

Ausgrid Submission

IPART consultation on draft Terms of Reference for review of
the electricity distribution reliability standards

February 2019



570 George Street
Sydney NSW 2000
All mail to GPO Box 4009
Sydney NSW 2001
T +61 2 131 525
F +61 2 9269 2830
www.ausgrid.com.au

13 February 2019

Attn: Ms Jessica Robinson
Independent Pricing and Regulatory Tribunal (IPART)
PO Box K35
HAYMARKET POST SHOP NSW 1240

Lodged online

Dear Ms Robinson

Ausgrid is pleased to provide this submission on the draft Terms of Reference for a review of the NSW electricity distribution reliability standards.

We recognise that electricity prices are a concern for many customers. We are continuing to transform our business in order to provide more cost-effective network services and deliver greater value for customers. Since 2014, when reliability standards were last amended, we have delivered significant reductions in network charges for our customers. As of 1 July 2019, network charges for our average residential customer are expected to be \$213 (or 28 percent) lower than 2014.

Ausgrid supports any amendments to reliability standards that result in more efficient delivery of safe and reliable network services for customers. It is important that any amendments are also in the long-term interests of customers.

We are committed to working with IPART on the review of electricity distribution reliability standards. Should IPART have any questions in relation to this submission, please contact John Skinner, Regulatory Policy Manager on [REDACTED] or john.skinner@ausgrid.com.au.

Yours sincerely

[REDACTED]

Iftekhar Omar
Head of Regulation

Submission

Ausgrid supports a review of the NSW distribution reliability standards as contained in our licence conditions. New technologies are changing the way energy is generated, stored, and delivered to customers. It is appropriate that reliability standards are reviewed in light of these changes, and we have made a suggested addition to the factors that IPART must have regard to as part of its review.

NSW reliability standards were last amended in 2014, following review in 2012. Our capex levels are now much lower than they were at the time of the last review, meaning that any bill reductions from further changes in reliability standards are likely to be small. Furthermore, the timing of the proposed IPART review means that any changes to reliability standards are not likely to impact customer costs for several years.

The future electricity grid

The electricity industry is going through a period of significant change. Like other parts of the energy system, Ausgrid's distribution network needs to adapt to this new landscape and manage a growing mix of distributed energy resources across our network.

As a result of this change, we are transforming how we manage and operate our network. We are looking to take advantage of new technologies and solutions that may offer more cost-effective solutions than traditional network investments. Customers have told us that they want to see more use of innovation and demand management options, which can be used to reduce the need to build additional capacity or defer or avoid replacing aging assets.

The draft Terms of Reference requires IPART to provide a report recommending any changes that could deliver bill savings and any other measures that would be likely to reduce network prices. In our view, the Terms of Reference could also require IPART to consider any changes that will assist the NSW distribution networks to evolve and take advantage of new technologies that may offer more cost-effective solutions than traditional network investment.

For example, under some scenarios, stand-alone power systems (SAPS) will soon provide networks with more efficient options than traditional grid supply, particularly in remote and rural locations. IPART should have regard to the opportunities that technologies such as SAPS provide when conducting its review.

In its recent draft report on regulatory frameworks for SAPS, the Australian Energy Markets Commission (AEMC) suggested that jurisdictional reliability standards should be extended to apply to

customers receiving supply via a distributor led SAPS.¹ In our view, an additional point could be added to the Terms of Reference as one of the factors that IPART must have regard to:

8. the need for networks to evolve and accommodate improvements in technology and changing customer needs.

