

14 June 2018

Mr. John Pierce
Chair
Australian Energy Market Commission
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Dear Mr. Pierce

Establishing Values of Customer Reliability Rule Change – AEMO submission

AEMO welcomes the opportunity to provide input to the Commission's Consultation Paper on a rule change for Establishing Values of Customer Reliability (VCRs).

AEMO is the independent National Electricity Market (NEM) and Western Australian Wholesale Electricity Market (WEM) market and systems operator, and the NEM National Electricity Transmission Planner, with primary responsibility to manage and maintain power system security and reliability. This role is undertaken within the legislated policy and market frameworks of the day and in adherence to the National Gas and Electricity Objectives and Rules.

AEMO has an interest in the development of VCRs which we apply in the planning and operational environments to ensure investment decisions to address power system needs consider customers' expectations on reliability. The Commission would also be aware that AEMO initiated a NEM-wide review of VCRs in 2013 at the request of the Standing Committee of Energy Resources (SCER)¹. Once AEMO's review was completed in 2014 and final VCRs were published, AEMO noted that a review of these values would be conducted in five years' time. The expeditious duration of this consultation to assign responsibility of future VCR calculation is therefore important to ensure that revised VCRs are developed before the end of 2019 so that any changes in customer expectations and the occurrence of reliability-related issues are reflected.

AEMO's submission below provides our views on the Rule change request and proposes attributes that will enhance the development of VCRs and ensure their application remains relevant within the NEM context for the long-term interests of consumers. We have also suggested some minor amendments to the Commission's indicative drafting for consideration.

If you would like to discuss any aspect of our submission in more detail please contact Reena Kwong (reena.kwong@aemo.com.au).

Yours sincerely,



Brett Hausler
Executive General Manager, Regulation and Governance

¹ Now referred to as the Council of Australian Governments Energy Council (COAG EC).

The future development of VCRs

The Rule change request has proposed that the AER assumes responsibility for the development and update of future VCRs.

AEMO supports this proposal on the basis that the AER includes the following as part of its process to determine the VCRs:

- A robust consultation process across industry in developing the methodology as well as factors to be considered;
- Close engagement with AEMO throughout development and implementation of the methodology so that AEMO's insights and learnings from the 2014 VCR work are reflected in the outcome.

VCRs are measures used to indicate the value different types of customers place on having reliable electricity supplies under varying conditions. They are an important proxy applied in network planning and investment decision-making for evaluating cost-effective ways to build or upgrade the network for the benefit of consumers. AEMO applies VCRs through our roles as Victorian and national transmission planner in our studies undertaken for the Victorian Annual Planning Report (VAPR), the Regulatory Investment Tests for Transmission (RIT-T), and will also be considered in future Integrated System Plans (ISP). The estimates are also used to provide advice on reliability standards in Victoria and South Australia.

Additionally, VCRs can be linked to the market price cap (MPC) and can be used to inform operational decisions. For example, AEMO used the VCRs as critical benchmarks for demonstrating reserve value for procuring the Reliability Emergency Reserve Trader (RERT) in summer 2017/18.

The above examples of VCR application used AEMO's 2014 values. However, as the energy transformation continues, changes to the services that can be provided and the mechanism by which these services are provided, impact consumers' expectations and behaviours on energy supply and usage. It is therefore critical that consumers' expectations are accurately reflected, as much as possible, when making decisions on the development of the future power system. This will ensure the right investments that are cost-effective and represent the value customers place on reliability are delivered.

As AEMO applies the VCRs in both planning and operational decision-making circumstances, we believe there are key factors that must be considered in their development. Some of these factors include:

- Granularity of VCRs, which includes location and customer segmentation;
- Time of day and season;
- Duration of outage;
- Tolerance to interruption;
- Representation of consumers of future energy services.

The above factors, in particular, adequate representation of the consumers of future energy services are critical as the energy transformation continues. This attribute was not incorporated into AEMO's 2014 VCR review, including the differences in supply expectations between customers who have solar photovoltaic (PV) or batteries installed compared to those who do not, irrespective of their usage. However as the energy market has rapidly changed since that review, it is relevant and timely to reflect this attribute now and into the future.

Another attribute which was not captured in AEMO's 2014 review is the impact of widespread and prolonged outages. As there has been a state-wide outage since AEMO's review was undertaken, the value customers now place on reliable supply, particularly in that region, may be vastly different and should therefore be reflected.

AEMO believes inclusion of the above attributes will lead to more fit-for-purpose and effective VCRs to be produced that will allow for more informative decisions to be made in the planning and operational environments. This will ultimately ensure consumers receive their expected level of reliable energy supply at a price they are willing to pay.

Indicative drafting of the Rule

AEMO is supportive of the overall intent of the Commission's indicative drafting included in the Consultation Paper.

We do however believe further clarity could be provided specifically to the intent of clause 8.12(f). AEMO notes that clause 8.12(f)(i) stipulates that values of customer reliability will be published on an *annual basis* following their initial publication on or before 31 December 2019. However clause 8.12(f)(ii) then specifies that the VCRs will be *updated at least once every 5 years* with the updated values published promptly thereafter. While AEMO presumes that the annual re-publication required in clause 8.12(f)(i) is to reflect adjustments made in line with the mechanism contemplated in clause 8.12(b)(ii), we believe the drafting, as proposed by the Commission could be more clear to reflect this intent.

Additionally, AEMO acknowledges that Section 3.4.2 of the Consultation Paper invites stakeholder feedback on specific parties that the AER should consult with when reviewing and updating the VCRs. As outlined above in our submission, AEMO believes that the AER should closely engage with us, in addition to the consultation undertaken as part of the general Rules consultation procedures, throughout the development of VCRs. This will ensure our first-hand experience of conducting the 2014 review is considered to a greater extent to allow VCR determination to be enhanced. It may be appropriate to reflect this intent within the drafting of clause 8.12.

AEMO looks forward to working with the AER to assist in the development of the VCR methodology and the estimates themselves going forward.