SUBMISSION

VALUE OF CUSTOMER RELIABILITY – RULE 2018 | JUNE 2018

Energy Users Association of Australia

Introduction and Summary

The Energy Users Association of Australia (EUAA) is the peak national body representing major Australian electricity and gas users. Our membership covers a broad cross-section of the Australian economy including significant retail, mining, manufacturing, materials and food processing industries.

The EUAA is a strong advocate for energy users and firmly believes that the primary objective of energy markets should be to serve the long-term interests of the consumer as stated in the NEO and NGO. There can be no doubt that energy users, both large and small, are experiencing unprecedented increases in both electricity and gas costs while there are potentially significant risks to both the availability and reliability of energy for some. This situation is clearly at odds with both the NGO and NEO.

In this context, the EUAA welcomes the opportunity to comment on the COAG Energy Council proposed rule change relating to the appointment of the Australian Energy Regulator (AER) as the entity responsible for establishing the Value of Customer Reliability (VCR).

In summary the EUAA:

- Supports the COAG Energy Council's proposal to treat the rule change request as non-controversial and hence can be processed on an expedited basis.
- Supports the AER assuming responsibility for establishing the value of customer reliability (VCR).
- Supports the rule change including high level objectives, particularly around the involvement of consumers on both the development of the methodology and direct engagement to establish VCR values. Further to this we support that the detailed methodology should be responsibility of the AER to develop.
- Proposes that the first estimated VCR values should be published by 30th June 2019 to fit in with the cycle of regulatory determinations due in April 2020 and that they be updated annually. This will also be important to the current Integrated System Plan being developed by AEMO and the Reliability Guarantee being developed by the ESB.
- Proposes that these new values should apply to any network evaluation of RiT-T, RiT-D and contingent projects.
- Supports the AER following the Rules consultation procedures and that as part of this it forms a Consumer Reference Group to support this consultation.
- Supports the proposed 5-year reviews and updating of the methodology.
- Emphasises the importance of having consistent measures of VCR that are then applied across all aspects of electricity market policy development and investment evaluation.
- We support the amendments to the Rule to require the Reliability Panel to have regard to the AER VCR values.

We are surprised that the Consultation Paper makes no mention of how the VCR values will be implemented. We look forward to AEMO and the State jurisdictional regulators indicating their support for using the AER VCR values in all of their electricity market studies.

We would propose an additional clause in the proposed 8.12 that:

- Makes it mandatory for networks to apply the AER VCR values in their revenue reset proposals and in their evaluation of RiT-T, RiT-D and contingent project proposals,
- But gives them the option of also proposing an alternative measure with the AER having the sole discretion of whether to accept this alternative measure.

Response to Substantive Issues

THE RULE WILL CONTRIBUTE TO THE ACHIEVEMENT OF THE NEO

As the AEMC notes, there have been a range of studies, of varying value, undertaken to measure VCR. Over time there has been no shortage of organisations, particularly networks, who wish to claim they know how much consumers value reliability.

Unfortunately, these values were generally derived from desktop studies or very limited consumer surveys[1]. These proponents then use these values to justify additional investment that may or may not be in the long-term interests of consumers. There is a common view amongst energy users that higher values have been in the long-term interests of the networks expanding their regulated asset base.

The EUAA welcomed the AEMO analysis in 2014 and a number of our members actively participated in it. It was the first comprehensive study that actually engaged directly with a range of consumers. Unfortunately, this study was not followed-up and this left a vacuum in how these measures might change over time. The EUAA, along with many other stakeholders, have been expressing the need for updated estimates for some years.

Importantly, there have been significant changes in the nature of the electricity market in recent years. The concept of reliability is changing with increased distributed generation, back-up generation and batteries. Consumers who would have experienced an interruption in the past may now not know one has occurred because of these developments. As a result, they may have a quite a different view of what they are prepared to pay for 'reliability' compared to say 5-10 years ago. Non-network solutions tailored to the particular consumer have provided a more efficient solution to reliability concerns than network-wide solutions involving additional capex.

Therefore, our members welcome the forthcoming work by the AER to update these AEMO estimates and look forward to being actively involved in both the development of the methodology and the completion of any subsequent surveys.

TREATMENT AS A NON-CONTROVERSIAL RULE CHANGE

The EUAA agrees with the Commissions conclusion that the rule change request is a request for a non-controversial rule because it is unlikely to have a significant effect on the NEM.

RESPONSIBILITY FOR ESTABLISHING VCRS

We believe that it is important to have one national body responsible for establishing VCRs.

We agree with the COAG Energy Council that the AER is the appropriate body to undertake the VCR estimation. This role is consistent with the AER's statutory functions as VCR values have a significant influence on its network regulatory functions.

METHODOLOGY

The EUAA believes there is value in the NER providing an explicit objective for the AER in calculating VCRs. We would suggest something like the AEMC proposed words around:

> "…developing a methodology and calculate VCRs that are fit for purpose for the current and potential uses of VCRs"

We would also include the following words in the rule change request:

- When updating VCR estimates and reviewing the methodology the AER should have regard to the current and potential uses of VCRs.
- The methodology should include direct customer engagement, such as through surveys, to determine the VCR.