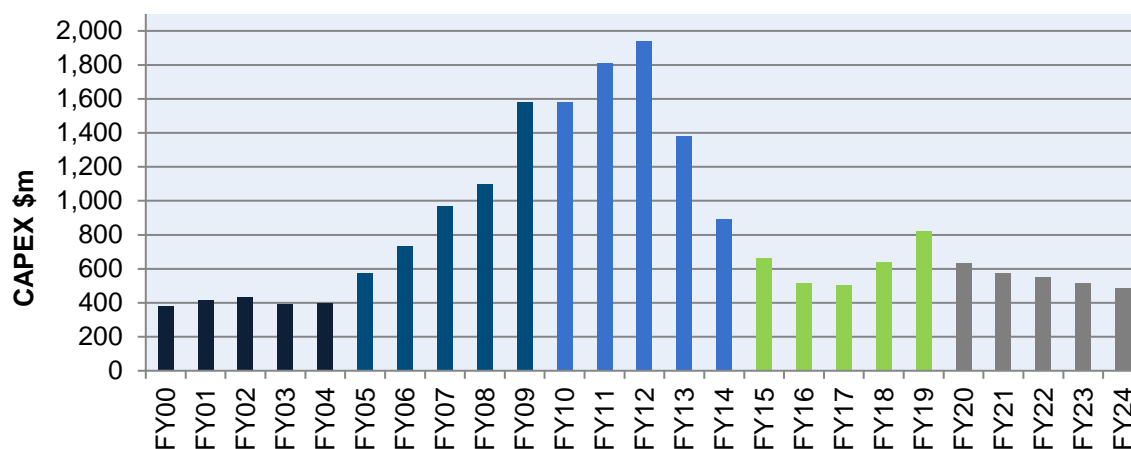
Previous amendments to the reliability standards

Following an Australian Energy Market Commission (AEMC) review of NSW distribution reliability outcomes and standards in 2012, the NSW Government amended the NSW distribution reliability standards in 2014. Broadly speaking, these amendments replaced the deterministic reliability standards that were in place with probabilistic reliability standards.

These 2014 amendments have significantly reduced the related capex required on our network. As shown in Figure 1, Ausgrid's capex increased significantly following the introduction of deterministic reliability standards in 2005 to address reliability concerns but has reduced significantly since 2012. Our capex levels are now at much more sustainable levels.

Figure 1

Capex historical and forecast (historic actuals FY19\$ \$m)

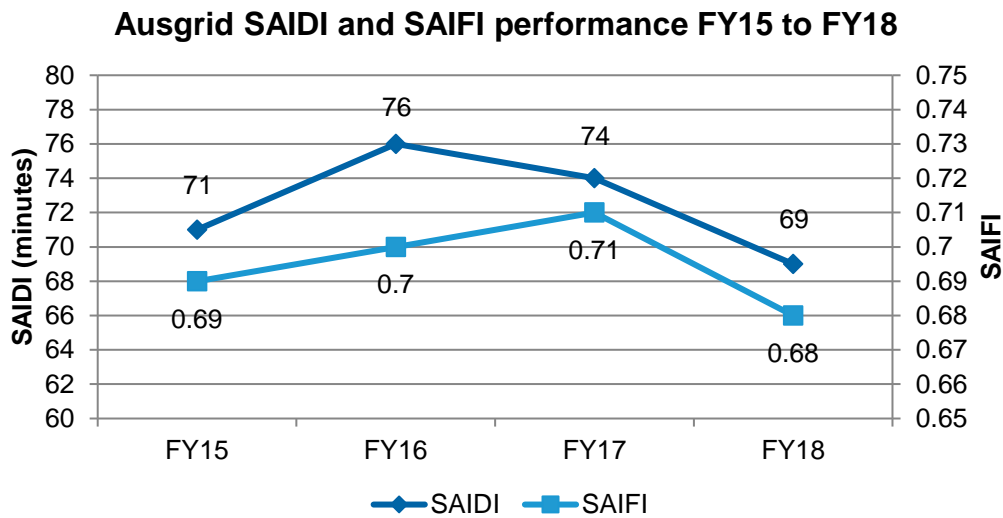


Reliability performance

Since the 2014 amendments to our licence conditions, reliability performance has remained relatively stable (see Figure 2) and reliability standards at a feeder average level have been met. Network investment to meet reliability standards is generally made to address areas of poor performance for individual feeders or customers experiencing poor reliability. Any changes to reliability standards should consider the outcomes for customers connected to the worst performing feeders.

