

7 June 2018

Jemena Electricity
Networks (Vic) Ltd
ABN 82 064 651 083

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Level 16, 567 Collins Street
Melbourne, VIC 3000
PO Box 16182
Melbourne, VIC 3000
T +61 3 9173 7000
F +61 3 9173 7516
www.jemena.com.au

Establishing values of customer reliability – Consultation paper, 10 May 2018 [ERC0231]

Jemena Electricity Networks (**JEN**) thanks the Australian Energy Market Commission (**AEMC**) for providing the opportunity to comment on the rule change request seeking to establish values of customer reliability (**VCR**).

Key messages

- JEN supports a rule change that assigns to the Australian Energy Regulator (**AER**) responsibility for establishing initial VCR methodology and VCR estimates and undertaking subsequent updates and reviews on an ongoing basis.
- A five yearly review period is an appropriate review cycle for updating VCRs and there should be an annual adjustment between periods. The annual adjustment is necessary between the five yearly VCR reviews to ensure it remains fit for purpose for regulatory determination process.
- The National Electricity Rules (**NER, Rules**) should provide an objective for the AER in calculating fit for purpose VCRs in the Rules, but not prescribe a VCR methodology. The VCR methodology is likely to be complex and not practical to prescribe it in the Rules.
- JEN supports 31 December 2019 as the appropriate date by which the AER must published the first estimated VCRs because based on AEMO's experience in reviewing the VCRs in 2014, the task is likely to take about 18 months.¹
- The AER should be required to follow the Rules consultation procedure when establishing the initial VCR methodology VCR estimates and subsequent updates and reviews.

JEN's responses to the questions posed in the consultation paper are set out in Attachment 1. If you have questions in relation to the submission, please contact Siva Moorthy on (03) 9173 8774 or at siva.moorthy@jemena.com.au.

Yours sincerely

[signed]

Matthew Serpell
Manager Asset Regulation and Strategy

¹ It took AEMO 20 months to review the VCR in 2014. AEMO's issues paper was released on 11 March 2013 and the final report was published on 28 November 2014.

Attachment 1

Question 1 - Responsibility for establishing VCRs

1.1 Is it important to have one national body responsible for establishing VCRs?

1.2 Is the AER the appropriate body to be responsible for updates to the VCR? If not, which body should be responsible for this task, and why?

Response:

1.1 – There should be one national body responsible for establishing VCRs. JEN supports assigning responsibility to the AER for establishing VCRs.

1.2 – AER should be required to review, update and publish a VCR methodology and VCR estimates across the National Electricity Market (**NEM**) on an ongoing basis to maintain consistency. Furthermore, we consider it would be useful for AER to publish a VCR application guidelines for network businesses.

Question 2 - Methodology

2.1 – Should the NER provide an objective for the AER in calculating VCRs? If so, should the objective be to calculate fit for purpose VCRs for the current and potential uses of VCRs? Are there any other objectives that should be explicitly stated?

2.2 – Should the NER guide the AER in determining the VCR methodology? If so, how?

2.3 – Should the NER guide the AER regarding the methodology for annual adjustments to VCR estimates? If so, how?

Response:

2.1 – The NER should provide an objective for the AER in calculating VCRs. That objective should be that VCRs are fit for purpose for the current and potential uses of VCRs.

2.2 – Specifying the identified uses of the VCRs (identified in section 1.2.3 of the consultation paper) in the NER would guide the AER in developing the VCR methodology.

2.3 – A rule guiding the AER to use an indexation methodology (escalation) for annual adjustments to VCR estimates, but not prescribe the indexation methodology. For the avoidance of doubt, we note that processes covering multiple years that utilise the VCR—most notably price resets investments and setting Service Target Performance Incentives (**STPIS**) incentive rates—are not changed annually when the VCR is updated.

Question 3 - Timing for first review

3.1 - Is 31 December 2019 the appropriate date for the AER to be required to have published the first estimated VCRs? If not, what should the date be?