[1] See for example the [Houston Kemp study used to try to justify very large VCR values for the Sydney CBD as part of the IPART review of transmission reliability standards in NSW in 2016]().

- In considering the granularity of VCR estimates the AER should be required to develop VCRs to reflect the range and geographic locations of customers in each network."

We believe these will assist in driving greater inclusion of direct customer engagement in the process. We do not want to see policy driven by network-provided desktop studies.

We believe that given the complexity of the methodology (for both initial measurement and updates), the details are best left to the AER rather than being set though a complex and time-consuming rule change process.

Timing for reviews and updates of VCRs

Ideally this VCR review should have begun some years ago so that it would apply to the next round of regulatory determinations in April 2019 for the NSW and ACT distributors, TasNetworks and PWC. However, given our support for the AER following the Rules consultation process (see below), this will not be possible.

Nevertheless, we question whether a December 2019 date for the AER to publish the first estimated VCRs is early enough for application for the next round of decisions for South Australia and Queensland distributors due in April 2020. These networks will be submitting their proposals in January 2019 with the AER Draft Decision in September 2019 and revised network proposal submitted in December 2019.

Under the timetable for the current Rate of Return review the AER will publish its revised Guideline in December 2018. Given this revised Guideline will provide a relatively mechanistic approach to determining a network's WACC, it will be relatively easy to apply to the current round of regulatory determinations in April 2019.

By contrast, the VCR value is an integral input into the network's proposal, particularly the level of capital expenditure it is seeking approval for. We expect that it will be a much more complex exercise to change VCR values than to change a WACC. While best practice capital evaluation would include networks using a range of VCR scenarios, there may still be some work involved in revising a network's revenue proposal. For this reason, we would propose that the AER publish its first estimated VCRs by 30th June 2019. We think that it should be possible to undertake the required consultation in that time period.

Finally, we would note that there is considerable scope to apply these new VCR numbers to NSW and ACT distributors, TasNetworks and PWC outside of the formal revenue reset process. This is because they can be applied to the networks' expanded RiT-T and RiT-D and contingent project evaluations.

We agree with a five yearly review period and an annual adjustment.

PROCESS FOR DEVELOPING METHODOLOGY

Development of VCR measures that reflect the range of consumers, the range of geographic locations and the range of reliability measures will mean a very complex methodology. For this reason, we support the AER using the Rules Consultation Procedures. We also support the need for consultation with AEMO and the Reliability Panel.

Most importantly we believe there should be explicit reference to the need for extensive consumer consultation as the methodology is developed. Consumers are used to seeing other parties, such as networks, tell them how much reliability is worth. This AER process needs to engage directly with consumers in developing the methodology so that consumers have confidence in the process and the outcome. As part of this process we would support the AER setting up a Consumer Reference Group to provide input, along the model currently being used by the AER for the rate of return guideline review.

This specific consultation should not be seen as a reason to require a longer period to develop the values. COAG Energy Ministers have made clear their desire for a fast track process and, as we have seen in the current review of the rate of return guideline, major reviews can be expedited. We believe that the required consultation can be achieved to meet a 30th June 2019 date for publishing the first VCRs.

SUBSEQUENT PROCESS FOR REVIEWING AND UPDATING METHODOLOGY

We support the Commission's proposal to have a methodology review prior to each five-year update of the VCR values. We see a common consultation process on the reviews as we proposed above on determining the initial values – use of the Rules Consultation Procedure, AEMO, Reliability Panel and consumer representatives. Minor matters should be resolved outside of the Rules consultation process.

Additional issues for consultation

We agree with the Commission's proposal to publish the VCR estimates and methodology both when initially determined and when any updates or adjustments occur.

We agree with the proposed amendment to s 3.9.3A(e) (4) to replace AEMO with AER. We see no reason to have a differential rule for the Northern Territory.

Perhaps the most surprising aspect of the Commissions Consultation Paper is the absence of any discussion of how the new values will be applied across the electricity market. By this we mean – will the use of the new values be optional or mandatory? Yes, the Reliability Panel is covered but what about AEMO, state jurisdictional regulators and the networks?

The rule change application is silent on this, and it is unclear whether this is why the AEMC is silent. We would like to see:

- A commitment from AEMO that it will apply the AER VCR values in its work;
- A commitment from the jurisdictional regulators setting reliability standards that they will use the AER VCR values;
- The proposed new clause 8.12 to have a section that:
    - makes it mandatory for networks to apply the AER VCR values in their revenue reset proposals and in their evaluation of RiT-T, RiT-D and contingent project proposals;
    - but gives them the option of also proposing an alternative measure with the AER having the sole discretion of whether to accept this alternative measure.

As always, the EUAA would welcome further discussion and consultation on this matter.

Andrew Richards
Chief Executive Officer

6 June 2018