

Ref: 20210125MC:CB

25 January 2021

Ms Fiona Towers  
Executive Director, Energy & Transport  
The Independent Pricing and Regulatory Tribunal  
PO Box K35  
Haymarket Post Shop NSW 1240  
By online submission

Dear Ms Towers

### **Submission to IPART Draft Report - Review of Distribution Reliability Standards**

Essential Energy appreciates the opportunity to respond to the Draft Report released as part of the Independent Pricing and Regulatory Tribunal (IPART) Review of distribution reliability standards.

The final Terms of Reference (TOR) for this review, require IPART to provide a report to the NSW Government, recommending changes to the reliability standards that could reduce network charges for customers in NSW.

Whilst there are favourable changes proposed that will reduce duplication with national regulatory frameworks, analysis undertaken by Essential Energy clearly demonstrates that implementation of all the changes recommended in the Draft Report will lead to higher network charges for Essential Energy customers.

The specific areas that will lead to price increases are:

- The proposed change in methodology to calculate individual feeder standards. It is proposed that minimum reliability is based on feeder length. In Essential Energy's network, this will result in a 60% uplift in feeders that need to be investigated, rectified if possible and reported against. Modelling has shown that there are significantly more variables that impact reliability performance rather than just feeder length. Given the difficulty of splitting Essential Energy's network into distinct areas, we agree with IPART's recent suggestion to remove feeders that are over 500km long from the calculations. This is simpler than removing all feeders in remote areas from the calculations.
- Higher payments for Guaranteed Service Level (GSL). Essential Energy appreciates that the purpose of the GSL is to acknowledge poor performance received by customers, however the changes proposed result in a large number of customers being eligible for a payment, and the payment itself is significantly higher. Essential Energy does not believe that the GSL is targeted enough to customers who receive the worst performance.

Essential Energy is supportive of steps to include Stand Alone Power Systems (SAPS) installations in the licence conditions, as this should lead to greater acceptance of improved reliability for those customers, and lower network prices for the whole customer base. However, there are further recommendations that IPART could make in their Final Report which would further support framework changes to accelerate the roll-out of these non-network solutions.

The new requirement for reporting on distributed energy resources (DER) will prove challenging due to network visibility issues at the low voltage level, but there is an appreciation that a greater focus on the role of distribution networks in managing the two-way flow of energy to the benefit of all consumers is welcomed.

In summary, Essential Energy is not supportive of the changes proposed in the Draft Report to the individual feeder standards and the GSL, as they will increase costs for the business, and these costs

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are paid for by NSW customers in the form of higher network charges. This is contrary to the TOR and Essential Energy cautions against these proposed changes.

These issues are explained further in **Attachment 1**.

If you would like to discuss this submission further, please contact Mary-Clare Crowley, Network Regulation Manager, [REDACTED]

Yours sincerely

[REDACTED]

p.p.

Chantelle Bramley

**General Manager Strategy, Regulation and Corporate Affairs**

# Attachment 1

## Essential Energy's Response to the IPART Draft Report on the Review of distribution reliability standards



January 2021

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## Executive Summary



- Essential Energy appreciates the consultative work undertaken by the Independent Pricing and Regulatory Tribunal (IPART) in their Review of the Distribution Reliability Standards, and agrees with much of the simplifications proposed in the Draft Report.
- In totality, however, the overall changes proposed in the Draft Report will increase costs for Essential Energy and therefore result in price increases for all customers. This is primarily a result of:
  - The methodologies used to develop the minimum individual feeder standards for reliability which result in higher levels of poor performing feeders to be investigated and reported against; and,
  - The proposed changes to the Guaranteed Service Level (GSL) which will result in a significant increase in the volume and value of payments.
- Along with expenditure on investigating and rectifying (where feasible) additional poor performing feeders, the extra GSL costs (effectively refunds of network charges) mean that network charges for all customers will need to increase.
- Essential Energy have provided alternative recommendations for addressing these two issues that do not result in substantially higher costs for customers. These include adjustments to the proposed GSL so that they target customers that are genuinely receiving the worst reliability, and adjustments to the proposed methodology for individual feeder standards that better target feeders on Essential Energy's network that are genuinely poor performing.
- Essential Energy welcomes the extension of reliability standards to stand-alone power systems (SAPS) although there is some risk that premature regulation in this space will lead to misalignment with the adoption of the national framework scheduled for Q4 2021. There are additional recommendations that could be made by IPART that would further minimise regulatory hurdles and result in better outcomes for customers.
- Reporting of Distributed Energy Resources (DER) data as proposed is a challenge currently, due to network visibility issues at the low voltage level. Quarterly voluntary reporting from July 2021 will not be immediately possible for all the requested metrics, however, Essential Energy is hopeful that this data is more readily available by July 2025 when full compliance is required. In general though, a greater focus on the role of distribution networks in managing the two-way flow of energy to the benefit of all consumers is welcomed.
- Essential Energy is supportive of the proposed changes that reduce duplication and inconsistencies with the Australian Energy Regulator (AER) framework, reduce the frequency of compliance reporting, and direct the focus of compliance toward exception based reporting.

## 1 Introduction



This submission is provided to IPART to assist in their review of distribution reliability standards and in response to their Draft Report.

The final Terms of Reference (TOR) for this review, require IPART to provide a report to the NSW government, recommending:

1. Any changes to distribution reliability standards that could deliver bill savings to NSW customers; and
2. Any other measures that could be imposed/implemented by distributors within the current regulatory framework that would be likely to reduce network prices and are consistent with the National Electricity Objective.



Essential Energy has significantly reduced its operating and capital expenditure since 2012-13 and this has directly led to bill savings for customers. These continuing lower levels of expenditure will support Essential Energy in achieving its objective to deliver real reductions to network charges in the current and next regulatory period. It is critical that any changes to the reliability standards do not result in higher costs for Essential Energy as this will be inconsistent with the TOR of the review, and is not supported by customer feedback which has shown that Essential Energy's consumers are satisfied with their level of reliability but would like lower network charges.

This submission will primarily focus on responding to the major changes proposed in the Draft Report. For completeness, a table is provided in section 8 with responses to each of the 30 recommendations.

