



Network service provider expenditure objectives

Draft determination and draft rule

The Australian Energy Market Commission has released its draft determination and draft rule regarding electricity network service provider (NSP) expenditure objectives. The AEMC's draft rule gives primacy to jurisdictional standards in relation to reliability, security or quality of supply where these exist.

The rule change request

The Standing Council of Energy and Resources (SCER) considers that an interpretation of the National Electricity Rules (NER) could potentially allow network service providers to include in their regulatory proposals expenditure they consider necessary to maintain the level of reliability they achieved in the previous regulatory control period. It suggests this could be a problem where the required reliability standards are lowered or where a NSP is performing above the jurisdictional standards.

The SCER has also requested that the AEMC examine whether there is a similar need for clarification around expenditure relating to quality and security of supply, and safety of the network.

The draft rule

The Commission considers it is currently unclear in the NER how the existing expenditure objectives relating to reliability, security, and quality work together, and that these should be clarified.

The draft rule would give primacy to jurisdictional standards relating to reliability, security, and quality of supply. These standards have been set by a body allocated to this role and the expenditure objectives should give effect to this division of responsibilities.

This will avoid inconsistency between the standard that the NSP is required to provide under jurisdictional requirements and the level of expenditure that the AER is required to approve through the regulatory determination process.

The Commission has determined that it is not appropriate to amend the expenditure objectives for safety. This objective should continue to refer to maintaining current levels of safety. Current levels of safety may have been appropriately influenced by safety standards in voluntary industry codes or Australian standards that sit on top of regulated standards.

The current form of the objectives should also be preserved where there are no regulatory obligations or requirements in place. For example, there are no specific regulated standards for reliability of supply at the time of a determination in certain circumstances in Victoria. The Commission considers that the issue of how the existing objectives work together does not arise where there are no regulated standards so it does not propose to amend the objectives for this scenario.

Implementation

The draft rule would first apply to those NSPs that are due to submit transitional regulatory proposals to the AER by 31 January 2014 and full proposals by 31 May 2014. These NSPs are ActewAGL, the NSW DNSPs, Transend and TransGrid.

**Submissions are
due on 8 August
2013.**

Background

The expenditure objectives in chapters 6 and 6A of the NER determine the level of expenditure NSPs must include in their regulatory proposal. They are also used by the AER in assessing NSPs' regulatory proposals.

The objectives are based in part on achieving certain standards in respect of reliability, security, and quality of supply and safety of the network.

- Reliability refers to continuity of supply and avoiding interruptions to supply.
- Security is closely related to reliability and describes the way the power system is operated.
- Quality of supply relates to variations in frequency and voltage magnitude.
- Safety is a broader concept that could be narrowly defined to refer to the security of the power system or more broadly to public safety issues such as the distance from the power line to the ground.

Many jurisdictions have set out in legislation what the standards are for reliability, security quality and safety.

Other work being undertaken on reliability issues

This rule change does not address how the levels of reliability standards should be determined or the broader framework for setting and expressing reliability standards. The AEMC is currently undertaking separate reviews at the request of the SCER to develop national frameworks for transmission and distribution reliability standards.

Submissions

The AEMC welcomes submissions on the draft determination, including the draft rule by 8 August 2013.

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