¹ AEMC, *Review of stand-alone power systems*, Draft Report, 18 December 2018, p120

Figure 2

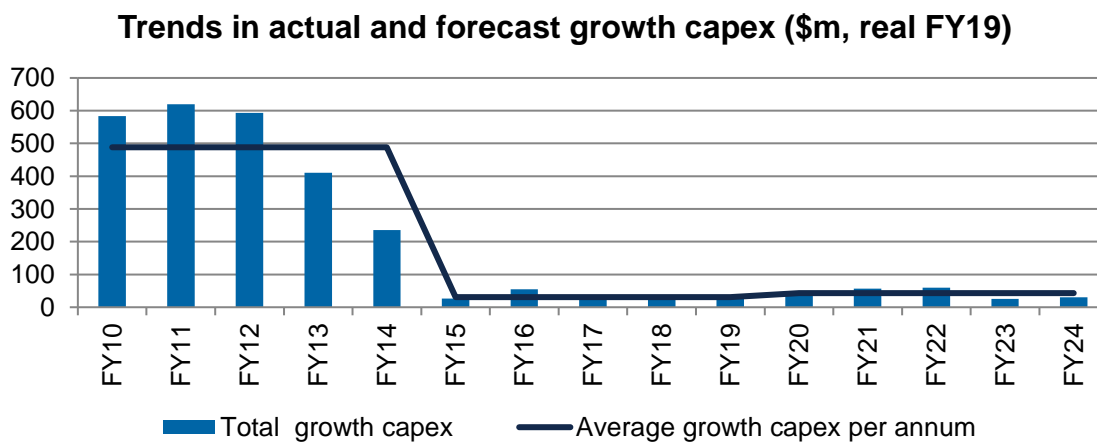


Bill impact of any future changes to the reliability standards

As the AEMC noted in its 2012 review of distribution reliability outcomes, potential reductions in customer bills by lowering reliability standards are likely to be modest. This is because any change in reliability standards, and future capex, does not take into account the investment that has already been made or committed on the network.² This prior investment, often on long-lived assets, drives a significant portion of the network charges paid by customers.

Furthermore, as can be seen in Figure 3, capex to augment the network is already very low compared to the years when deterministic planning standards were in place. This means that any changes to the current reliability standards will have a minor impact on capex levels, and therefore customer bills.

Figure 3



² AEMC, *Review of Distribution Reliability Outcomes and Standards, Final Report – NSW workstream*, 31 August 2012, p.iii

Reliability obligations under other instruments

Any changes to reliability standards should consider reliability obligations under other regulatory instruments including the National Electricity Rules (NER), the Distribution Reliability Measures Guide (DRMG), and the Australian Energy Regulator's Service Target Performance Incentive Scheme (STPIS).