## 2

## Essential Energy's Network and Customer Charges

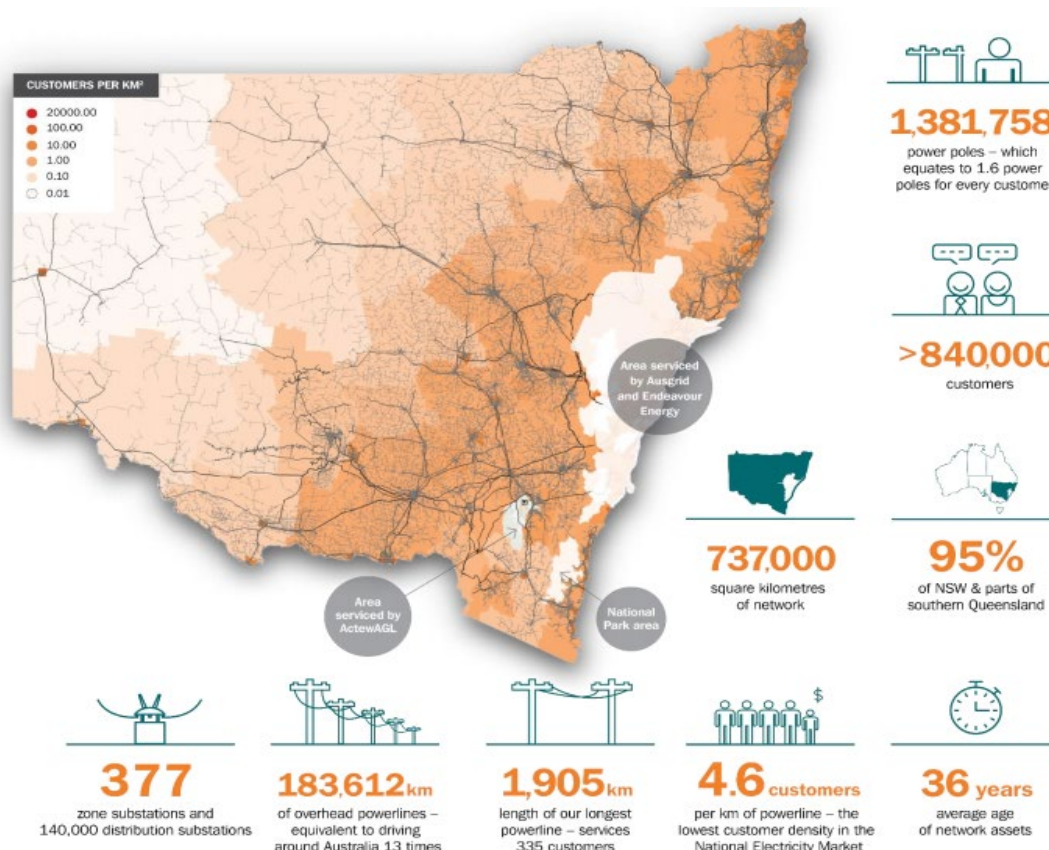


Essential Energy provides essential services to approximately 865,000 customers across 95% of New South Wales.

Compared to other distribution network service providers (DNSP's) operating in the National Electricity Market (NEM), the network has the lowest customer density (number of customers connected to each kilometre of powerline).

Essential Energy has 38% of the total distribution power line length but only 10% of the customers.

This means that it is more costly to provide each customer with access to the network – Essential Energy customers therefore already have higher network charges relative to customers of other networks.



The recently released AER Annual retail markets report 2019-20<sup>1</sup>, and the Energy Security Board's (ESB's) Health of the National Electricity Market 2020<sup>2</sup> show that electricity is generally less affordable for customers in regional areas, and that it disproportionately affects low income households – of which there are relatively more in regional areas<sup>3</sup>. Relative to other NSW DNSPs, any increases to network charges across Essential Energy's footprint will therefore have a more detrimental impact on customers.

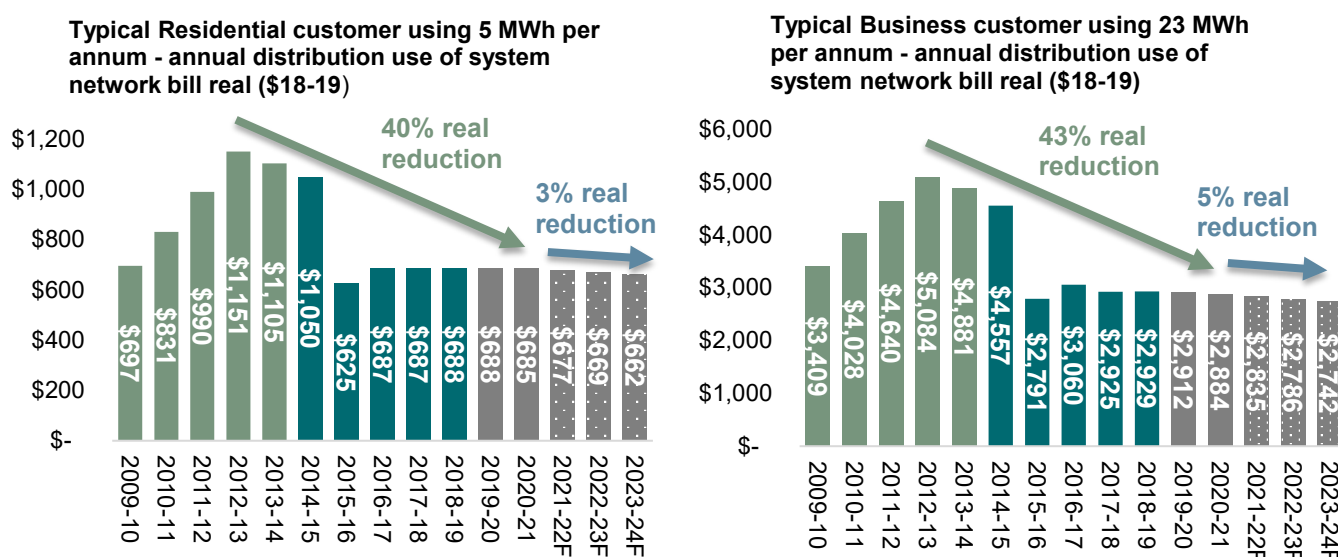
Through the customer engagement undertaken as part of the 2019-24 regulatory proposal to the AER, Essential Energy customers advised that after safety, affordability was most important to them, closely followed by reliability. The 2019-24 regulatory proposal reflected these customer and stakeholder values by improving affordability and maintaining reliability.

As a business, the focus is on reducing network charges, and over the last 7 years, reductions of more than 40% have been achieved, without sacrificing reliability which has improved by around 20% over the last decade.

The past and future investments in improving the efficiency of Essential Energy has led to lower network charges for Essential Energy's customers:

- From 2012-13 to 2020-21, a typical residential customer has achieved an annual savings of \$466 (40%) on their network charges and a small business customer saved \$2,201 per annum or 43% on their network charges.
- Over the next 3 years, a residential customer can expect further reductions in network charges, meaning that by 2023-24 they will be another \$23 better off and a typical small business customer \$142 better off.

The diagrams below summarise the savings in network charges a typical residential customer and typical small business customer have experienced in the period to 2020-21 and are forecast to experience to 2023-24.



<sup>1</sup> AER 2020, Annual retail markets report 2019-20, viewed 14 January 2021, <https://www.aer.gov.au/retail-markets/performance-reporting/annual-retail-markets-report-2019-20>

<sup>2</sup> ESB 2020, The Health of the National Electricity Market 2020, viewed 14 January 2021, <https://esb-post2025-market-design.aemc.gov.au/32572/1608714620-the-health-of-the-national-electricity-market-volume-1-the-esb-health-of-the-nem-report.pdf>

<sup>3</sup> National Rural Health Alliance & Australian Council of Social Service 2013, A snapshot of Poverty in Rural and Regional Australia, viewed 22 January 2021, <https://www.ruralhealth.org.au/sites/default/files/documents/nrha-policy-document/policy-development/rural-poverty-snapshot-11-october-final.pdf>



Essential Energy's customer engagement for the 2019-24 regulatory proposal looked closely at reliability. There was wide-ranging and differing feedback provided; with a significant number of customers requesting slightly lower reliability for reduced network charges, and others not supportive of reduced reliability. The proposal therefore submitted to maintain reliability given that overall, customers were satisfied with it. There was, however, support to improve reliability in parts of the network where customers were receiving the worst performance.

