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Ms Suzanne Falvi
Executive General Manager, Security and Reliability
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Attention Mr Ben Davis

Reference code: ERC0231

Dear Suzanne

Consultation Paper on Establishing Values of Customer Reliability

AusNet Services welcomes the opportunity to make this submission to the Commission's Consultation Paper on the COAG Energy Council's rule change request to make the AER responsible for calculating and updating values of customer reliability (VCR).

VCR is a key input into network planning and investment decision making. The updating of values of VCR has been not been systematic, and we accordingly support the formalisation in the National Electricity Rules (NER).

Our submission responds to each of the questions posed by the Commission in the Consultation Paper.

Responsibility for establishing VCRs

We support a single body being responsible for maintaining VCR values. There would be no reason for different approaches to be applied to determining VCR values, and the appointment of a single body would best facilitate on-going engagement by stakeholders in the development and advancement of a fit for purpose approach.

COAG Energy Council proposes the AER as the responsible body. AusNet Services considers the AER to be an appropriate body to perform this duty.

However, whilst the AER and NSPs are key users of VCR values, it is not necessary that the AER set VCR. Fundamentally VCR represents the service level expectations of the network's customers (consumers) and hence is a network service planning parameter. Given its national planning functions, experience and independence, AEMO is also well placed to perform this duty.

Methodology

We support the Rules including an objective for the responsible body in calculating VCRs, and the objective proposed in the Consultation Paper, i.e. to calculate fit for purpose VCRs for the current and potential uses of VCRs. The NER does not specify all uses however, and care must be taken in formulating the rule to ensure that the term 'uses' is not confined to those directly specified in the NER.

The Rules should not prescribe methodology, but should prescribe that the responsible body should develop and document its methodology and review the outworking of the methodology, including of preliminary results, in consultation with stakeholders. The methodology should be reviewed (confirmed) against the objective in advance of each 5 yearly update, again in consultation with stakeholders.

It is unclear what the purpose of annual adjustments would be. If this is for the purpose of escalation, then the Rules should identify this purpose, and further guidance covered as proposed above. However, an annual adjustment may have more significant implications, as discussed below in the section ‘Timing of subsequent reviews and updates’.

Timing for first review

Experience is that VCR methodology development and confirming robustness is complex, and hence time consuming. An earlier date would be unlikely to result in robust outcomes that could be applied with confidence. We support Dec 2019 as the earliest possible timing.

We note that for Victoria this will occur in the midst of the AER review of our Electricity Distribution Regulatory Submission, and expenditure forecasts submitted into the review will precede the publication of new values. Whilst switching to updated VCRs at this point in the process is not ideal, it would be in the interests of consumers for updated values to be applied, especially given the transformation occurring in the energy sector, including consumer participation, and with VCR values having been last calculated in 2014.

Certainty of process for the Victorian DNSPs can be provided through the AERs Framework and Approach process at the commencement of the Electricity Distribution Price Review (EDPR).

Timing of subsequent reviews and updates

As noted above, the methodology should be confirmed on a 5 yearly basis. However, the issue identified for the forthcoming Victorian EDPR process highlights that there is a need to integrate VCRs into NSP planning cycles. This is particularly important for jurisdictions which rely on VCRs as the critical planning reference (i.e. there are no defined reliability standards).

If a 5 yearly update is a NEM wide update, which appears to be the intention, the update timing will not align with NSP revenue reviews and will always fall at the same point in the Victorian EDPR process. Alternatives to this approach would be to either repeat the calculation on an annual basis, or to align periodic jurisdiction specific VCR reviews with each NSP’s revenue reviews. It is noted that both alternatives require annual (or thereabouts) full VCR review processes to be run.

Therefore, it may be most efficient and effective to run the survey and determine VCR values in full annually across the NEM. This would ensure fit for purpose VCRs for each revenue review. It would also provide the data necessary to develop an averaging approach to VCR setting. This is important, since in theory VCR is not a volatile parameter, yet due to the vagaries of survey there is some likelihood of such an outcome. Volatile VCRs would not be fit for purpose. Application of fluctuating VCR would not be a reflection of customer expectations for service provision over the long run.

While the VCR should be reasonably stable, you could expect slow trends to be evident as the mix of technologies changes customer preferences for reliability. Any emerging trend should be accommodated in investment decision-making. Annual updates would provide information to separate ongoing trends from volatility arising from the survey method.

In conclusion, we recommend that the Commission determine whether there is cost benefit in running the VCR survey and updating VCRs on an annual basis.

We would be pleased to support the Commission’s review and respond to any queries you may have on our submission. Please do not hesitate to contact Michael Larkin, Senior Regulatory Economist, or the undersigned, if we can provide further assistance.

Yours sincerely,

Kelvin Gebert
Manager Regulatory Frameworks