Response:

3.1 – Establishing VCRs is a complex task and is likely to take about 18 months. When AEMO carried out a comprehensive review of the VCR methodology and estimates of VCR in 2014, it took AEMO 20 months.² Given this, JEN considers it possible to achieve the target date, albeit, quite a challenging timetable.

Question 4 - Timing of subsequent reviews and updates

² AEMO's issues paper was released on 11 March 2013 and the final report was published on 28 November 2014.

4.1 – Do stakeholders agree that a five yearly review period is an appropriate review cycle for updating VCRs?

4.2 – Is an annual adjustment of VCR required?

Response:

4.1 – JEN agrees a five yearly review period is an appropriate review cycle for updating VCRs as long as there is an annual adjustment between periods.

4.2 – An annual adjustment is necessary between the five yearly VCR reviews to ensure it remains fit for purpose for regulatory determination process, given five yearly determinations for network businesses are spread out between the five yearly VCR review period.

Question 5 - Initial process

5.1 - Should the AER be required to consult with specific parties when determining the methodology for the initial estimation of VCRs? If so, who?

5.2 – Should the AER be required to follow the Rules consultation procedures in developing the VCR methodology?

Response:

5.1 – When determining the VCR methodology for the *initial* estimation of VCRs, the AER should be required to specifically consult with AEMO given their experience in the comprehensive review of the VCR in 2014; and the Reliability Panel because it is required to have regard of the VCR under the NER.

5.2 – The AER should be required to follow the Rules consultation procedures in developing the initial VCR methodology so that all other stakeholders can contribute to the development of the of the VCR methodology and estimates of VCR values.

Question 6 - subsequent review process

6.1 - Should the AER be required to follow the Rules consultation procedure for updates to VCR methodology?

6.2 – Should the AER be required to consult with specific parties when reviewing and updating the methodology? If so, who?

6.3 - If the Rules consultation procedures are to be followed for updates to VCR methodology, is it reasonable for minor or administrative amendments to be made outside of the Rules consultation procedures?

6.4 - Should subsequent reviews take into account the previously determined methodology?

6.5 – Is it appropriate for reviews of the methodology to occur on a five yearly basis? If not, what would be an appropriate review cycle?

Response:

6.1 – The AER should be required to follow the Rules consultation procedure for updates to VCR methodology, except where the updates are minor or administrative in nature.

6.2 – The AER should be required to specifically consult with the Reliability Panel when reviewing and updating the methodology because of the Reliability Panel's obligation to have regard of the VCR under the NER. Network businesses and AEMO can contribute to the updates and reviews through the Rules consultation process.

6.3 – Yes, this is consistent with the powers available to the AEMC for updating the NER.

6.4 – It is appropriate to take into account the previously determined methodology for subsequent updates and reviews as it adds stability and consistency to the VCRs.

6.5 – Refer to our responses 4.1 and 4.2.

Question 6 - publication requirements

6.1 – Should the AER be required to publish estimates and the methodology, both when initially determined and when any updates or adjustments occur?

Response:

6.1 JEN considers it is important to require the AER publish the VCR estimates and methodology, both when initially determined and when any updates or adjustments occur.

Question 7 - amendment s.3.9.3(A)(e)(4)

7.1 – Should clause s3.9.3A(e)(4) be amended to replace AEMO with the AER?

Response:

7.1 – The current reference to AEMO as the party responsible for the development of VCR needs to be amended to replace AEMO with the AER. We consider that there should be a single body that has coverage across the NEM responsible for establishing, reviewing, updating and publishing a VCR methodology and VCR estimates.

Similarly, VCR related references to AEMO in the Regulatory Information Test (**RIT**)-D guidelines should also be amended to refer to the AER, and that the AER's VCR must be used in undertaking RITs, noting that the RIT-D guidelines only refer to AEMO's VCR as a possible source of VCR.

Question 8 - issues specific to the Northern Territory

8.1 – Is a differential rule required in the Northern Territory? If so, in relation to which parts of the indicative rule and why?

Response:

8.1 We have no comment on this matter.