

24 May 2019

Mr George Huang
Director, Policy and Performance
Australian Energy Regulator
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Consultation Update Paper – Value of Customer Reliability

Dear George,

Energy Networks Australia welcomes the opportunity to provide feedback to the Australian Energy Regulator (AER) on the Consultation Update Paper, Value of Customer Reliability (VCR).

Energy Networks Australia is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

Energy Networks Australia supports the AER's work on the development of a consistent and robust VCR methodology that delivers consistent and stable VCR estimates, this is essential to facilitate efficient network capital expenditure.

It is critical that the VCR methodology and its application deliver clarity for all stakeholders and that VCRs are fit for purpose – that is, they must provide granularity to account for different customer segments, outage types, and locations.

Standard outages

For standard outages, Energy Networks Australia agrees that the survey approach is appropriate and meets the assessment criteria. However, for survey results to be meaningful, it is important that the survey sample size is sufficiently large and that it is diverse to account for different segments (i.e. customer segments, outage types, and locations).

It is also important to get the survey design right. This is especially true for contingent valuation questions, as poorly worded survey questions may lead to issues such as anchoring bias. Energy Networks Australia supports the AER's approach to apply

open-ended willingness to pay questions with no cost prompt, as this will remove the anchoring bias and lead to more meaningful result. Energy Networks Australia also agrees with the AER's suggestion that the use of a preamble will also assist participants to better understand and answer open-ended questions.

Confidence interval

There is a need to focus on the confidence interval of the final VCR estimates. One issue that has not been discussed to date is the confidence interval that the AER is targeting to achieve for its final VCR estimates. Network service providers (NSPs) will need to apply the final VCR estimates to economic evaluations that include sensitivity analysis and, as such, having costs and benefits that have broadly consistent confidence intervals with those applied by NSPs will lead to more predictable and consistent analysis. Improving consistency in confidence intervals applied by NSPs in planning process and the AER in its VCR estimates will help the AER's assessment of efficiency of network expenditure. Alternatively, having VCR values with large confidence interval will result in volatility and less certainty in the interpretation of the analysis.

Adjustment Factors

The AER has raised the potential approaches for an annual adjustment factor for VCR values. While it is important to develop a good understanding on the drivers that underpin the annual adjustment factor, the year to year changes in VCR are a secondary order issue, as it is less influential in the outcomes of the analysis.

If the Consumer Price Index (CPI) is used as the point of reference, an alternative index will most likely only be marginally higher or lower in comparison, especially once the discount rate on cash flows is factored into the analysis. As such, it is unlikely the annual adjustment to VCR values would significantly influence the outcome of an economic evaluation. For this reason Energy Network Australia recommends that the AER prioritises its efforts on delivering robust and transparent VCR estimates with reasonable confidence intervals, with less focus spent on alternatives approaches to CPI as the annual adjustment factor.

Energy Networks Australia also notes that the Rules require the AER to review the VCR methodology at least once every five years, including in accordance with the Rules consultation procedure. This provides the opportunity for improvements to be made on the adjustment factor selected in this inaugural VCR review.

Business customer segmentation

Energy Networks Australia notes that the AER has proposed segmenting business customers by energy consumption. This segmentation may provide useful input into the network planning process as the level of dependency on electricity for daily business operations is likely to create significant divides across business customer VCR values. As such, Energy Network Australia supports segmenting business customers by energy consumption where sample size permits.

Direct cost survey customer segmentation

For transmission direct connected customers Energy Networks Australia supports customer segmentation by relevant business sectors that reflect the nature of TNSPs' customer bases. Relevant business sectors would be mining, metal/mineral processing and wood/paper manufacturing consistent with Australian Energy Market Operator's (AEMO) approach. Having a few high level categories may be able to overcome some of the commercially sensitive information concerns.

A similar approach may be a practical for large industrial customers by region on the distribution network. Energy Networks Australia notes that the AER may use ANZSIC codes for business customers connected to the distribution network. Energy Networks Australia understand that distributors may not have up to date ANZSIC codes against business connection points in their systems. The AER should collect this information as part of the survey to business customers.

The AER proposed segmentation of ANZSIC business sectors by climate zone and remoteness may provide an option for distributors to use the information in network planning, depending on the network project and the availability of ANZSIC data to that particular distributor. Energy Networks Australia considers that segmentation by location may be sufficient to cover climate zone and remoteness.

The AER have stated that they will use the same direct cost survey technique for direct connected and large industrial customers, the survey will be an updated and simplified version of the AEMO 2014 survey. Energy Networks Australia members would like to review and provide feedback on the direct cost survey before it is issued to their customers given the updates to account for changes in industry over time.

Direct cost survey approach to customers

Energy Networks Australia understands that AER may be considering a large customer threshold around 10MVA for distribution connected customers and this may provide a reasonable sample size from which to determine VCR's. Energy Networks Australia understands that VCR's will also be determined for the NT. For smaller regions such as the NT, the AER may need to consider a slightly lower threshold to be able to get a reasonable sample size.

Given the volume of direct connected customers on the transmission network is low, transmission networks are willing to send the VCR survey process on behalf of the AER. In relation to large distribution customers, the threshold that AER may determine will establish the volume of customers to be engaged on the direct cost survey approach. Mindful that customer contact details, emails would be considered confidential information, Energy Networks Australia distribution members welcome the opportunity to discuss their role in getting distribution customers to register their interest to participate in the VCR survey with the AER.

Non-Standard Outages

Energy Networks Australia supports the AERs approach to develop a methodology for long duration, widespread, and high impact low probability (HILP) type events.

Energy Networks Australia looks forward to further engagement with the AER via the Value of Customer Reliability Consultative Committee (VCRCC) and HILP sub-Committee, and clarification of the HILP methodology and the transmission scenarios in the August Draft Decision. A consistent approach would be beneficial for declaration of protected events and regulatory investment tests.

Energy Networks Australia looks forward to learning more of the AER's proposed approach as it develops, particularly in relation to momentary outages and widespread and long duration outages (including HILP events), and engaging with the AER further on this aspect.

Should you have any queries on this response please feel free to contact Verity Watson, vwatson@energynetworks.com.au.

Yours sincerely,

A handwritten signature in blue ink that reads "Andrew Dillon".

Andrew Dillon

Chief Executive Officer