulatory and market governance arrangements of the sector.

This national framework applies transparently, and with equal effect, to eastern Australian transmission and distribution networks in both public and private sector ownership. Network service providers in private ownership are subject to the full suite of measures in the comprehensive regulatory framework. National comparisons, including those highlighted in the *Rebuilding NSW* Discussion Paper, indicate that private sector entities operating under the independent regulatory framework have proven highly efficient on a range of key measures.

The ENA welcomes that, under the proposed lease of NSW electricity networks, the existing regulatory framework will remain in place ensuring continuity in the implementation of customer-focused initiatives and promoting the regulatory stability required to deliver least-cost infrastructure investment outcomes for consumers.

2. Network reliability

As the discussion paper makes clear, minimum reliability standards are currently applied to NSW network businesses, independently of their ownership. This legal and regulatory framework governing reliability performance can continue to be effective, regardless of ownership status or any long-term lease transaction. In addition to the minimum reliability standards imposed by the NSW Government, the electricity network reliability performance of NSW electricity businesses is influenced by two key processes.

The Service Target Performance Incentive Scheme

The AER operates a national Service Target Performance Incentive Scheme (STPIS) that will apply in NSW from 1 July 2015 for electricity distribution businesses. An amended STPIS scheme for transmission businesses has applied from 1 July 2014, which is designed to maintain or improve the reliability of transmission network services.

The STPIS scheme for distribution networks provides a financial incentive to maintain and improve reliability performance. The STPIS aims to safeguard service quality for customers against incentives for the distributors to seek out cost efficiencies. As the Productivity Commission commented in 2013,

*"Under the STPS, a business that meets all its targets receives additional revenue because the AER allows it to increase its prices to customers – they effectively pay an additional price for the improved quality of the service they receive. Likewise if a network business fails to meet its targets it is penalised and has to reduce its prices to customers, who receive some compensation for poorer performance."*¹

Council of Australian Governments (COAG) Energy Council, National Framework for Network Reliability

Changes in reliability standards that have applied from 1 July 2014 for electricity distribution have meant that network businesses can plan and deliver efficiencies while maintaining current reliability levels. The NSW Government has announced that these changes will save more than \$200 million.²

¹ Productivity Commission, Inquiry Report Volume 2, No. 62, *Electricity Networks Regulatory Frameworks*, 9 April 2013

² Media Release, Putting a stop to Labor's gold plating, 17 October 2013, http://www.resourcesandenergy.nsw.gov.au/___data/assets/pdf_file/0006/477906/gold-plating-17-oct-2013.pdf

While these changes have already been implemented in NSW, at a national level, COAG is considering a national approach to ensure future investment in network reliability is balanced. In December 2012, COAG agreed in principle to adopt a national framework for setting electricity network reliability requirements for both electricity transmission and distribution³. Under the proposed national reliability framework, the approach taken by network businesses to meeting reliability standards is based on economically efficient outcomes which directly reflect the value of reliability investment to customers.

The COAG Energy Council is currently due to finalise a national reliability framework at its meeting in December 2014, following which State and Territory Governments may choose to adopt in their jurisdiction.

It is important to recognise that the independent regulatory framework for reliability ensures that reliability targets and standards are independently approved and the efficiency of proposed network investment is independently assessed. These measures do not rely on networks being fully, or even partially, publicly owned and can be applied equally to public and private sector entities providing network services in NSW.

3. Bushfire Mitigation

The safe, reliable and sustainable operation of the electricity transmission and distribution networks is the highest priority for electricity network owners. Their assets, which exist on both private and public land, are designed with public safety as a fundamental consideration, and are maintained in a condition that allows them to be operated safely at all times to ensure that the network does not adversely impact the safety of the community.

ENA members in NSW have all developed Public Electrical Safety Awareness Plans (PESAP) in accordance with the current requirements of the Electricity Supply (Safety and Network Management) Regulation 2008 to outline the management of their network assets in relation to public safety.

These plans are easily accessed by the public on each business' website so as to ensure the public is aware of the hazards associated with electricity, in particular overhead power lines, underground cables and substations.

These businesses are also required to develop a specific Bush Fire Risk Management Plan. This plan is intended to demonstrate the responsible management of their electrical assets in relation to bush fire risk and meet the requirements of clause 12 (1) of *the Electricity Supply (Safety and Network Management) Regulation 2008 – Objectives of a Bush Fire Risk Management Plan* and other associated regulations.

Electrical assets traverse the State of NSW and are generally located in rural and semi-rural areas. All of these areas have periods of high fire danger during the year and many of the overhead line corridors in these areas have sections of dense vegetation at risk of bush fire. Electricity networks take a risk assessment approach to asset management which assumes that every overhead line has the potential to be impacted by fire, or to initiate fire, including a bush fire.

³ 14 December 2012 Communiqué: "Ministers considered issues around reliability standards as one of SCER's priorities for the new energy market reform agenda. Ministers agreed to request officials to develop a terms of reference that tasks the AEMC with developing a national framework for setting distribution and transmission reliability requirements. The framework will build on the work undertaken to date, including the Ministerial Council on Energy's National Transmission Reliability Standard Framework (published in November 2011) and the AEMC's *Review of Distribution Reliability Outcomes and Standards*.

Therefore, bush fire risk management is built into electricity network strategies, policies and procedures and forms an integral part of their overall asset management systems. Specifically they outline systems that:

- identify bush fire prone areas within their supply area, identify all assets capable of initiating bush fires and have a system to ensure that this information is kept up to date;
- provide for any identified network assets located in bush fire prone areas to be inspected and maintained in accordance with a suitable maintenance schedule;
- provide for private overhead lines located in bush fire prone areas and capable of initiating a bush fire to be inspected to appropriate standards and advice provided to property owners where necessary to rectify defects where identified.
- Facilitate the review of equipment types or construction methods known in their operation or design to have bush fire ignition potential, and develop mitigation strategies in relation to their use;
- provide for special procedures and precautions to be put in place for works undertaken during conditions of very high fire danger, including work practices by staff, fault location procedures, automatic and manual reclosing of lines and protection settings;
- reinforce the need to liaise and consult with the NSW Rural Fire Service (RFS), NSW Fire Brigades, local councils and other relevant government departments;
- provide information to the general public about the fire hazards associated with overhead power lines and vegetation, particularly during storms and conditions of high fire hazard; and
- record any complaints in relation to bush fire risk management, and to ensure that appropriate investigations are made and remedial actions undertaken as required.

Regardless of ownership arrangements, these systems will be maintained and public safety including bushfire management is one of the major objectives of all ENA members. Again irrespective of ownership ENA is also supportive of working with the NSW Government as required on any future initiatives to manage public safety and bush fire risk.

In NSW electricity networks will continue to be subject to the National Electricity Law, and to the direction of the AER and AEMC. At the same time the strong regulatory frameworks that govern the operation of electricity networks, both at a state and national level should provide reassurance that irrespective of the ownership arrangements of electricity assets, critical safeguards with respect to reliability and bushfire safety and mitigation will remain.

The ENA would be pleased to discuss any aspect of the submission if that would be of assistance and I can be contacted on (02) 6272 1555.

Yours sincerely,



John Bradley
Chief Executive Officer