### 3.1 Network overall reliability standards

Essential Energy supports the removal of network overall reliability standards (Schedule 2) to reduce duplication with the AER. As outlined in the May 2020 submission to the Issues Paper<sup>4</sup>, the tighter System Average Interruption Frequency Index (SAIFI) and System Average Interruption Duration Index (SAIDI) measures used by the AER as part of the Service Target Performance Incentive Scheme (STPIS), means that the duplicated metrics used by IPART for overall network reliability were not effective and could be removed.

### 3.2 Direct connection standards

Essential Energy supports continuing to include direct connections in the licence conditions, and support the ability to negotiate arrangements for lower levels of reliability, which would be reflected in reporting for any relevant customers.

### 3.3 Setting of individual feeder standards

Essential Energy recognises that IPART's task of developing consistent individual feeder standards that work for all NSW DNSPs was always going to be a challenging task.

The current individual feeder standards are based on an urban, short rural and long rural segmentation. This segmentation can be problematic. For example, a customer connected to 190km feeder and another connected to 210km feeder could be seen as very similar customers. Under the current standards, the minimum individual feeder standard applied to each customer is materially different, even though the 2 feeders are very similar in length.

For this reason, a different approach to setting minimum standards makes sense, but the proposed approach outlined in the Draft Report still requires some improvements. The new approach implies that feeder length is the key driver of reliability performance. The modelling that has been used by IPART to propose the changes to minimum standards is not a model that fits well with Essential Energy's network.

The use of feeder length as a function of reliability, does not always work on a long stringy network across diverse topographies. Long feeders do not necessarily have poorer performance, as they have less equipment connected that can go wrong. Essential Energy's network also traverses geographies from deserts to tropical rainforests and steep terrain, with inherently different weather patterns, and is particularly exposed to lightning storms. In reality, reliability is driven by a number of factors - more than half of unplanned outages are caused by adverse weather and environment, and 30% driven by equipment failure. This suggests there may be other more suitable explanatory variables rather than just feeder length that account for geographic or network factors.

The proposed approach which sets minimum standards based on feeder length will lead to significant increases in the number of poor performing feeders (PPF) for Essential Energy, which is not the case for either Ausgrid or Endeavour Energy. These PPF need to be investigated, potentially rectified, and reported against.

IPART's analysis in the Draft Report shows the number of Essential Energy feeders deemed to be poor performing on a 5 year average basis is expected to increase from 4.4% to 7.2%. This is highly inconsistent with the

<sup>4</sup> Essential Energy, Submission to the IPART Issues Paper May 2020, viewed 14 January 2021, <https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/pricing-reviews-electricity-submissions-electricity-distribution-reliability-standards-draft-terms-of-reference/electricity-distribution-reliability-standards-issues-paper/online-submission-essential-energy-m.-crowley-15-may-2020-090100000.pdf>



expectation set out in the Draft Report that 1% of feeders would be classed as poor performing, and those would be targeted to improve their reliability.

Without changes to the Draft Report, this increase in PPF will increase costs and therefore network charges for all Essential Energy's customers.

The refinements below, for High Voltage (HV) /Low Voltage (LV) categorisation and treatment of very long feeders, have been developed and discussed with IPART, with the intention of maintaining or reducing the numbers of PPF to be investigated. Due to the level of analysis required by IPART, the updated potential formulae for SAIDI and SAIFI that capture these refinements has not yet been provided - this limits Essential Energy's ability to comprehensively assess the impact of the refinements for consistency with the intention of the Review.

### 3.3.1 Categorisation of outages as HV/LV

IPART's modelling for reliability was dependent on publicly available data, most of which was sourced from the Regulatory Information Notice (RIN) reports for each NSW DNSP for the past five years. The RIN reports on sustained interruptions. However, apart from outages caused by an asset failure, no information is provided to indicate whether the outage affects the Low Voltage (LV), High Voltage (HV) or Sub-Transmission (ST) network. The reliability standards developed by IPART cover network outages at all distribution levels (LV, HV and ST). However, the methodology used to determine the target reliability level analyses LV and HV outages differently and ignores ST outages.

IPART used some additional (non-public) data provided by Ausgrid to determine if an outage was LV or HV. All outages where the number of affected customers exceeds a certain level were categorised as HV. IPART used a formula, which sets an upper limit on the proportion of feeder customers that can be affected for the outage to be LV. The relationship is inversely related to length (i.e. for a longer feeder there are fewer customers that can be affected for LV outage).

Essential Energy had additional data that was not reported in the RIN that improves the allocation of outages. This included data on the number of LV customers in each LV network, the HV segment that each LV network is connected to, the HV segment affected by an outage, and the type of asset that tripped after the outage.

The updated approach shifts 4,272 outages from HV to LV. These are mostly from very long feeders where the IPART formula results in a LV upper limit of 1, so almost all outages are treated as HV, even though there may still be substantial LV networks on the feeder. However, the IPART formula does correctly allocate many single customer HV outages to HV on these are on very long feeders.

The outcomes of the Essential Energy allocation have been provided to IPART for consideration when developing the final reliability standards.

### 3.3.2 Treatment of very long feeders

In its Draft Report, IPART identified issues with the application of its proposed methodology to feeders that were over 500km in length.

IPART found that the outage rate (outages per km) falls for feeders over this length. In response, IPART has proposed removing these feeders from the calculation of per km outage rates, which are a key input into the methodology used to set the standards.

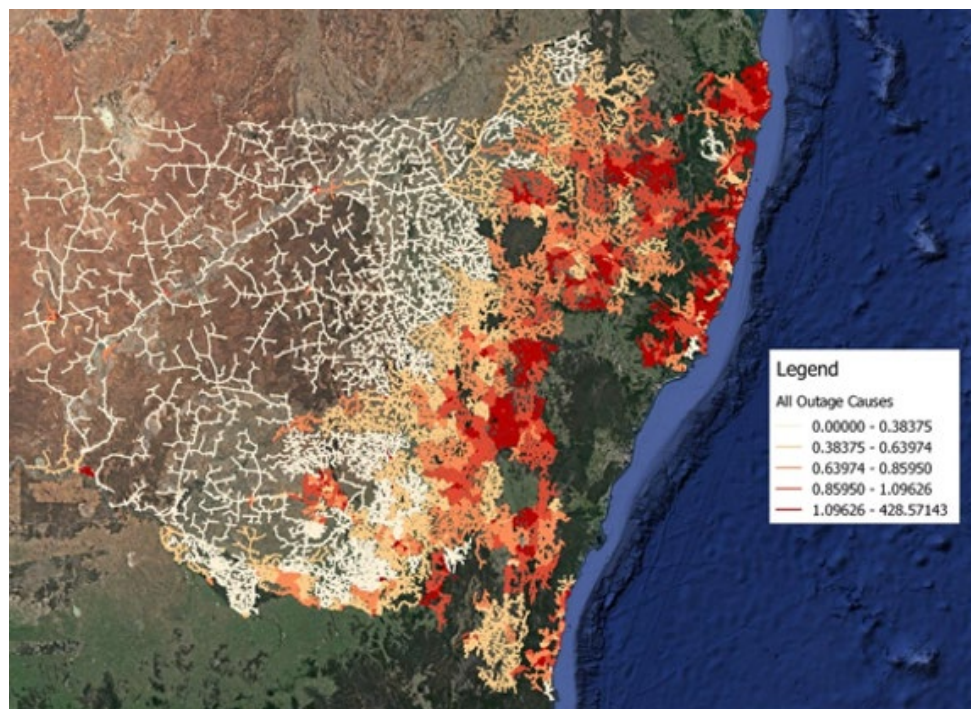
Excluding >500km feeders, results in a higher per km outage rate for the remaining feeders. Initial analysis by IPART indicated that this would increase the SAIDI and SAIFI thresholds and therefore reduce the expected number of poor performing feeders.

