6 June 2018

Ms Alisa Toomey
Australian Energy Market Commission
Level 6, 201 Elizabeth Street
Sydney NSW 2000

Dear Ms Toomey

**Establishing values of customer reliability**

Thank you for the opportunity to provide a submission on the Australian Energy Market Commission's (**AEMC**) proposed rule change on establishing values of customer reliability (**VCR**). We support formalising the process for updating the VCRs. In summary:

- We support establishing the Australian Energy Regulator (**AER**) as the responsible party for estimating VCRs.
- VCRs should be updated prior to the start of each jurisdiction's regulatory determination process.
- VCRs should reflect customers' long term view of reliability.
- The AER should consult on the VCR estimation process and values, not only on the methodology.
- The AER should be required to consider estimating time varying VCRs.

These points are discussed in more detail below.

We welcome the opportunity to discuss this letter with the AEMC. Please contact Frans Jungerth on 03 9683 2022 or fjungerth@powercor.com.au if you have any questions.

Yours sincerely

**Brent Cleeve**
**Head of Regulation**
**CitiPower, Powercor & United Energy**

# 1 The VCR should be updated prior to the start of each jurisdiction's regulatory determination process

The AEMC proposes that the VCR be updated by 31 December 2019. This falls between Victorian distributors' regulatory proposal submission (July 2019) and the revised regulatory proposal (June 2020). As we experienced in the 2016–2020 determination process, where the VCR was similarly updated between submissions, this is problematic because:

- We are only afforded six months to review and update capital investment plans that underpin investment over a five year horizon.
- We will have consulted on and sought support for our capital investment plan with our customers and customer groups based on the prevailing VCR. There will be insufficient time to properly consult with stakeholders on the changes.
- We will have consulted and sought support from our customers and customer groups for the level of reliability we will deliver to them. There will be insufficient time to properly consult with stakeholders on the changes.
- When VCRs increase, the make-up, timing or size of the capital investment plan may change. It is unclear whether the AER would allow new projects to be included in the revised proposal, particularly if it had accepted a distributor's draft capital investment plan.
- Even if distributors may propose new projects in their revised proposals, they would not have a prescribed opportunity to respond to any concerns raised by the AER because the AER's next decision would be its final. This is inconsistent with the regulatory determination process set out in Part E of the National Electricity Rules and with the intent of the consultation procedures, both of which provide an opportunity to respond to AER proposals.

Given the AEMC proposes the VCR to be updated every five years, which is the same cycle as our regulatory determination, Victorian distributors would be required to manage these issues at every regulatory determination.

There is no clear way to avoid these issues for Victoria's upcoming determination. Therefore the AEMC's rules should specify:

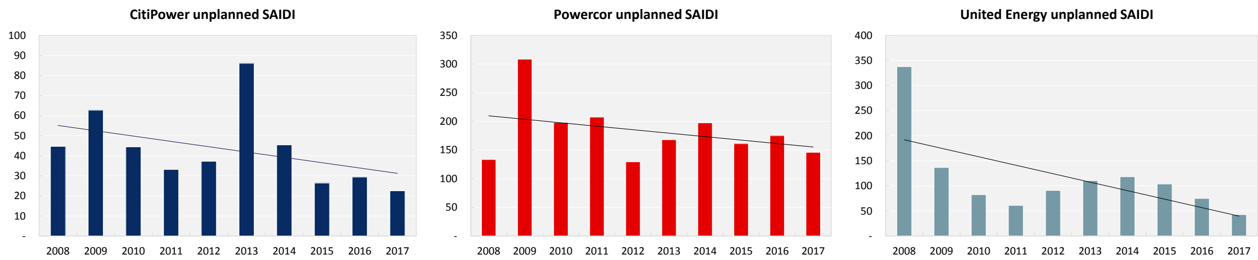
- For future VCR reviews (i.e. other than the first), the AER must determine each jurisdiction's VCRs one year prior to the initial regulatory proposal being due, or
- The AER must update the VCR every six years so that Victorian distributors do not face these issues at every regulatory determination. Rather, the each jurisdiction would need to accommodate these problems over time.

# 2 The VCR should reflect customers' long term view of reliability

The VCR underpins long term network planning decision making and therefore needs to reflect customers' long term view of reliability.

Over the past 10 years Victorian customers have experienced improving levels of reliability as shown by the System Average Interruption Duration Index (**SAIDI**) below.

Figure 1 Unplanned SAIDI




The well accepted 'recency' bias means people are likely to weight recent events more than other events.[1] Customers that have not recently experienced significant outages are unlikely to recall or place much weight on the impact of past outages. As a result of this bias, VCRs may not always reflect customers' long term view/value of reliability. This is likely to have contributed to the significant reduction in VCRs during the last update, which was in the order of 40% in some cases.

Such volatility can have significant impacts on network planning decisions. VCR reductions lead to lower levels of capital investments, which may then be difficult to reverse should VCRs subsequently increase. Given the network planning is based on a long term view (i.e. a minimum of 10 years), the VCR should reflect customers' long term views rather than their most recent experiences.

The rule should require that in determining the VCR methodology:

- The AER must have regard to recent survey results in other jurisdictions (in accordance with our proposal that VCRs are calculated before each jurisdictions' determination process), or past survey results. In so doing the VCR is more likely to reflect customers' underlying value of reliability, or
- Cap the amount by which VCRs change to ±20% of the previously estimated value.

## 3 The AER should consult on the VCR estimation process and values

The proposed rule requires the AER to consult on the development of the VCR methodology. The rule should also require the AER to consult on the VCR estimation process and values.

While the VCR methodology will be consulted on, details of how surveys are conducted and how the VCR is calculated may still vary, which can lead to different outcomes. It is important the AER publish, each time the VCR is revised, information on the estimation process (e.g. survey questions and results) and undertake consultation so that the estimation process and results are transparent and can be reviewed.The AER may not, for example, receive a statistically significant number of responses to all survey questions. In such cases, stakeholders should have an opportunity to present independent evidence to support a VCR value.

## 4 Regard should be given to time varying VCRs

We support the AEMC's proposed rule that when developing the VCR methodology, the AER must have regard to the range of geographic locations of retail customers in each network.

We consider the rule should also require consideration of time variations (e.g. time of day or season) in the VCR. For example, customers are likely to value reliability more highly on a hot day when they are using their air conditioner than during the night. It may be appropriate to apply a higher VCR to capital investments required to

[1] Predictocracy: Market Mechanisms for Public and Private Decision Making, Michael Abramowicz, Yale University Press, 2007, p. 20.

increase network capacity at peak times than investments undertaken to replace aging equipment that could fail at any time. Additionally, peak demand increases significantly at popular coastal areas in summer but the energy at risk over the year may not justify an augmentation. If demand management solutions are not feasible, it may be appropriate to apply a seasonal VCR to recognise the significant impact of outages during the summer period. The final decision on whether to estimate such VCRs would rest with the AER in consultation with stakeholders.