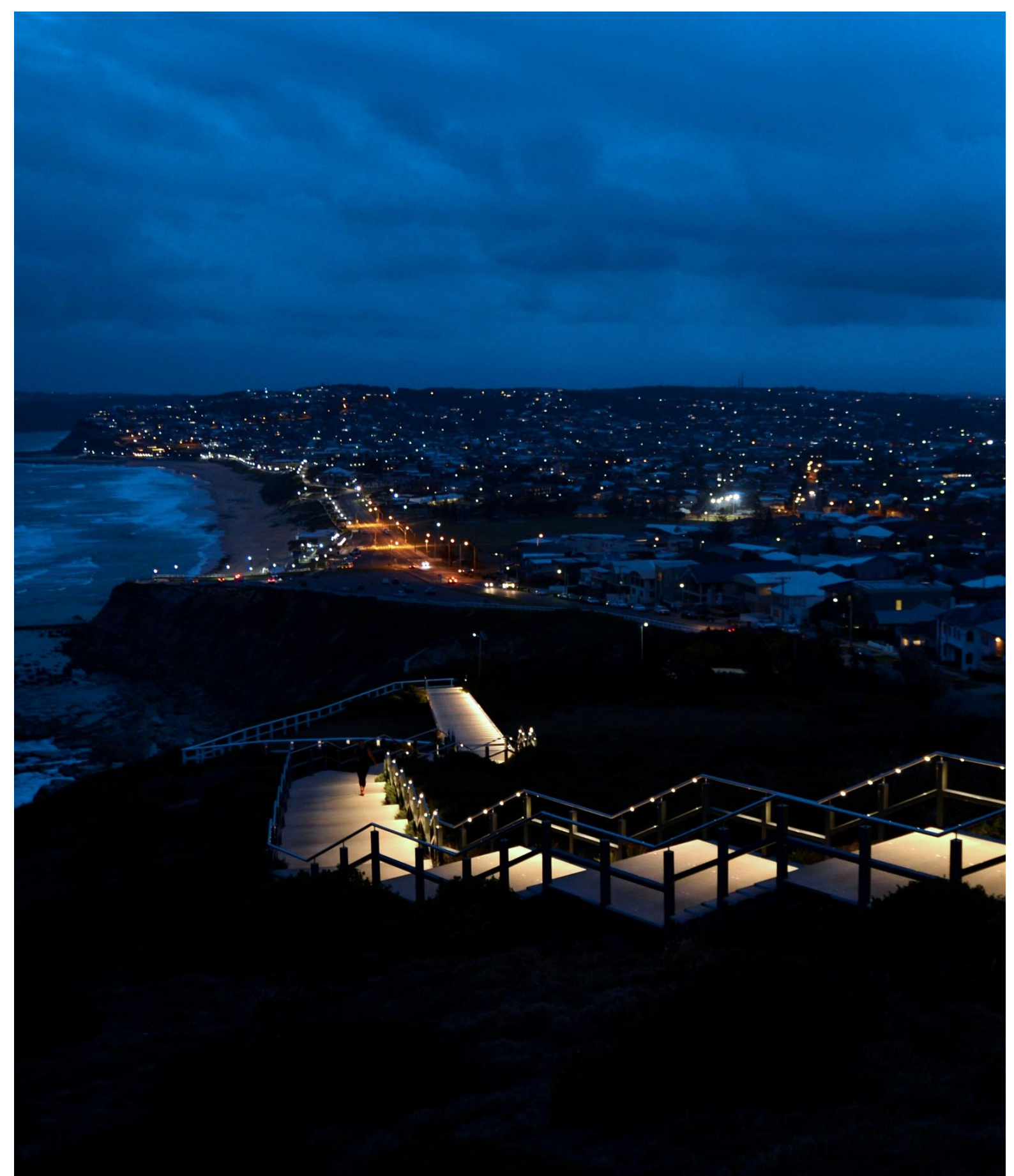
At present, reliability targets in the STPIS provide incentives for distributors to invest to a reliability level that customers are prepared to pay for, as the incentive rates are derived from the VCR (Value of Customer Reliability). The reliability targets in the STPIS are tighter than reliability standards in our licence condition, which are a means of monitoring for poor reliability performance. The DRMG has also recently introduced a framework for reporting on poor reliability customers and / or feeders. Consideration should be given to the role STPIS plays and whether the two reliability frameworks are complementary and serving the intended purpose.

Timing of the IPART review

Under the draft Terms of Reference, IPART's review of the NSW distribution reliability standards is expected to conclude by mid-2020. The proposed timetable should consider interdependencies with other regulatory processes that are ongoing:

- We recently submitted our 2019-24 Revised Regulatory Proposal to the AER. Our Revised Proposal outlines our spending plans, including our capex forecasts, for the next five years. The AER's Final Decision is expected by the end of April 2019.
- The AER is also conducting a review of the VCR, with a draft report due by August 2019 and Final VCRs published by the end of 2019.

The impact of these timetables on any future bill savings needs to be considered. These timetables mean that any changes to reliability standards are not likely to impact customer costs for several years.



Thank you

