VCRCC Meeting Minutes

Date of Meeting: **28 November 2018**
Location: **Parliament room, level 5, Casselden place, 2 Lonsdale Street, Melbourne**
Time: **10:30 to 15:30**

Attendees: Committee members: Matthew Webb (ENA), Rowan McKeown (ESCOSA), Tom Walker (alternate for Robert Pyrdon) (AEMC),Tom Hallam (ENA), Alicia Webb (AEMO), Craig Memery (PIAC),Duncan MacKinnon (AEC), Mike Smart (IPART), Andrew Richards (EUAA), Lynne Gallagher (ECA), Kimberlee McKay (UC NT), Jeremy Cross (ERAWA), Annette Weier (ICRC), Dean Burgess (OTTER), Aaron Yuen (ESC), Chris Murphy (Reliability panel), Trevor Armstrong (Reliability panel), Gavin Dufty (Reliability panel)

AER staff: Mark Feather, Paul Dunn, George Huang, Ingrid Michel, Jimmy Criticos, Betty Lehman, Anthony Seipolt, Su Wu.

AER consultants: Terry Jones (MEI), Michael Brear (MEI)

1. Welcome and introductions & Brief history

George Huang welcomed Committee members (Members)

Committee members, AER staff and Melbourne Energy Institute (MEI) representatives introduced themselves.

Mark Feather gave a presentation on:

- the AEMC rule changes which gives AER responsibility to determine VCR

- key points from AEMO's previous VCR review

- emerging issues in the energy market

- a high level summary of submissions received in response to AER Value of Customer Reliability consultation paper, October 2018.

Members commented:

- the prospective take up of storage and load control are substitutes to reliability and likely to have a bigger impact on VCR than the uptake of solar PV

- the AER process is an opportunity to make an enduring fit for purpose VCR

- it is important to ensure that community voices are heard in this review

- need to understand changes in technology and consumer behaviour.

Paul Dunn noted the AER intended this to be an open consultation process with maximum opportunity for all to contribute, including the Committee members, the public and all other stakeholders. The AER will also conduct public forums to allow others to participate. We are also open to co-opting other parties if the Members identified a specific stakeholder group which should be consulted.

2. **VCR Consultative Committee – Objectives and Approach**

George Huang discussed the Committee's roles, objectives and terms of reference.

Members agreed to the terms of reference, subject to inclusion of consideration of new technology (such as solar PV and/or battery) on customer reliability preferences.

ACTION item: *AER will update the terms of reference*

3. **Discussion Topics**

Paul Dunn gave an overview of the VCR project including:
- AEMC rule change and VCR objective
- VCR Team
- Progress to date

3.1 Jimmy Criticos gave an overview on the application of VCR – current uses and potential uses.

Following the presentation, Members:
- Queried whether the reliability standard and the VCR are co-dependent. If so, would a change in the reliability standard mean the VCR would need to change?
- Noted that if the VCR was more granular it would fit more neatly to different uses.
- Discussed using VCR in the wholesale market and queried what level of granularity would be needed if VCR has a more prominent role in the wholesale sector?
- Agreed that VCR should be fit for purpose for its primary use – asset management / planning. Once the VCR is fit for its primary purpose the AER should can then examine how it can be applied to other potential uses.
- Noted that networks know more about customers now and customers want this knowledge to be used.
- Noted $/kWh may not be suitable for all outage characteristics and may need to consider other ways to measure VCR for outage scenarios such as momentary outages.
- Discussed whether we should try to better understand the impacts of the worst served customers, particularly to understand how low reliability customers value reliability.
- Suggested that VCR could be used in a RERT arrangement.
- Suggested to derive VCR values and then extrapolate the customer cost curves of VCR. Bookend curves with upper and lower bounds and provide guidance on how to use.
- Commented that it would be useful to provide a guide for VCR. Paul noted it is our intention to produce an application guide separate to the methodology. Any such application guide would not likely be binding. Some members considered it would be worth considering submitting a rule change to make any AER guideline on VCR application binding.
- Paul noted that the AER is a determining body on disputes involving the uses of VCR.

