

18 February 2019

Dr Peter Boxall  
Chair  
Independent Pricing and Regulatory Tribunal  
PO Box K35, Haymarket Post Shop NSW 1240



Submitted via IPART website

Dear Dr Boxall

### **Submission to draft Terms of Reference for IPART to review electricity distribution reliability standards**

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to respond to the draft Terms of Reference.

#### **Scope of report to be provided to the Premier and Minister**

PIAC supports IPART providing a report which recommends "*changes to electricity distribution reliability standards... that could deliver bill savings.*" This should lead to a correction of the earlier over-investment... in the NSW distribution networks which been a major cause of the affordability pressures faced by NSW households.

PIAC also supports IPART recommending "*any other measures that could be imposed on or implemented by the NSW distribution network businesses within the current regulatory framework that would be likely to reduce network prices.*" DNSPs are currently required by national regulations to engage and listen to consumers. However, PIAC considers there would be benefit from greater prescription in particular aspects of network engagement – in particular, DNSPs should also be required to demonstrate how they have taken onboard the information gathered through engaging with consumers.

PIAC supports IPART's review of the reliability standard being done on the basis of an economic assessment with informed, deliberative consumer engagement. A robust and transparent economic assessment must ensure that the costs of any changes to the reliability standard are outweighed by the benefits consumers will receive. An essential part of this is the use of deliberative engagement to obtain informed input from consumers about exactly what services consumers value and their relative importance compared against other pressures such as price. This is discussed further under Public consultation.

#### **Aspects IPART must have regard to**

PIAC has recommended a number of changes to the aspects which IPART must have regard to in undertaking its review. These are listed below with additions underlined and omissions in strikethrough.

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## Potential impact on customer bills

*“2. the potential impact on customer bills, assuming current regulatory arrangements and considering the long-term interests of consumers, from:*

- a. any change in the distribution network reliability standards;*
- b. any other measures that would reduce network prices ~~and are in the long-term interests of consumers;~~”*

## Reliable and secure electricity networks

*“3. the ~~importance~~ value customers place on having a reliable and secure electricity network”*

Considering the importance consumers place on reliability and security is insufficient. Instead, IPART must consider the value consumers place on this based on the trade-off consumers place between reliability and other competing factors such as bills, price or affordability.

## Timing and interaction with the AER’s VCR studies

*“4. published values of customer reliability (VCRs), including the AER’s VCR estimates to be published by 31 December 2019.”*

PIAC supports IPART having regard to published VCR estimates. However, PIAC is concerned about the high cost, inconsistency, lack of rigour and lack of transparency of some VCR values proposed by network businesses in previous planning and regulatory processes.<sup>1</sup> Therefore, PIAC recommends that IPART only consider VCR estimates which have been independently and robustly developed.<sup>2</sup>

We note that the timing of the AER’s process and IPART’s own review complicates their relationship. In PIAC’s view, it is important that IPART continues to contribute to help to define the AER’s methodology so that its output is appropriate for IPART’s intended use(s) in NSW.

## Regulatory stability

*“6. a ~~stable regulatory~~ workable planning and investment environment”*

A stable regulatory environment is only a means to an end, rather than the end in itself. It is essential, therefore, to ensure a workable environment where the necessary planning and investment in the distribution networks can continue – especially in light of the transformation currently underway driven by new technologies and the new services they enable.

## Other relevant reports and recommendations

*“7. The relevant recommendations of the 2018 State Infrastructure Strategy and the Australian Competition and Consumer Commission’s Retail Electricity Price Inquiry”*

We consider IPART should also have regard to reports which outline the pressures and experiences felt by NSW consumers such as *Turning off the Lights: The Cost of Living in NSW*

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<sup>1</sup> And other information that is purported to reflect consumer preferences with respect to price and reliability trade-offs.

<sup>2</sup> The range of factors needed to be considered in developing a robust VCR estimate, and the potential issues of failing to do so, are outlined in: PIAC, *Value of Customer Reliability: PIAC submission to AER Consultation Paper*, December 2018. This is included as an attachment.

by the NSW Council of Social Services<sup>3</sup> and *Close to the Edge* by PIAC.<sup>4</sup> We consider such reports, along with direct deliberative engagement with NSW consumers, would provide an important context to inform IPART's economic assessment.

### **Public consultation**

*"IPART is to undertake public consultation including deliberative engagement of NSW consumers for the purposes of its investigation."*

As noted earlier, informed consumer input is essential for IPART to conduct its economic assessment of the costs and benefits of any change to consumer outcomes as a result of changing to the reliability standards. For instance, IPART should seek to understand consumers' willingness to:

- pay to maintain or improve on extant reliability levels;
- accept current or lower reliability levels in return for lower bills; and
- participate in some form of demand response (including reducing their demand voluntarily and without payment) such as during events nearing Maximum Demand.

In order to obtain fully informed consumer input, it is essential to use a deliberative process. Cognitive biases may influence consumers' responses to questions about willingness to pay or accept. For example, the bias of 'Uncertainty aversion' has been shown to affect the consumer response to surveys on VCR. Uncertainty aversion can be minimised by using face-to-face deliberative engagement with people (rather than relying on phone and online surveys) and adjusted for weighting analysis of responses (for example, according to respondents' actual experience of outages), and ensuring minimum quotas of respondents with exposure to outages.

### **Scope of the review**

IPART's review of the distribution reliability standards should extend beyond the SAIDI and SAIFI settings. For instance, it must also include the definition of relevant terms such as major event days or excluded events, the treatment of High Impact Low Probability (HILP) events, and any clauses which define how a DNSP may meet the standards.

Such definitions and terms can have just as much of an impact on the price-reliability trade-off for consumers as the SAIDI and SAIFI standards. In particular, it is essential that DNSPs are able to meet their reliability obligations through the most efficient means, including non-network alternatives and the optimised use of distributed energy resources.

Given that the National Electricity Market is undergoing a fundamental transformation both in terms of technology and business models, alternatives to traditional network investment will become more prevalent and it is essential that DNSPs are able, and obligated, to make use of these where it is efficient to do so.

### **Alignment with national regulatory obligations**

A DNSP also has various obligations and incentives under the national regulatory framework for the NEM. In particular, PIAC draws attention to incentives and settings such as the Service Target Performance Incentive Scheme under the national framework.

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<sup>3</sup> NCOS, [Turning off The Lights: The Cost of Living in NSW](#), June 2017.

<sup>4</sup> PIAC and UMR Research, [Close to the Edge – a Qualitative & Quantitative Study](#), November 2018.

PIAC recommends that, as part of this review, IPART seek to align jurisdictional and national incentives – or at least ensure that they are not contradictory. Where IPART finds a change to the national frameworks may be warranted, PIAC suggests that IPART recommend these be changed.

### **Continued engagement**

PIAC would welcome the opportunity to meet with IPART and other stakeholders to discuss these issues in more depth.

Yours sincerely,

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**ATTACHMENT:** PIAC, *Value of Customer Reliability: PIAC submission to AER Consultation Paper*, December 2018.