Essential Energy conducted additional analysis to determine the appropriateness of excluding these feeders and to identify the drivers behind the declining outage rate that could enable the exclusion to be justified on a more robust basis.

The reason for the low outage rates identified by IPART is that the majority of the >500km feeders are located in the far-western regions of Essential Energy's network. The low outage rates are not due to the length of the feeders but instead due to the geographic location of the majority of these feeders – there are fewer causal factors impacting the feeders (such as lightning and vegetation which are more prevalent in other areas) and fewer customers impacted when it happens.

The outage rate input data used by IPART differs by DNSP. Analysis shows that the differences between parts of Essential Energy's network are likely to be much more significant than the differences between the Essential Energy, Endeavour Energy and Ausgrid networks - so it appears unreasonable to use DNSP-specific inputs and not region-specific inputs.

Whilst a more accurate approach would be to remove all feeders in the far-western regions (as there is a clear difference in outage rates and causes, relative to the rest of the Essential Energy network), IPART's suggestion of removing the feeders >500km from the methodology is reasonable and less complex.



Source: Cutler Merz, Jan 2021. Essential Energy's Geographic Dispersion of Outages (faults per km)

### 3.3.3 Optimisation model

The optimisation model used in this review is of concern, particularly the lack of advice documented by IPART on the intended use of this information.

The optimisation model outputs indicate the current network configuration for all NSW DNSPs is highly inefficient. However, it is a stylised network model and based on inputs and assumptions that would be relevant to the build of a new network – not an existing one with sunk costs.

Networks cannot easily transition to the optimal network configuration - the costs to implement the optional network configuration, even over many years, would be excessive and unaffordable for Essential Energy's customers. Essential Energy urges IPART to provide additional caution on the use of this information by stakeholders - it is not reflective of efficiency gains available to existing networks, but is to be used as a complement to network planning and design.

At a more simplistic level, while the optimisation model suggests Essential Energy's expenditure should reduce substantially, the review also indicates expenditure should be increased to meet the changes set out in the Draft Report (higher GSL payments and investigating more poor performing feeders).

## 3.4 Additional costs

As described above, the changes to the methodology for specifying the minimum standards for reliability will result in more feeders across Essential Energy's network exceeding the minimum standards and being classed as PPF.

IPART have also made changes to the reporting requirements for the individual feeder standards. This means more resources are required to undertake the administrative and investigative work on PPFs increasing compliance costs. Furthermore, it should be noted that in areas where smart meters are more prevalent, there is more relevant information available to assist with investigations. There are fewer smart meters on rural networks than urban ones, and this means that investigations for Essential Energy is likely to take more effort than for more urban networks. This is likely to be the case for some time without any change to legislation or regulation<sup>5</sup>, that may mandate the

<sup>5</sup> AEMC 2020, Review of the regulatory framework for metering services December 2020, viewed 14 January 2021, <https://www.aemc.gov.au/market-reviews-advice/review-regulatory-framework-metering-services>

provision of smart meter data to assist with investigations for licence conditions, and mandating that DNSPs can access this data without cost to support licence condition compliance.

PPFs require investigation, and a cost benefit analysis (CBA) to be undertaken as part of a rectification plan. The wording in Box 4.2 of the Draft Report indicates that DNSPs must undertake rectification work on that PPF, unless a positive CBA is not achieved (5A.3(b)(ii)). This implies that there are no other reasons acceptable for not undertaking rectification work (such as safety or bushfire risk) and a rectification plan must be implemented within 6 months. In addition, if there is a negative CBA and a decision is made not to rectify the PPF, the DNSP must notify IPART within 1 month of that decision.

The changes to the licence conditions for the individual feeder standards mean that Essential Energy will have to dedicate more resources to investigating, analysing and frequently reporting on non-viable options around poor performing feeders within more specific timeframes. These changes, which must be complied with, will lead to higher network charges. They have the potential to disrupt work priorities as reliability is one of many competing risk drivers that a DNSP is responsible for - to the benefit and safety of the customer. The increased levels of detailed requirements that DNSPs will be required to follow, will not necessarily provide a better outcome for customers than is currently provided, and will ultimately cost customers more.

Essential Energy suggests that the current investigating and reporting requirements for individual feeder standards, which are much less prescriptive, do not need to be amended - apart from:

- reporting the outcomes to IPART on an annual basis rather than quarterly.

### 3.5 Individual Feeder Standards Terminology

With the proposed change to the using feeder length to calculate individual feeder standards, it is worth noting there will always be issues with getting 'accurate' pictures of either customer numbers or average route length. This is due to ongoing changes in network configurations. The calculations will need to be based on a starting and ending values divided by two, as necessary. This is already included in the Definitions for Customer base, but Urban feeder also needs to be updated to specify the parameters.

4

GSL



Essential Energy fully support IPART's changes that facilitate a better alignment with the national framework, such as ensuring exclusions are the same across all reliability incentives.

Essential Energy is also supportive of greater acknowledgement of customers impacted by longer outages, however as discussed earlier, customer feedback indicated support for focussing reliability work on the **worst** served customers – this is not necessarily 1%. Customers told us they were satisfied with current levels of reliability and that there was very little support to pay more for improved reliability, although there was support to improve reliability for those customers receiving the worst performance in parts of the network.<sup>6</sup>

IPART's proposed changes to GSL payments have demonstrated a shift from providing incentives for networks to improve service quality in worst performing areas, to protecting all customers from poor performance by setting minimum acceptable service levels.

The proposed GSL payments and minimum individual feeder standards both intend to target the bottom 1% of performance. This is in addition to STPIS incentives to invest in reliability.

<sup>6</sup> AER 2019, Essential Energy - 4.2 How engagement informed our proposal – 20180430 – Public, viewed 21 January 2021, <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/essential-energy-determination-2019-24/proposal>

## 4.1 Relationship with STPIS

The higher GSL payments proposed by IPART bring the GSL scheme up to a similar level as the STPIS. The GSL scheme only applies to approximately 1% of customers whereas the STPIS scheme applies to all customers, so the overall value at risk is considerably lower for the GSL scheme.

The STPIS is an incentive scheme, where under/over performance of a target results in a transfer of the value between customers and shareholders. In effect, each kWh of unserved energy by customers is compensated by a reduction in network revenue (lower network charges). The compensation is spread over all customers rather than only the customers that were impacted by outages.

The GSL is different in that it is a transfer of value between customers. Customers that have comparatively worse reliability are compensated by customers that have a 'standard' level of reliability.