ACTION item: : *Network representatives in the VCRCC to provide more input on how they use VCR and could use VCR – would information on momentary outages be useful and how would information on long duration widespread outages be used?*

3.2 Ingrid Michel gave an overview on staff views on methodologies to determine VCR.

In summary, following the presentation members:

- Noted that the way a survey is conducted can lead to different responses from survey respondents and overall survey results. For example, it was proposed that the AER could hold deliberative forums. This way the customer is more informed and better able to provide responses to survey questions, particularly when compared to responses obtained via online panels.
- Suggested the AER follows its consumer engagement guidelines throughout the VCR review.
- Values derived through a deliberative forum could act as check against survey results.
- Other potential checks against survey results are GSL payments.
- It was noted that in the case of high rise buildings, the organisations that are electricity customers would presumably be the target of any surveys AER might do to determine VCR. However, the people who suffer the inconvenience of inoperable lifts and air-conditioning are the employees of these customers, or employees of tenants of the customers. They may value the interruptions differently than their employers or building owners. It was suggested it was important that the surveys capture the valuations of these individual end-users as well as the contractual electricity customers. There was some discussion to the effect that end-user views should be measured.
- It would be interesting to review the values of South Australian customers due to their system blackout experience. It was suggested that customer VCRs could change before and after such an event.
- Noted it would be interesting to know the response of customers to willingness to pay questions if they are able to modify their energy use and whether this could be built into the survey?
- More information was requested on the advantages and disadvantages of using contingent valuation to determine baseline VCR values and also, more information on what other methods could be used. AER staff agreed to follow up with MEI, in particular, Professor Train on these questions.
- Noted MAIFI[1] in the service target performance incentive scheme (STPIS) has not been usefully valued and suggested that a deliberative forum would be useful for questions around frequency of interruptions and momentary outages.
- Noted it would be interesting to get views on the appetite amongst consumers for demand response through the surveys.
- Similarly, it would be interesting to get a view on whether people prefer notifications about outages.
- Finally, the Members expressed interest in determining VCR values for widespread, long duration outages. Members discussed how indirect costs or social costs of a wide spread and prolonged outages could appropriately be captured.
- Members discussed the extent to which VCR should play a role in wholesale market settings (such as the reliability standard) and what type of VCRs would be useful in this context. It was suggested that marginal VCRs reflecting the composition of affected customers would be helpful rather than generic VCRs. The Reliability Panel member agreed to go back to the Reliability Panel to discuss the question of what type of VCRs would be helpful and report back the Members.
- Members were asked to provide any further comments they had on the questions set out in the slides on the VCR methodology

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[1]   The Momentary Average Interruption Frequency Index (**MAIFI**) is a reliability indicator used by electric power utilities. **MAIFI** is the average number of momentary interruptions that a customer would experience during a given period (typically a year).

ACTION item – AER will liaise with MEI / Professor Train as to what other techniques could be used for determining VCR values instead of the current methods of Contingent Valuation and Choice Modelling?

If choice modelling is used without contingent valuation, what other methodologies could be used to determine a baseline value for a 'typical' outage?

ACTION item – Reliability Panel members to seek views of the Reliability Panel on what types of VCR would be useful for wholesale market settings and report back to the VCR Consultative Committee.

ACTION item – Members to provide any additional views they have on questions set out in VCR methodology slides to the AER

3.3 Jimmy Criticos gave an overview on staff views on segmentation.

In summary, following the presentation members:

- Noted there are some things that make jurisdictions unique. Accordingly, even if segmentation of customer cohorts did not occur along jurisdictional boundaries it may still be useful to obtain information broken down by jurisdictions to assess if unique experiences of reliability events (such as the system black event) may inform VCR
- Considered it is appropriate to segment residential customers by remoteness, climate zone, access to gas, and solar PV/battery storage. Members did not consider it necessary to segment by socio-economic status, but suggested that the residential survey should be representative of all residential customers.
- Recommended that business and industrial customers should be segmented by sector, grouping into 5 or 6 business cohorts with differing degrees of dependence on electricity reliability.
- Suggested segmentation by remoteness and climate zone were unlikely to be necessary for business and industrial customers.
- There was a discussion about customers who have a high VCR may choose to invest in their own backup arrangements rather than rely on additional grid investment.
  Following on from this, it was noted that VCR could be determined by reference to the cost of behind-the-meter backup arrangements (such as a generator or storage) that has been paid for by the customer.
- Noted a vast majority of planning decisions are local and specific to the feeder. It would be good to have information about the types of customers at the feeders.
- Members suggested irrigators are an important sector for which it would be useful to have VCR values.
- Members inquired the extent to which VCRs may vary across substations. Noted that with current set of VCR values, there is not significant variance.

3.4 Paul Dunn asked the Members if they could assist with recruitment of customers.
- Noted probably better to get NMI rather than ask the customer how much energy they use.

ACTION item – ENA will help to ask network businesses to supply NMI data

4   Future meetings

4.1 Future meeting dates agreed except for 24 January 2019. Members preferred first week of February. Meetings to alternate between Melbourne and Sydney. Next meeting to be in Sydney

ACTION item*: AER to revise meeting date for next meeting and invites to be sent to Committee members.*

5   Other business

AER staff notified the Committee of upcoming VCR public forums in Sydney on the 5th of December and Melbourne on the 6th of December.