

Mr Matt Zema
Chief Executive Officer
Australian Energy Market Operator
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23 April 2013

Value of Customer Reliability Issues Paper

Dear Mr Zema

The Energy Networks Association (ENA) welcomes the opportunity to respond to the Australian Energy Market Operator's (AEMO) Value of Customer Reliability (VCR) Issues Paper (the Issues Paper), released on 11 March 2013.

ENA is the national industry association representing the businesses operating Australia's electricity and gas transmission and distribution networks. Member businesses provide energy to virtually every household and business in Australia.

At the outset ENA acknowledges the critical and ongoing role of AEMO in determining values and applications of VCRs in Victoria and their industry engagement in this process. It is in recognition of this responsibility that the Standing Council of Australian Governments (SCER) has requested that AEMO participate in leading this aspect of reliability framework development at the national level.

In our view the question posed in the Issues Paper of how VCRs should be determined, calculated and applied is significant to the future of the electricity network sector. For example, measures of VCRs are likely to become increasingly important to networks because of their application to regulatory investment tests for transmission networks (RIT-T) and for distribution businesses under the RIT-D as well as under the proposed nationally consistent framework for transmission and distribution reliability being considered by the Standing Council of Energy and Resources Ministers (SCER).

The AEMO process is therefore an opportunity, at a critical time in the development of national reliability reforms, to strengthen the methodology used to estimate VCRs to improve the outcomes and to build the confidence of all stakeholders in them.

Grid Australia has made its own submission on behalf of Australia's transmission businesses. ENA supports Grid Australia's view that there is a need to distinguish between individual costs and the broader social value of reliability of supply, and that the VCRs reported for distribution and transmission networks may be different, because the impacts vary depending on the source of the interruption.

The remainder of this ENA submission focusses on the wider perspective of the distribution business members in the context of the SCER agenda on energy market reforms, noting that a number of individual distribution businesses have made detailed and specific submissions on the matters raised in the Issues Paper.

ENA general position

It is important for AEMO to consider whether its commitment to calculating new VCRs for the NEM by December 2013 completely aligns with the SCER directions and intentions arising from their December 2012 meeting. Under the terms of reference for the national review of distribution reliability, SCER has directed the Australian Energy Market Commission (AEMC), to work with AEMO and in consultation with jurisdictions to:

‘develop an appropriate mechanism for measuring and updating the value customers place on reliability, which takes into account an appropriate range of customer types and geographical and demographic differences’¹.

The tight timeframe imposed by AEMO to not only develop a mechanism but to calculate new VCRs, will, in ENA’s view, work against achieving SCER’s wider objective of determining a methodology that is appropriate now and into the future. Therefore, AEMO should consider the merits of deferring the calculation of any VCRs to beyond 2013.

Instead of the process in the Issues Paper, ENA requests that AEMO consider working through the SCER process together with the AEMC and in collaboration with state and territory jurisdictions and the transmission and distributions businesses. This process would develop a methodology for measuring and updating the VCRs alongside the development of SCER’s proposed reforms for network reliability. The SCER directed process could also include consideration of the best approach for distribution businesses to meet the requirement under RIT-D to develop “reasonable forecasts of the value of electricity to consumers.”

Over and above our concern with the Issues Paper process, there are specific matters relating to the methodology and measurement of VCRs that reinforce our view that a longer, more collaborative process than AEMO envisages is necessary to achieve SCER’s objectives.

Methodology

The measurement of VCRs can be subject both to uncertainty and measurement error, because VCR cannot be measured directly. The range of outcomes for past measures of regional VCRs shows considerable uncertainty, inconsistency over time and imprecision in the estimates. If greater reliance in decision making about networks in future is to be placed on the estimated values of VCR, it is important that these fundamental limitations are addressed.

The appropriate methodology for determining VCRs must be fit-for-purpose, recognising the weight that policy reforms and consumer expectations will place on robust and accurate VCRs.

To be fit-for-purpose the methodology must be able to be applied at different levels of disaggregation and to correspond to variations in experiences of different types of customers and local conditions. It could be the case that up to 16 VCRs (a 4x4 matrix of feeder types and customer sectors) across each of the distribution businesses will need to be estimated. Unless VCRs are sufficiently disaggregated (that is, there is a high level of granularity) the use of NEM wide or regional VCRs could significantly distort the pattern of network investment by distribution businesses with an adverse impact on reliability performance, and customers needs.

¹ SCER, Terms of Reference to the AEMC, National Reliability Framework and Methodology, page 7

For consumers to have confidence in the measures of VCRs and in their application to distribution businesses, the method for selecting the methodology should be well informed, soundly based and transparent. A comprehensive literature review and consideration of the evidence from international experience would also benefit the process. For example, regulators in both the United Kingdom and New Zealand have undertaken relevant studies in relation to the value consumers place on changes in reliability.

While it is likely that survey based approaches may be more appropriate, ultimately the selection of the most appropriate methodology for estimating a set of NEM VCRs must be made on the basis of a thorough and transparent cost-benefit analysis.

Measurement

The process should also consider what expertise and resourcing is required for the robust calculation of VCRs across the NEM. Given SCER's terms of reference, and the complexity inherent in establishing robust VCRs for the NEM, ENA considers that AEMO would benefit from engaging with specialists in these valuations at an early stage in the process. For example, AEMO could engage the Australian Bureau of Statistics (ABS) on survey administration given its undoubted expertise in this area and consult academic experts on the development of the survey instruments and data analysis.

Conclusion

ENA supports the development of a set of VCRs for the NEM, for both transmission and distribution businesses and that stakeholders' views, including consumers, are taken into account in the process of establishing the appropriate mechanism for measuring and updating VCRs.

Distribution businesses present a significantly more complex methodological challenge given the range of customer and feeder types and the number of distribution businesses relative to transmission businesses.

ENA recognises that there are significant costs in undertaking the necessarily large sample size surveys and that the subsequent analysis of data is resource intensive, particularly when compared with the relatively low cost of the limited number of VCRs calculated in the past.

However, the costs of taking a best practice, robust statistical approach to the future measurement of VCRs is significantly less (in the order of \$millions) than the costs of basing reliability and investment decision on sub-standard estimates.

Yours sincerely

Bill Nagle

Acting Chief Executive Officer