GSL payments come from general operating expenditure, so any variance in GSL payments from the forecast set for the regulatory period, is effectively a transfer between shareholders and the eligible customers. Therefore, it is possible that Essential Energy will pay twice for an outage.

In a low reliability year, additional GSL payments will be paid from Essential's operating expenditure allowance. At the same time, the additional outages will result in a STPIS penalty. As both payments are linked or aligned to VCR, the additional GSL eligible outages will cost approximately 2x VCR.

In a high reliability year, where actual GSL payments are lower than forecast, Essential Energy will receive the additional value, such that on average, it should be no worse off. The final outcome depends on the accuracy of the initial forecast. The outcome may also be influenced by AER operating incentive schemes.

## 4.2 Additional costs

### 4.2.1 GSL Payments

IPART's change to the GSL payments to refund an eligible customer for their fixed and variable network charges, will result in further cross-subsidisation, and higher network charges for all customers. Modelling undertaken by Essential Energy on the broadened eligibility and higher payments, indicates that nearly \$14M could be claimed by customers each year – and this can be expected to result in a 1.4% uplift in network charges. In addition to the directly increased value of the GSL payments, further resources will also be required to validate and process the higher number of claims –resulting in even higher costs for customers.

The high levels of payments are due to two particular differences compared to the current GSL framework; broadened eligibility criteria and higher values of payments. The table below highlights the differences.

		Current (non-metropolitan)	Proposed for Essential Energy
Eligibility	Duration	18 hour outage	GSL1: accumulated outages >= 20 hours GSL2: accumulated outages >= 60 hours
	Frequency	4 outages >= 5 hours	GSL1: >= 10 outages GSL2: >= 30 outages
Payments		\$80 per eligible interruption, with a maximum cap of \$320 a year	GSL1: \$336 - residential and business GSL2: \$410 - residential \$796 - business

The current licence conditions specify the minimum outage times to be eligible for GSL; the proposed GSL does not specify a minimum – it is therefore bound by the minimum interruption parameter that applies to the STPIS exclusions of 3 minutes. This means that a customer is eligible for a GSL1 refund if they have 10x 3-minute outages in a year. Providing a customer with a refund of GSL1 for experiencing 30-minutes of outages over a year, undermines the premise of supporting customers who are genuinely receiving with the worst network performance.



The change to capture the accumulated outage impact to a customer over a year, and requiring a refund of the network fixed charge and possibly the usage charge, means that a significantly larger number of customers will be eligible. The changes means that rather than targeting 1% of customers as being eligible for GSL1, and 0.1% for GSL2, it captures 4% and 0.5% respectively. Analysis of outage information by premise over the last 2 financial years indicates that close to 40,000 customers could be eligible for a GSL1 and up to 5,000 for GSL2. Essential Energy's data indicates that to better reflect the 1% and 0.1% of worst affected customers, the accumulated outage durations would need to be closer to 50 hours for GSL1 and 100 hours for GSL2.

The data to undertake this analysis was very difficult to obtain due to lack of data at the low voltage level, and there were a number of assumptions made in the data and throughout the modelling. Essential Energy requests that clarification be provided in the final report (and licence conditions) on the following issues:

- whether an outage is eligible based on the customer or the premise. Premises were used in the analysis following discussions with IPART and the use of active premises is less complex to implement, however there are some grey areas with this, e.g. when a customer moves – please confirm whether an outage accumulation moves premise with them. Please also confirm the treatment of premises that have no customers attached (vacant sites).
- when rectification is occurring on a feeder, a customer may experience a number of small outages as customers are getting restored further down the line. Please clarify if these to be treated as a single outage or multiple outages.

As discussed earlier, Essential Energy's network is inherently affected by long durations of outages – this is a function of having to travel long distances to rectify them. Without greater investments in automation or staff numbers and depots, the outage durations will always be greater on rural networks. The related work on poor performing feeders also links into this.

Whilst it is appreciated that the intention of the payment uplift is to acknowledge and compensate those directly affected by outages, the proposed payment levels are particularly generous compared to the other distributors because of Essential Energy's higher network charges.

It is also generous when reviewed against the other residential comparators. As per table 5.5 in the Draft Report, on a per hourly rate the proposed GSL payments in Essential Energy's network are the highest in NSW, are well above the AER's Value of Customer Reliability (VCR), and are higher than equivalent payments proposed in Victoria.

#### 4.2.2 GSL processing

The current GSL claims and reporting process is complex and resource intensive for Essential Energy, however given the low level of claims to currently investigate, it is estimated that this process takes the equivalent time of 0.1 full time equivalent staff (FTE). The lack of network visibility at the low voltage level, means that manual checks are required to validate whether a customer has been impacted by an outage and the extent of that impact. The changes proposed in the Draft Report are expected to result in a significant increase in the level of claims, due to an elevated awareness of the scheme through greater communications and the higher value of payments. The uplift in claims has been estimated to require 5 FTE to process. Ideally, Essential Energy would have systems that would enable automatic validation of customers impacted and processing of a payment to them. The network does not have a direct relationship with retail customers and cheques are currently processed following approval. Any enhancements to automate the validation or payment process to below 5 FTE will also require additional investment.

#### 4.2.3 GSL reporting

Essential Energy is comfortable continuing to provide reports on the numbers of customers that applied for a GSL payment and those that received them. However, the new requirement to publish a best estimate of how many customers Essential Energy consider having received services worse than the minimum standards for both tier1 and tier2, is problematic. IPART state that the aim of this additional information is to assist in their assessment of whether DNSPs are taking reasonable and effective steps to inform customers of their eligibility for a GSL.

Tier1 and tier2 are based on individual and cumulative levels of duration and frequency of outages for a specific customer on a financial year basis. Essential Energy does not readily have that information available due to issues with poor visibility of the low voltage network. In addition, there will be further resources required to ensure that information is routinely being updated to enable a cumulative view for each customer.



IPART have specified that only a best estimate is required, but even this level of detail is difficult without additional resources to manually collate the information.

Essential Energy suggests that it would be more efficient for IPART to assess whether a DNSP is informing customers enough of their eligibility for a GSL payment, by reviewing compliance with the new clause 6.10. This new requirement means that DNSPs must provide information about the GSL payments on any information or communications to customers about interruptions.

### 4.3 GSL Terminology

In clause 6.9 of the draft licence conditions, the word 'be' is missing:

*6.9 The tariff nominated under condition 6.8 is taken to be the relevant Business Tariff or Residential Tariff unless the Tribunal advises the Licence Holder within 20 business days that a different tariff is to apply, in which case, that tariff is taken to be the Business Tariff or Residential Tariff (as the case may be).*

Essential Energy would also appreciate clarification on the meaning of clause 6.10(b):

*(b) in any information or communication provided by the Licence Holder to customers in relation to a specific interruption, incorporate information on Eligible Customers' right to receive GSL payments;*

Does this clause mean information about the GSL is also required in any short message service (SMS) notification or website notification provided to customers regarding unplanned outages? If that is the case, there are some concerns specifically with SMS messaging:

- The increase in wording on the SMS communication may detract from the main message - SMS is designed for short, immediate communications; and
- There is likely to be an increase in costs as the number of characters in the SMS increase.

