

8 August 2018

Peter Adams
General Manager – Wholesale Markets Branch
Australian Energy Regulator
Sent by email: peter.adams@aer.gov.au

Re: Information Request – Sydney CBD RIT-D Dispute

Dear Mr. Adams,

I refer to your letter dated 25 July 2018, requesting information about Ausgrid's 'ensuring reliability requirements in the Sydney CBD' Regulatory Investment Test for Distribution (RIT-D). In response, Ausgrid wishes to reiterate our view that the use of a value of customer reliability (VCR) of \$170/kWh, as determined by Houston Kemp in their 2016 report, is reasonable for CBD customers. The documents set out below and included in our response address your information request and provide further background which supports the reasonableness of Ausgrid's forecast for VCR in the Sydney CBD:

1. A response to the eight items for which the AER requested additional information;
2. The 2016 HoustonKemp VCR¹ report which sets out the basis for Ausgrid's forecast of VCR for the Sydney CBD;
3. A list of the largest customers in Sydney CBD, by NMI;
4. The Excel spreadsheet cost-benefit model used for the RIT-D assessment of credible options;
5. Spreadsheets with the Demand Management assessment and load data analysis;
6. A spreadsheet with the capital cost build-up of the credible options;
7. A spreadsheet with data for outage events in areas served by City East/Dalley St substations;
8. A spreadsheet with interval data about CBD zone substations;
9. A spreadsheet including Sydney CBD spot loads and transfers in 2017.

Ausgrid has sought to be as forthcoming and fulsome as possible in its response to this information request. We understand that it is important that the AER have all of the relevant background information. We have therefore provided a large amount of evidence, analysis and calculations in response to the AER's requests.

However we note that, ultimately, the questions to be addressed by the AER under cl 5.17.5 of the National Electricity Rules are relatively narrow. The relevant questions are:

1. whether Ausgrid has applied the RIT-D in accordance with the Rules; and
2. whether there was a manifest error in the calculations performed by Ausgrid in applying the RIT-D.

In this case, the dispute is stated to be solely in relation to the VCR forecast used in Ausgrid's project assessment. In particular, the EUAA state that:²

'Ausgrid has used a VCR value of \$170/kWh for Sydney CBD which is inconsistent with the agreed Sydney CBD value of \$90/kWh used by TransGrid and Ausgrid as the basis for their Powering Sydney's Future project'

¹ Value of Customer Reliability

² See page one of the letter dated 2 July 2018 from the EUAA to Ms Paula Conboy regarding the Notice of a Dispute under Clause 5.17.5 of the NER.



Ausgrid wishes to clarify that there was never an “agreed Sydney CBD value of \$90/kWh”. Rather, as the background materials make clear, VCR forecasts have been debated and analysed in a number of different contexts, and different forecasts have been used for different geographic areas, different customer groups, and different purposes. The figure of \$90/kWh is in fact an estimate of VCR for the Inner Sydney area (a much larger area which includes, but is not limited to, the Sydney CBD), not an agreed estimate for the Sydney CBD.

We note that the VCRs for the Sydney CBD area and the wider Inner Sydney area were discussed at length as part of the recent Powering Sydney’s Future Regulatory Investment Test for Transmission, that Ausgrid was party to, as well as the coincident TransGrid Revenue Proposal process. We consider it important that the chronology of these events is fully understood as it will help understand why a VCR forecast of \$170/kWh has been used for the Sydney CBD RIT-D. The first document above therefore outlines this relevant background before responding to each of the items requested in-turn.

Just as there was no “agreed” value, there is also no value that has previously been identified as the “correct” VCR for customers in the Sydney CBD. Indeed, forecasting VCR for particular customer groups and/or particular geographic areas is inherently difficult, and is an area in which there is unlikely to be a single correct answer.

Faced with the task of forecasting VCR for customers in the Sydney CBD for the purposes of the Sydney CBD RIT-D, Ausgrid asked itself two simple questions – namely:

1. Is it reasonable to assume that Sydney CBD customers place a higher value on electricity supply than the rest of the wider Inner Sydney customer base (i.e. is it likely that VCR in the Sydney CBD is likely to be higher than the value of \$90/kWh, the value previously adopted for the wider Inner Sydney customer base)?
2. If so, then is the \$170/kWh figure used for Sydney CBD a reasonable proxy for the value of reliable electricity supply for customers in the CBD?

Ausgrid considers that there is strong support for using a higher VCR for Sydney CBD customers (compared to the broader Inner Sydney area) and that the use of the \$170/kWh figure is reasonable given it represents the mid-point of the only independent estimates currently available for VCR in the Sydney CBD. Ausgrid’s use of this VCR forecast, including its reliance on independent analysis which supported that forecast, was entirely reasonable, in accordance with the Rules, and did not involve any manifest error.

We have used the above values as the most suitable forecast available at this point in time. We note and support the upcoming AER review of VCR values across the NEM. We are committed to engaging with the AER’s review process and following its completion, will be happy to apply the results in future cost benefit analysis.

I would be happy to discuss the above material and anything further the AER may require to support resolution of this dispute. Please feel free to contact me at your convenience if there is anything you need.

Sincerely,

Matthew Webb
Head of Asset Investment