

07 June 2018

Mr Ben Davis  
Acting Director  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Electronic Lodgement: ERC 0231

## Rule Change Consultation Paper – Establishing values of customer reliability

Dear Mr Davis,

Energy Networks Australia welcomes the opportunity to provide a submission to the Australian Energy Market Commission on the Consultation Paper – Establishing values of customer reliability (VCR).

Energy Networks Australia is the national industry body representing businesses operating Australia's electricity transmission and distribution and gas distribution networks. Member businesses provide energy to virtually every household and business in Australia.

In 2013 the AEMC recommended to COAG in its reliability reviews for electricity distribution and transmission that one national body develop VCR's and that the AER be assigned this responsibility for use in setting reliability requirements for the next round of regulatory determinations commencing in mid-2019. COAG agreed and have subsequently proposed a rule change and requested that it follow the AEMC's expedited Rule change process on the grounds that COAG considers it to be non-controversial.

### Establishment and Administration of VCR

There has been a significant change in reliability focus since the 2013 reviews. The establishment of the Energy Security Board and the inaugural Integrated System Plan are recent examples of this. Energy Networks Australia supports a single national body developing VCR and the development of a consistent methodology being applied in the NEM.

In performing its new role, Energy Networks Australia considers there may be benefit if the AER is supported by strong technical expertise by bodies such as AEMO or the Reliability Panel.

### Scope of VCR

Energy Networks Australia notes that COAG's rule change suggests that VCRs are intended to apply to distribution and transmission. However, it is not clear from the

AEMC's Consultation Paper (in particular, the Commission's indicative drafting and references to requirements to include direct engagement of retail customers), that these sectors of the industry will be subject to the VCR. It would be useful if the Commission clarified this point.

## Clarification of Use of VCR

The Consultation Paper identifies the current use of VCRs and acknowledges that there are other potential uses of VCRs. However, these other potential uses are not identified or considered. Energy Networks Australia considers that it would be useful to stakeholders for these other potential uses of VCRs to be identified to ensure that the objectives of having an independent body to provide a consistent approach is achieved and to ensure the methodology process is robust and fit for purpose.

The indicative drafting proposed for 8.12 (c) provides that the AER must have regard to any (current and) potential use of VCRs in developing the VCR methodology. Without certainty of the full range of uses of the VCR, it would be difficult to ensure that the methodology for VCRs is fit for purpose as intended by 8.12 (d). For example, VCRs may be used by the AER as part of a revenue determination process to assess major capital projects that form part of capital expenditure forecasts.

## VCR methodology including annual adjustments

Energy Networks Australia supports the initial establishment of the VCR methodology and the five yearly update of the VCR methodology being subject to Rules consultation procedures.

The Consultation Paper acknowledges that it may be appropriate that the AER be required to specifically consult with certain parties. Given the importance of VCRs for its users, consultation should be extensive and undertaken with all users of VCR; in particular: retail customers of all sizes, AEMO, the Reliability Panel, the jurisdictional network regulators responsible for setting reliability standards, and network service providers.

Given the Reliability Panel is specifically required to have regard to the VCR under the NER, Energy Networks Australia considers the requirement for the AER to consult with AEMO and more specifically with the Reliability Panel, should be made explicit in the NER.

The VCR methodology must provide a robust and comprehensive reflection of the different jurisdictions, customer types (by size and activities undertaken) and duration and frequency of an electricity outage. It is important that the VCR methodology reflects this, is fit for purpose and considers the implementation requirements of AEMO's Integrated System Plan. The VCR methodology should also cater for and provide clarity around the treatment of high impact low probability events.

The AEMC has asked whether the NER should guide the AER regarding the methodology for annual adjustments. However, it is unclear what the purpose of the annual adjustments is from the AEMC's Consultation Paper. In the interests of providing certainty and stability, Energy Networks Australia considers that changes to

VCRs beyond annual escalation adjustments should only be permitted in exceptional circumstances and should in consultation with network service providers and other interested stakeholders. Networks prefer stable VCRs apply for their jurisdiction and regulatory periods to ensure that they can plan, assess and reasonably deliver their forecast capex programs using VCR inputs consistent with those assumed in their Revenue Proposal.

## VCR periodic reviews and timing

The December 2019 date for the AER to complete the initial VCR methodology appears to allow for appropriate development and consultation timeframes. Energy Networks Australia suggest that the AER finalise each five yearly update of VCR values no less than 18 months before a Revenue Proposal is due to be lodged with the AER for the relevant network service provider. This will improve development of capital plans and Revenue Proposal engagement with customers.

Given the extensive impact changes to VCRs on long term network planning and network capital work programs, certainty on the publication date of the first estimates of VCRs is essential. As such, Energy Networks Australia suggests the AER confirms upfront that it is prepared and committed to meet the 31 December 2019 deadline.

Should you have any queries on this response please feel free to contact Verity Watson on 0404 098 597 or [vwatson@energynetworks.com.au](mailto:vwatson@energynetworks.com.au).

Yours sincerely,



**Andrew Dillon**

**Chief Executive Officer**