### 4.4 IPART request for comment

#### **Should the guaranteed service level apply to residential and small business customers that are supplied on negotiated connection agreements?**

While Essential Energy is supportive of the GSL being applicable to any residential or small business customer regardless of the type of connection agreement, there are still changes occurring in the regulatory frameworks – particularly for SAPS, which means that it is not prudent to comment on this categorically at this stage.

There is also work underway in relation to tariffs for DER that allow for better price signals and for customers to respond accordingly – leading to a more efficient network. Essential Energy cautions the potential restrictions that could come from prematurely including GSL licence conditions for customers on negotiated connection agreements without a clear picture of final regulatory frameworks.

Essential Energy also requests clarity that the proposed GSL will not be applicable to any large customer, whether they are on a negotiated connection agreement or on a standard agreement.

## 5

### DER reporting



Essential Energy's network is at the forefront of the energy transition:

- with over 800MW of large-scale renewable generation connected and over 1,600MW in the pipeline between the connection enquiry and construction
- almost 1,000MW of small scale renewable generation, 22% of Essential Energy's customers

To put these numbers into perspective, Essential Energy's all time maximum demand is around 2,600MW with average demand at around 1,400MW.

The energy transition raises a number of challenges and opportunities for the network and the communities served. Essential Energy welcomes IPART's focus on this transition, and implementing reporting obligations is a reasonable first step. However, the additional reporting does not come without cost, which will be borne by all customers. Essential Energy suggests that any expected investments in additional reporting, should be commensurate with the use of the information to leverage benefits for future change.

New quarterly DER reporting by DNSPs, will provide a significant amount of data about the impact of export constraints on customers, and will be used to provide information relevant to future regulatory changes at a national or state level. It also requires the publishing of operating and capital expenditure primarily for addressing network constraints on DER exports. This information aims to complement that already provided as part of the DER Register, will address the lack of public visibility of DER and DER constraints, and assist customers in making decisions about whether to invest in DER. Caution, however, is needed in the use of this historic data – projection data is likely to be more relevant but that inherently has challenges particularly with methodologies, assumptions and auditing.

At this stage, Essential Energy is unable to readily provide all the required information as outlined in the Draft Report, however, it is appreciated that initial DER reporting from July 2021 only requires this information on a voluntary basis, with full compliant reporting required by July 2025.

Information about what is connected to the network at the low voltage level is unreliable – there is more than a 25% gap in claims for small-scale renewable rebates, compared to the equivalent units recorded in the DER register, or in Essential Energy's systems. Auditing by the business, is currently only possible on around 2% of installations, and this leaves the remainder reliant on installers to ensure the correct standards are followed. Power quality on the network, and performance for all other customers on a feeder, is also at risk when a DER installation exceeds the connection agreement, e.g. exports more than allowed. In addition, the network is reliant on complaints from customers to know that there are power quality issues. Better information (smart meter data/inverters with communications) would enable a greater responsiveness and auditability to support the safety and reliability of all customers.

Better information (more compliance required of DER installers) will close the information gap, and that means the network can be managed and planned more efficiently. Uncertainty leads to a conservative approach (e.g. export limits) by networks as safety and reliability are the focus. The regulations should have a requirement for the smart inverter supplying this information and to assist with monitoring.

There is much work to be done to improve information associated with DER, particularly around accessible DER data. Some of the information required by IPART will not be available for several years without significant investment to improve visibility of the low voltage network and sufficient smart meter saturation is likely 10 years away.

In particular, Essential Energy cannot currently capture the following information:

- *Volume of DER not produced because of insufficient hosting capacity* – Essential Energy does not have visibility behind the meter or of energy not exported; and
- *The level of opex and capex primarily for addressing network DER constraints* – this will rely on new systems (Enterprise Risk Planning (ERP) and Enterprise Asset Management (EAM)) being in place to enable a complete picture.

IPART is encouraged to collaborate with other regulatory bodies, such as the AER, who has recently signalled future work on DER reporting. This will ensure consistent reporting obligations are implemented at both a jurisdictional and national level. It is also beneficial that the specific DER reporting requirements under the licence conditions may be adjusted via the reporting manual to ensure flexibility.

## 5.1 DER Terminology

Essential Energy recommends that IPART provides more clarification of the use of terms such as static limits and partial limits to prevent misunderstanding and to ensure consistency across DNSPs. In addition, the reporting of '*customers refused connection*' needs further explanation, as DNSPs cannot currently refuse to connect a customers under the National Electricity Rules (NER). Rather than reject a request, we may look to export limit in order to manage the connection and prevent power quality issues. The instances where a DER connection request is actually rejected, is usually due to missing or incomplete information in the request.



Stand-alone power systems, known as SAPS, are a key part of Essential Energy's strategy to deliver better and more affordable services to customers. Essential Energy are currently investigating where SAPS could be used to provide electricity to customers instead of through the traditional poles and wires network. There have also been successful trials in the use of SAPS as an emergency response tool during the 2019-20 bushfire season.

Approximately 0.5 per cent of Essential Energy's customers require around 17 per cent of the network length to service their electrical needs. In order to better support customers in the most vulnerable regions of the network – the use of SAPS for edge of grid customers, not only improves reliability for those customers but also reduces network costs for other customers.

A larger scale deployment of SAPS has the potential to:

- improve the reliability of supply to those customers in challenging environments or at the edge of the grid;
- reduce the costs to maintain Essential Energy's vast network and therefore reduce network charges for all customers. These savings are driven by reduced operational costs (such as vegetation management around infrastructure) and the ability to remove sections of the network that traverse through difficult terrain and serve very few customers;
- reduce bushfire risk - significant portions of Essential Energy's infrastructure is located in high risk bushfire areas, the risk that energised powerlines could cause a spark which may ignite a bushfire is removed;
- embed resilience in the network, enabling a customer or community to isolate itself and remain energised in an emergency. This is particularly important for keeping telecommunication towers and fire-fighting equipment operational; and
- be modular and easily transportable, making SAPS especially suited to emergency response situations. Regulatory and market frameworks should be reviewed so that they better support alternative lower cost options, such as SAPS, when making network investment decisions.

Essential Energy support IPART's recommendations that the NSW Government continues to progress legislative changes to enable distributor-led SAPS. While IPART's proposal to extend reliability standards to distributor-led SAPS is encouraged, it should lead to uneven playing field for DNSP-led SAPS in relation to other providers. Furthermore, there may be circumstances where the reliability performance of a SAPS is outside the ability of Essential Energy to improve, e.g. the failure of a customer to refill the backup diesel generator causing an extended outage, or restrictions on Essential Energy to undertake fault and emergency work on the SAPS.

Under the national SAPS framework, DNSPs are currently restricted from providing SAPS to customers without a ring-fencing waiver or an exemption from the AER. Ring-fencing waivers are intended to be a time-limited transitional measure, can be time consuming and costly to obtain, and may be subject to revocation. For many types of SAPS, the costs and time associated with applying for an individual application may be disproportionate and inefficient to the benefits derived.

For these reasons, the AER is currently exploring and consulting on reforms to the ring-fencing guidelines to ascertain how DNSP delivery of SAPS under the new framework might work, including the possibility of including automatic ring-fencing exemptions to allow DNSPs to provide SAPS generation systems without the need for a waiver. Industry stakeholders, including Essential Energy are currently consulting closely with the AER on this reforms process, which is anticipated to be finalised by mid-2021.

