

04/07/16

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

Submitted by email

Dear Ms Towers

**Review of Electricity Transmission Reliability Standards – Draft Report**

TransGrid welcomes the opportunity to respond to the Draft Report published by the Independent Pricing and Regulatory Tribunal (IPART) as part of its review of electricity transmission reliability standards in New South Wales (NSW).

TransGrid is the operator and manager of the high voltage transmission network connecting generators, distributors and major end users in NSW and the Australian Capital Territory. TransGrid's network is also interconnected to Queensland and Victoria, providing an electricity system that makes interstate energy trading possible.

As part of TransGrid's stakeholder engagement program, TransGrid invited IPART to participate in its 'NSW Energy Forum – In Focus', held on 7 June 2016, to further inform stakeholders on the review and encourage parties to make a submission. IPART presented on its approach, including the optimisation model IPART used in developing its unserved energy allowances and the economic assessment that has been tested in formulating the proposed standard.

TransGrid understands that IPART's review will result in a revised set of transmission reliability standards being recommended to, and then set by, the Minister for Industry, Resources and Energy in advance of TransGrid's revenue proposal to be lodged to the Australian Energy Regulator by 31 January 2017. TransGrid notes that there may be insufficient time for the revenue proposal to reflect the Minister's decision regarding the unserved energy allowances for the Inner Sydney area as IPART expects to provide its recommendation for this area to the Minister in December 2016.

This submission further reflects TransGrid's response provided at IPART's public hearing held on 28 June 2016. TransGrid is broadly supportive of IPART's draft standard. TransGrid considers the draft standard achieves an appropriate balance between, on the one hand, the certainty required for network planning and investment decisions and, on the other hand, the flexibility to respond to a changing environment and to pursue the most economically efficient option to address a need.



TransGrid is also encouraged that the draft standard allows a more flexible way of providing the level of reliability that consumers value and expect whilst providing an economic balance between the cost of providing reliability against the cost to consumers of supply interruptions.

### **The reliability requirements are defined in a practical and implementable manner**

TransGrid supports IPART's recommendation to include a requirement for a level of redundancy together with a positive value of expected unserved energy at each bulk supply point. TransGrid supports IPART's high level methodology for its economic optimisation to develop the optimal values of unserved energy.

Further, TransGrid supports IPART's recommendation that the standard not include a restoration time and agrees that the use of expected unserved energy provides a more appropriate parameter.

### **The draft standard provides flexibility in meeting the requirements**

TransGrid supports the draft recommendation to allow for flexibility in how TransGrid meets its reliability requirements to drive better outcomes for consumers in the longer term. A range of potential solutions currently exist and more are likely to emerge over time. Allowing flexibility in how these requirements are met will help to ensure that the most efficient solutions are considered. TransGrid will continue to investigate and pursue economically efficient non-network and other innovative options to address network and reliability needs and welcomes IPART's use of output-focussed and solution-agnostic terminology.

### **Developing NSW-specific Value of Customer Reliability is welcomed**

TransGrid supports IPART's draft recommendation to develop a NSW-specific calculation for Value of Customer Reliability (VCR). VCR forms an important input into the economic assessment of optimal levels of reliability and can also be used for other economic analyses including investment decisions. Therefore VCR must provide a robust and comprehensive reflection of the variety of different consumers in NSW. It is important to have accurate values of VCR not only for residential users but also for industrial and commercial users – especially so in areas such as the Sydney CBD given its importance to NSW and Australia's economy.

The importance of developing NSW-specific values of VCR was also supported by stakeholders at the NSW Energy Forum – In Focus.

### **There should be proportionate treatment of replacement expenditure**

TransGrid questions IPART's support for a rule change to extend the Regulatory Investment Test for Transmission (RIT-T) to replacement expenditure. The RIT-T is a relatively new test and there is not a wide body of evidence, including the cost and the economic benefits to participants of the National Electricity Market.

The rationale for IPART's draft finding regarding the RIT-T is unclear, including the problem it seeks to address. The RIT-T at present allows consultation on projects where a significant change in the transmission services provided or augmentation of transmission capacity would be undertaken as an alternative to a like-for-like replacement. Based on its experience, TransGrid does not consider that extending the RIT-T to include all replacement expenditure is a proportionate solution.

Any extension of the RIT-T beyond its current scope would need to include careful consideration of a cost threshold which is appropriate for replacement projects, as well as a



clear and simple exemption process for like-for-like replacements. An appropriate cost threshold and a clear and simple exemption process for like-for-like replacement projects is more likely to strike a balance between providing more transparency of significant replacement projects and minimising regulatory burden to network businesses (which would include additional costs in complying with the test) and the regulator (in monitoring compliance). In addition, a high level of transparency already exists as the Australian Energy Regulator evaluates replacement expenditure across all categories of assets during the regulatory determination process.

### **Expected unserved energy allowance for Inner Sydney**

TransGrid supports IPART's proposal to take a more detailed assessment for the expected unserved energy in Inner Sydney. The proposed December 2016 date for IPART to provide this advice to the Minister may be insufficient time for this to be reflected in TransGrid's revenue proposal. As IPART points out in its draft report, the network supplying the Inner Sydney area is far more complex than other areas of NSW given the tighter meshing of both TransGrid and Ausgrid network assets. Currently, TransGrid and Ausgrid are jointly assessing the economic benefits of replacement of transmission assets supplying the inner metro area.

### **Ongoing engagement with IPART and other stakeholders**

TransGrid looks forward to continuing engagement with IPART and other stakeholders on this important review. At the NSW Energy Forum – In Focus, stakeholders asked a number of questions on how the transmission reliability standards impact the supply chain and more specifically how they integrate with the distribution networks. TransGrid would be happy to assist IPART in its consideration of this issue.

TransGrid also acknowledges that further detailed engagement with all parties will be particularly important as TransGrid looks to implement the standard as part of its planning, reporting and compliance processes.

If you would like to discuss any matter raised in this submission, please contact me on [REDACTED]

Yours faithfully

[REDACTED]

Gerard Reiter

**Executive General Manager/Asset Management**