



meridian

Meridian Energy Australia Pty Ltd
Level 15, 357 Collins Street
Melbourne VIC 3000

7 June 2018

Alisa Toomey
Australian Energy Market Commission

Project number: ERC0231

Dear Alisa

Establishing Values of Customer Reliability

Meridian Energy Australia Pty Ltd and Powershop Australia Pty Ltd (**MEA Group**) thank the AEMC for the opportunity to provide comments in relation to this rule change which proposes that the AER assume responsibility for establishing values of customer reliability.

MEA Group is the owner and operator of the Mt Mercer and Mt Millar Wind Farms, the Hume, Burrinjuck and Keepit hydroelectric power stations. MEA Group also owns and operates Powershop Australia, an innovative retailer committed to providing lower prices for consumers which recognizes the benefits for consumers of a transition to a more renewable based and distributed energy system. MEA Group is an active investor in the NEM, having recently purchased the Hume, Burrinjuck and Keepit hydro power stations, as well as entering into long term offtake agreements with the Kiamal Solar Farm stage 1, the Crudine Ridge Wind Farm and the Salt Creek Wind Farm.

MEA Group considers that the determination of accurate assessments of the value that customers place on reliability to be a critical factor in ensuring that customers receive safe, secure and reliable power at an affordable price.

MEA Group's specific responses to the questions proposed in the Commissions consultation paper are set out in the table below.

Question	Response
Question 1 - Responsibility for establishing VCRs	
1.1 Is it important to have one national body responsible for establishing VCRs?	MEA Group believes that it is important that decision making in the National Electricity Market is supported by a consistent approach to measuring the Value of Customer Reliability. This can be achieved by allocating the responsibility to one body (whether AER, AEMO or the Reliability Panel) or developing consistent guidelines to be applied by each relevant body.
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?	While an accurate assessment of the Value of Customer Reliability is a critical input to the AER's regulatory framework for regulated network businesses it is not the only important use. The Reliability Panel is also a key user of this data. There

Question	Response
	<p>could be value in assigning this role to the Reliability Panel as it has an overall market responsibility for reliability (the value being measured), it is the representative of all market participants and has experience in assessing and setting equivalent measures as part of the Reliability Standard and Settings Reviews.</p>
Question 2 - Methodology	
<p>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?</p>	<p>There needs to be a clear objective. The objective should include being 'fit for purpose' and particularly include an obligation to ensure that the VCR's, and the data that support it, are a genuine estimate of the value customers place on reliability and take into account the fact that different customers, and customer classes may place different values on reliability and that these values may differ on a temporal and geographic basis.</p>
<p>2.2 Should the NER guide the AER in determining the VCR methodology? If so, how?</p>	<p>The NER should provide that the decision maker must utilise methodologies likely to produce an accurate assessment of the value truly placed on reliability and preference should be given to empirical data and methods that assess that value (and expenditure on maintaining reliability) against alternative use of funds.</p> <p>Customers may willingly suggest that a reliability number is appropriate for them but when that number is translated into a per customer price increase or a total market investment requirement they are often less supportive.</p> <p>As VCR will be a key factor in driving the level of investment in the NEM (whether in network investment, wholesale market costs and/or reliability interventions) an important part of the assessment should be a consideration of the social utility of such investment against other alternatives including hospitals, education, reducing congestion etc.</p>
<p>2.3 Should the NER guide the AER regarding the methodology for annual adjustments to VCR estimates? If so, how?</p>	<p>The annual adjustment should be determined by the decision maker on a basis that provides certainty, simplicity and predictability while not undermining the core requirement to be an accurate assessment of the underlying value placed by customers on reliability.</p>
Question 3 - Timing for first review	
<p>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?</p>	<p>A first review by 31 December 2019 seems appropriate considering the significant work required to be undertaken to ensure that a robust methodology is developed and implemented with appropriate consultation.</p>
Question 4 - Timing of subsequent reviews and updates	

Question	Response
4.1 Do stakeholders agree that a five yearly review period is an appropriate review cycle for updating VCRs?	<p>A five yearly review may be too long as customer preferences may change substantially in that timeframe. While alignment with the AER's timeframes for some of its regulatory review is superficially attractive, the benefits are illusory when it is considered that there are major parts of the market with different regulatory periods. The VCR is also a key input into the Reliability Standards and Settings Review which occurs on a four year cycle.</p> <p>Adopting a five year cycle could result in reliability reviews (and AER regulatory determinations) being undertaken without access to new accurate data and in some cases making decisions that will apply at a time when the data supporting them is over 10 years out of date.</p> <p>A more regular update schedule (every two or three years) could mitigate this issue.</p>
4.2 Is an annual adjustment of the VCR required?	<p>If there is to be a five year period between assessments then some form of annual adjustment will be required.</p>
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?	<p>The decision maker should be required to consult widely on this issue. They should particularly consult with bodies who rely on this data to make decisions as required by the rules (e.g. Reliability Panel, AEMO). Particular attention should be paid to ensuring that the wider community, customers and their representatives are aware of this consultation and are advised of its significance and its potential to significantly impact on not only reliability but also the cost of the provision of electricity services.</p>
5.2 Should the AER be required to follow the Rules consultation procedures in developing the VCR methodology?	<p>Compliance by the decision maker with the Rules consultation procedures should be a minimum acceptable standard. Those procedures are designed to ensure that all market participants and interested parties are aware of, and have an opportunity to participate in, the consultation. As expressed above this methodology is likely to be significantly more important to the community and customers (and more likely to be of direct interest to them) than more arcane technical industry matters (like causer pays methodologies, MLFs etc.) which are currently subject to rule consultation obligations. If anything, an enhanced obligation to consult and inform the wider community should be imposed on the decision maker.</p>
Question 6 - subsequent review process	
6.1 Should the AER be required to follow the Rules consultation procedure for updates to VCR	<p>As discussed above, considering the importance of this matter to the community and customers more generally, we believe the decision maker should be</p>

Question	Response
methodology?	subject to enhanced consultation obligations.
6.2 Should the AER be required to consult with specific parties when reviewing and updating the methodology? If so, who?	The answer we provided at 5.1 above would also apply to this question.
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?	Genuine minor or administrative amendments could reasonably be made outside of a full Rules consultation procedure but the decision maker should attempt to ensure that some appropriate consultation is undertaken even in these cases.
6.4 Should subsequent reviews take into account the previously determined methodology?	Ideally, the methodology should, overtime become a consistent base upon which VCR assessments are made with changes occurring only to reflect availability of improvements in assessment techniques and or changes in market or customer conditions.
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?	Yes, although consideration might need to be given to an earlier review after the first application of the methodology, as often issues of methodology are not identified until they are first applied.
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?	Yes, given the important role that VCR plays in ensuring that investment is appropriate, transparency by the decision maker is critical.
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?	The clause should be amended to replace the reference to AEMO with the body the AEMC determines in response to the question 1.2.
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?	As MEA group does not operate in the Northern Territory we have no response to this question.

If you have any further questions please feel free to contact me.

Yours sincerely



Ed Manus

CEO

Meridian Energy Australia Pty Ltd