IPART, through the licence conditions, could further support in managing the transition to SAPS being part of the suite of network solutions to improve reliability. IPART could recommend the opting-in to the national SAPS framework and derogations for activities that are providing suboptimal customer impacts. One example is fault and

emergency response by DNSPs, as mentioned above. Under the national framework Essential Energy will be unable to undertake fault and emergency responses on SAPS, unless an exemption, waiver or derogation is implemented. If the network is unable to respond to outages in a timely way, meeting reliability standards and/or customer expectations will be challenging.

Without further regulatory change, DNSPs:

- may not be able to respond to outages in a timely way to maintain reliability standards and/or customer expectations;
- will not be able to contract directly with a customer (the role of the retailer, and their margins, remains in place in all circumstances);
- will not be able to provide flexible pricing arrangements to customers (no flexibility to deviate from existing tariff structures);
- will need to price services using the Australian Energy Market Commission's (AEMC's) SAPS Settlement Price (SSP) which doesn't include a relevant price signal; and
- will not be able to provide generation services in remote locations even where there are limited competitive service providers.

Noting these concerns above, Essential Energy understands that the NSW Department of Planning Industry and the Environment will soon begin a legislative amendment consultation process through the delivery of an issues paper considering the benefits of applying specific derogations to address the issues outlined above. IPART is seen as a key stakeholder of this process. IPART's participation and endorsement of the SAPS reform process would be beneficial in achieving efficient outcomes for both NSW network customers.

Essential Energy supports the intent of implementing reliability standards and protections to customers of SAPS, but it may be prudent to await the outcomes of changes to the national frameworks. Reliability standards and protections need to be fit for purpose and necessary detail can be developed following completion of the dialogues currently underway at a jurisdictional and national level. Given that the implementation of this review is not until July 2024, Essential Energy believes that it would be beneficial for IPART to delay introducing the SAPS sections into the legislation until early 2023, in order to ensure the detail in the licence conditions is appropriate and will not require further legislative amendments before implementation.

## 6.1 SAPS Terminology

In the Draft Report, IPART outlines that the same customer protections should apply to customers of DNSP-led SAPS, as apply to grid-connected customers. Essential Energy would appreciate a clarification on some of these items, and provides commentary on each of them:

- Individual feeder standards for microgrids with high voltage distribution lines
  - Some clarification on the use of the term microgrid would be beneficial, as there is different terminology in use. The term microgrid, as used in the Draft Report refers only to an electricity supply arrangement that supplies multiple customers (and is the same as used by the AEMC<sup>7</sup>). HV microgrids (which are usually customer funded) are still part of the NEM with the capacity to disconnect and operate autonomously. Microgrids are also used by Essential Energy to supply multiple customers on the LV network but these installations are permanently removed from the grid.
  - Please confirm whether reporting is still required.
- Individual feeder standards for all other SAPS using a default length of 200km
  - 'All other SAPS' is used by IPART to mean an installation that supplies a single customer. As above, it is also appropriate to capture LV microgrid installations that supply multiple customers.

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<sup>7</sup> AEMC 2019, Final Report – Review of the Regulatory Frameworks for Stand-Alone Power Systems – Priority 1, May 2019, viewed 14 January 2021, <https://www.aemc.gov.au/sites/default/files/2019-05/SAPS%20Priority%201%20Final%20Report%20-%20FOR%20PUBLICATION.pdf>

- Essential Energy agrees that the use of 200km is appropriate.
- Please confirm whether reporting is still required.
- GSL applies to all SAPS customers on the deemed standard connection contract
  - As discussed earlier, unless there are appropriate frameworks in place, it is unreasonable for Essential Energy to be responsible for reliability outcomes (and GSL) if it is unable to undertake fault and emergency work.
  - Confirming that the GSL does not apply to SAPS customers who are supplied by 3<sup>rd</sup> parties.
  - It may be appropriate to review whether there is a need for a new deemed connection contract created particularly for SAPS customers.

## 7 Additional Reporting Requirements

### 7.1 Major Event Days (MED)

The Draft Report proposes a requirement to publish daily updates on the restoration of electricity supply after a MED. Essential Energy currently publishes information for customers following large outages – not just for MED, however, this is done on a best endeavours basis to assist customers and to reduce calls to the contact centre. Essential Energy believes that there are a number of difficulties with the introduction of this requirement into the licence conditions.

An initial concern is that a major outage can take a few days to be declared a MED, and yet compliance is required on a daily basis. Moreover, compliance with the level of detail required will be difficult without improvements in low voltage visibility. There are difficulties with identifying the numbers of customers affected by an outage and the number of customers restored. Essential Energy's bushfire experience in 2019-20 included daily reporting to government of impacted customers – this was very manual, resource intensive and impacted restoration times as field workers were required to undertake this administrative work. Whilst a lot of the outage information can be provided via system control, during significant events such as bushfires/floods, with low voltage information very difficult to obtain, field resources need to be focussed on restoration not reporting.

The requirement to continue publishing until the last customer is restored will also be problematic for the same reason – obtaining information on a single customer data point is difficult and there will be a margin of error - if a customer is not home when a restoration is done, it may not be clear if they are still impacted. It can also take several months for the last customer from a MED to be restored, as sometimes restoration is delayed due to rebuilding of homes or reprioritisation of repairs across the impacted network.

Essential Energy suggests that this reporting requirement is done on a best endeavours basis rather than required, as actual data is not readily available. Significant improvements to low voltage visibility are needed for Essential Energy to be able to supply the level of detail required, and particularly to keep doing so until the last customer supply is restored.

### 7.2 Planned Outages

The Draft Report proposes that DNSPs publish information on planned outages on an annual basis – with the aim to replicate similar information already provided to the AER, but reported in a more customer friendly manner. Essential Energy believes that with some minor process improvements to capture high level reasoning for the time being exceeded on a planned outage, this requirement can be met.

### 7.3 Compensation Schemes

The Draft Report proposes a requirement to publish information about DNSP compensation schemes and statistics in relation to claims against these schemes.



The National Electricity Customer Framework (NECF) and subsequent regulations published in 2013, included a view to establishing compensation schemes, but they are voluntary - there is no requirement to have these schemes. In addition, the intent of the regulations themselves (cl 7 of the *National Energy Retail Law (Adoption) regulation 2013* (NSW)) was not about customer compensation - they are about limiting the liability of DNSPs to \$5,000, when damage is negligently caused.

If there is expected to be greater utilisation of these voluntary compensation schemes, it will result in greater cross subsidisation. Those customers who pay premiums to insurance companies and claim from them following an electrical event, will also pay higher network charges to subsidise compensation to those customers who cannot or choose not to insure.

Essential Energy suggests that rather than encouraging customers to claim against these voluntary compensation schemes, that consideration be taken of potentially working toward a joint compensation model with Ausgrid, Endeavour, and the Electricity and Water Ombudsman of NSW (EWON). Discussions to this effect have already commenced.



The table below provides a list of the draft recommendations from section 1.5 of the Draft Report, and Essential Energy's summary feedback to these items.

