

16 November 2018

Mr Mark Feather
General Manager, Policy and Performance
Australian Energy Regulator
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Working for your business.
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Dear Mr Feather

I write in response to the AER's request for feedback on its Values of Customer Reliability – Consultation Paper.

For background, Business SA was established in 1839 and is South Australia's peak Chamber of Commerce and Industry. Representing over 3,200 businesses across every sector, Business SA is funded by our products and services to thousands of local businesses alongside member subscription support; allowing us to remain independent of the policy agenda of any government or political party.

Unfortunately South Australia takes the mantle of the State most impacted by electricity reliability over the past few years, with several load shedding events in addition to the 2016 State-wide blackout which cost South Australian businesses alone \$450 million*. Over the past 18 months though, the State Government has spent over \$430 million to date on measures to sure up our local electricity grid, including a 100 MW battery and 276 MW of back-up diesel generation, as well as implementing grid controls to pair back wind farms and constrain on synchronous generators under certain circumstances, again coming at a substantial but less transparent cost. Consequently, reliability since last summer has stabilised notwithstanding there remains risk ahead for this summer, particularly if Victoria's network reliability falls short.

What has often been forgotten is that leading up to the 2016 State-wide blackout, pressure had been long building on the South Australian government to act on the very high prices impacting industry, in addition to concerns about reliability. Consequently, the instigation of the Finkel Review was as much about price concerns as it was about a political reaction to the blackout, hence Dr Finkel's focus on the energy trilemma. This is an important consideration for the AER in reviewing the approach to determining Values of Customer Reliability, as reliability must be ensured but it cannot be at any price as South Australian businesses are already paying the highest price for electricity in Australia and amongst the top few jurisdictions in the world as evidenced by the ACCC's 2018 Retail Electricity Pricing Inquiry.

* adjusted following the release of our Blackout Survey Report following several major listed companies' annual report releases which updated their losses





Key Policy Points

1. In terms of a survey approach for businesses to ascertain how much they value reliability, Business SA supports the direct cost approach which should be easier to substantiate for business consumers. From our experience with the 2016 State-wide blackout survey (**Refer Attachment A**), the following matters should be considered for:
 - equipment damage
 - stock losses
 - trading losses
 - wages paid despite lost trading
 - any additional costs from re-commencing operations following an extended outage
 - generator coverage, including to the extent to which a generator can actually cover all the businesses' operations noting it may only be for a part or some critical piece of equipment eg refrigeration
 - solar and battery coverage, as distinct to solar only coverage which will not help in an outage
 - costs of running a generator during an outage
 - whether businesses have interruption insurance and if so, are electricity outages covered and under what circumstances? Furthermore, the cost of that insurance coverage.
 - how costs might depend on both the length of the outage, but also the time of day at which it occurs
2. While businesses are adopting solar PV at rapid rates, the reality is that the majority of businesses are located in leased premises and while there are some limited commercial offerings and regulated mechanisms such as Building Upgrade Finance (BUF) to facilitate solar for tenants, the AER should remember that it is not necessarily an option for a significant number of businesses. Furthermore, BUF is still quite a complex arrangement and is not going to suit the vast majority of leased premises, except in circumstances where they are larger premises with commercial property managers.

Even for energy intensive businesses which do decide to install solar, it is typically the case that solar may only cover part of their load, say 20 percent, and consequently they still rely heavily on the reliability of the grid, even with batteries.



Business SA accepts that across the board as more consumers adopt renewable energy with storage, they will be more likely to put a lower value on grid reliability but by the same token, there has been no change to the national electricity objective to reflect any declining expectations of the NEM's reliability. As we transition to a lower carbon grid which may ultimately include a much higher proportion of distributed energy resources, Government policy will still need to reflect that consumers still value reliability, although more of them will be better able to take that reliability into their own hands. Notwithstanding, we always need to remain mindful that consumers taking reliability into their own hands still comes at a cost and can sometimes be an unnecessary cost when perhaps there is an unreasonable expectation that the grid is unreliable. In such instances, these costs result in an inefficient allocation of resources within the economy as, for example, businesses forgo productive investments in their business to invest in back-up generators and the like.

3. Moving towards a future grid where the value of customer reliability is understood at a more granular level would promote economic efficiency within the grid. However, the AER also needs to bear in mind how that would fit with community expectations, and Business SA acknowledges our concern about regional South Australian customers being any further disadvantaged, noting that service standards already allow for the fact that rural feeders are less densely populated than those in urban areas.
4. Business SA is comfortable with the South Australian Government's approach to managing load shedding priorities which strikes a balance between protecting critical infrastructure and industry, but not providing too many exemptions to the point where the value of load shedding is undermined and South Australia is put at risk of another system black event. However, we still support the AER's survey work to ensure that the current state frameworks are consistent with how reliability is actually valued at certain sites. Through undertaking such work, the AER should be able to determine statistically significant data on how the value of reliability varies on feeders excluded from load shedding.
5. While it may be interesting to know whether or not there is a difference in the VCR for planned outages versus long unexpected outages or any other variation of outages for that matter, the AER needs to remember that VCR is already a complex notion, and in a move to better understand it, should be careful not to unnecessarily diminish its practical usefulness in driving decisions that relate to avoiding outages.
6. Business SA recommends the AER release any pilot survey questions for consultation, particularly to ensure they are going to be easily understood and answered by a range of energy consumers, including businesses.
7. Considering the changing nature of Australia's energy system, automatically adjusting VCR for inflation may not be suitable and it would be more prudent to rely on actual surveys, although these may not necessarily have to be undertaken every year and probably every three to five years would suffice.
8. Understanding VCR at a more granular level could assist with Governments making decisions about piloting the load shedding of feeders in micro-grid type situations, given such feeders would have their own back-up storage and assuming that this is broadly economical for the grid.



9. The AER needs to bear in mind that extended outages as that which occurred during South Australia's 2016 system black can also lead to telecommunications towers losing battery power and with many businesses reliant on mobile coverage, this can exacerbate the impact of a power outage. In fact, for some respondents to Business SA's 2016 blackout survey, this was a larger impact than losing the power itself. While telecommunications are managed at a national level, and we understand the South Australian Government has been working with providers as well as making representations on this issue, we are not aware of any specific changes implemented at a federal level in response to the state-wide blackout.

Should you require any further information or have questions, please contact Andrew McKenna, Senior Policy Adviser, on (08) 8300 0009 or andrewm@business-sa.com.

Yours sincerely,

Anthony Penney
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