Item	IPART draft recommendation	Essential Energy response
1	That the licences should maintain individual feeder standards, direct connection standards (for larger customers) and guaranteed service levels and payments. The licence should no longer include overall feeder standards.	Agreed
2	That the AER considers any imbalance in incentives between the Service Target Performance Incentive Scheme (STPIS), the Efficiency Benefit Sharing Scheme (EBSS) and the Capital Expenditure Sharing Scheme (CESS) when it next reviews the schemes.	This is a matter for the AER
3	Individual feeder standards should continue to be defined using SAIDI (system average interruption duration index) and SAIFI (system average interruption frequency index), in line with the AER's Distribution Reliability Measures Guideline.	Agreed
4	That the excluded events are aligned with the AER's Distribution Reliability Measures Guidelines and Service Target Performance Incentive Scheme (STPIS).	Agreed
5	That the current approach of identifying Major Event Days using a method based on the IEEE Std. 1366-2012, IEEE Guide for Electric Power Distribution Reliability Indices be maintained to encourage the networks to ensure that their networks become more resilient over time.	Agreed
6	That the licence introduce a requirement for distributors to publish daily progress updates to customers on how long it takes to reconnect customers after a Major Event Day (MED)	Refer to section 7.1
7	That a new obligation be imposed on distributors to collate data on planned outages and publish an annual report on their websites by 31 August of each year.	Agreed
8	Individual feeder standards should be set for two feeder types – CBD Sydney and non-CBD. <ul style="list-style-type: none"> <li>CBD Sydney feeders are defined using the existing licence definition – that is, feeders forming part of the triplex 11kV cable system supplying predominantly commercial high-rise buildings, within the City of Sydney.</li> <li>Non-CBD feeders would be defined as any feeder that is not a CBD feeder and would cover all feeders in the three categories used in the existing licence and the AER's national guidelines for reliability measurement (urban, short rural and long rural).</li> </ul>	Agreed
9	Individual feeder standards for Ausgrid, Endeavour Energy and Essential Energy's non-CBD feeders for SAIDI should be set as a function of feeder length using the expression below. $\text{SAIDI} = 330 + 55.2\sqrt{\text{length}} + \text{MIN}(160, 5500/\text{length})$ This approach would require the distributors to report and investigate causes of SAIDI for feeders whose reliability is substantially worse than our estimates of long term efficient levels.	Refer to section 3

Item	IPART draft recommendation	Essential Energy response
10	<p>Individual feeder standards for Ausgrid, Endeavour Energy and Essential Energy's non-CBD feeders for SAIFI should be set as a function of feeder length using the expression below.</p> $\text{SAIFI} = 3 + 0.23\sqrt{\text{length}} + \text{MIN}(0.65, 21/\text{length})$ <p>This approach would require the distributors to report and investigate causes of SAIFI for feeders whose reliability is substantially worse than estimate levels of actual SAIFI.</p>	Refer to section 3
11	Individual feeder standards for CBD feeders - that is, feeders forming part of the triplex 11kV cable system supplying predominantly commercial high-rise buildings, within the City of Sydney – should be set following further modelling to be provided by Ausgrid and set out in a Supplementary Draft Report to be released in March 2021.	This is a matter for Ausgrid and IPART
12	Direct connection standard for all areas should be set using the same formula for SAIDI and SAIFI for individual feeders but using a 'proxy' feeder length of 1 km.	Agreed
13	When reporting non-CBD feeders that do not meet the individual feeders standards, the distributors continue grouping them into the three feeder types set out in the national guidelines (urban, short rural and long rural).	Agreed
14	Individual feeder standards require the distributors to follow the reporting and investigation process set out in Box 4.2	Agreed
15	The guaranteed service level should set the minimum acceptable level of reliability and apply to residential and small business customers supplied under the deemed standard connection contract.	Agreed
16	The guaranteed service level should only apply to interruptions that contribute to individual feeder standard performance. That is the same exclusions should apply to both the guaranteed service level and individual feeder standards.	Agreed
17	When a distributor does not meet its guaranteed service level, it must make payments available, on request, to affected customers.	Agreed
18	<p>Distributors must take reasonable steps to ensure eligible customers are aware they are eligible for payments. Distributors no longer need to publish details of the guaranteed service level and associated payments in a newspaper, however they need to:</p> <ul style="list-style-type: none"> <li>• Publish the dollar value of the guaranteed service level payments on their website each year.</li> <li>• Provide information on the guaranteed service level payments in any information or communication to customers regarding a specific interruption.</li> <li>• Follow any directions from IPART on additional steps distributors must take to notify customers.</li> </ul>	Agreed
19	When distributors breach the Level 1 guaranteed service level affected customers should be eligible for a payment equal to the annual distribution service charge for a typical customer.	Refer to section 4
20	When distributors breach the Level 2 guaranteed service level affected customers should be eligible for a payment equal to the annual distribution usage charges for a typical customer.	Refer to section 4

Item	IPART draft recommendation	Essential Energy response
21	Distributors must publish on their website each year: <ul style="list-style-type: none"> <li>How many customers received payments because the distributor did not meet the guaranteed service level</li> <li>How many customers applied for payments because they considered the distributor did not meet the guaranteed service level</li> <li>How many customers the distributor estimates received worse service than the guaranteed service level.</li> </ul>	Refer to section 4.2.3
22	Distributors should publish on their website: <ul style="list-style-type: none"> <li>Their compensation scheme's policies on eligibility for compensation payments</li> <li>How many compensation payments they have made and the total amount paid.</li> </ul>	Agreed
23	That the distributors' licences include a DER information disclosure requirement commencing in 2021-22.	Refer to section 5
24	The NSW Government continue to progress legislative changes to incorporate distributor-led SAPS within the NSW Electricity Supply Act framework as well as incorporate distributor-led SAPS into the National Energy Retail Law (New South Wales), on national implementation of the AEMC's proposed legal and regulatory framework.	Refer to section 6
25	At the time of commencement of relevant enabling legislative changes, the proposed reliability standards should be extended to distributor-led standalone power systems as follows: <ul style="list-style-type: none"> <li>the individual feeder standards to apply to microgrids with feeder-like high voltage distribution lines</li> <li>the individual standards with a default length of 200km to apply to all other distributor-led standalone power systems</li> <li>apply the guaranteed service levels and payments to distributor-led standalone power systems consistent with how they apply to grid connected customers.</li> </ul>	Refer to sections 4.4 and 6.1
26	In progressing legislative amendments, the NSW Government should ensure that customers of distributor-led SAPS receive the same customer protections afforded by the licence as other residential and business customers of the distributors.	Refer to sections 4.4 and 6.1
27	That the recommended licence conditions come into force on 1 July 2024.	Agreed
28	That the distributors provide annual reports to IPART on their compliance with reliability standards, with flexibility for IPART to adjust report timing through its Reporting Manual If IPART considers more or less frequent reporting is appropriate.	Agreed
29	That the distributors continue to complete quarterly investigations of individual feeders and direct connections that do not meet the SAIDI and SAIFI standards, and report these to IPART annually.	Agreed
30	That the licence conditions allow IPART as the licence administrator, the discretion to determine the frequency and scope of independent compliance audits, and that the Tribunal does this using a risk-based approach.	Agreed