



16 November 2018

Mr Mark Feather
General Manager, Policy and Performance
Australian Energy Regulator
GPO Box 520
Melbourne, Victoria 3001

Dear Mark

RE: VALUES OF CUSTOMER RELIABILITY

CitiPower, Powercor and United Energy welcome the opportunity to respond to the Australian Energy Regulator's (AER) consultation paper on the values of customer reliability (VCR).

We use VCRs to determine the value of energy at risk as part of our planning and expenditure forecasting processes. VCRs are also used to set incentive rates under the service target performance incentive scheme (STPIS). In this context, our submission is focused on the following:

- we support greater stability in VCRs between each review
- we support establishing VCRs that vary based on the nature or time of the outage
- we do not support applying VCRs to planned outages
- the AER should consult on the specific questions to be included in its customer surveys
- VCRs should be updated prior to the start of each jurisdiction's regulatory determination process.

We expand on these issues below.

The VCR should reflect customers' long-term view of reliability

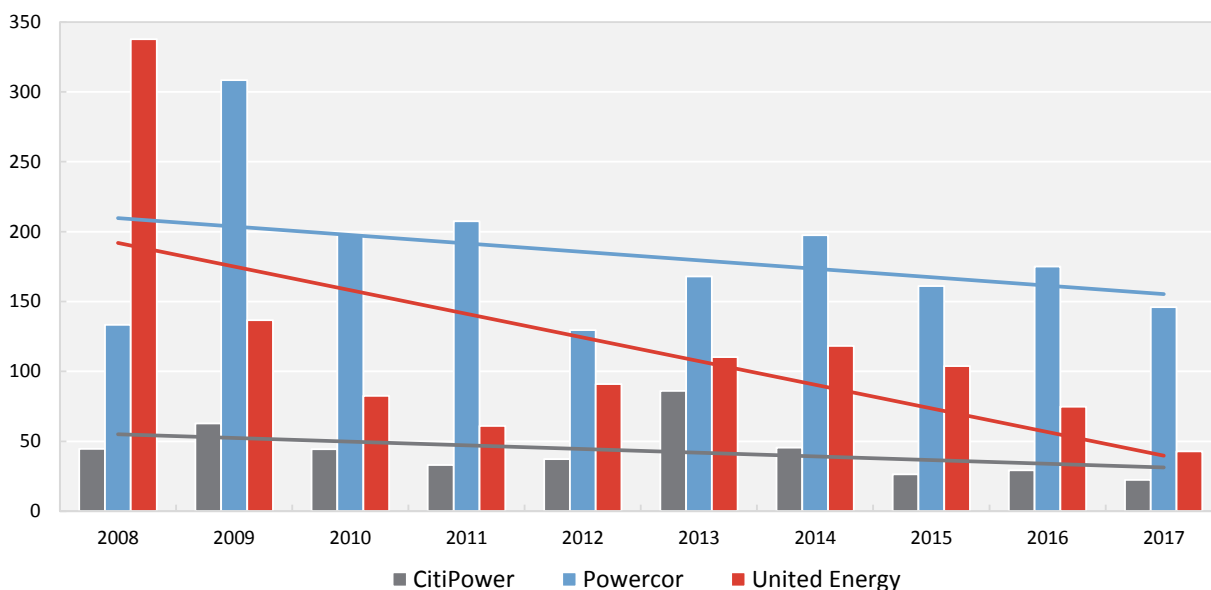
Volatility in VCRs can have significant impacts on network planning decisions. VCR reductions lead to lower levels of capital investments, which may then be difficult to reverse should VCRs subsequently increase. Given network planning is based on a long term view (i.e. a minimum of 10 years), the VCR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

Sustained periods of high reliability can also lead to 'recency' bias (i.e. where people are likely to weight recent events more than other events).¹ For example, 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.

Over the past 10 years customers in our networks have experienced improving levels of reliability, as shown by the system average interruption duration index (SAIDI) in figure 1. 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.

¹ See, for example: Michael Abramowicz, *Predictocracy: Market Mechanisms for Public and Private Decision Making*, 2007, p. 20.

Figure 1 Unplanned SAIDI (minutes off supply)



Source: RIN data

Greater stability in VCRs may be achieved, for example, by having regard to recent survey results in other jurisdictions, past survey results (e.g. a rolling average of previous values), or by capping the amount by which VCRs change to previously estimated values.

Regard should be given to time varying VCRs

As recognised in the AER's consultation paper, the value customers place on reliability will differ based on a range of factors, including the time of an outage. We support further investigation into time-varying VCRs.

For example, it may be appropriate to apply a higher VCR to capital investments required to 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.

VCRs should not be applied to planned outages

We do not support the development of VCRs to assist in the scheduling of planned outages. The application of VCRs for planned outages creates a tension with safe work practices, as it strengthens the incentive for distributors to conduct a greater amount of live line work.

The AER should consult on the VCR estimation process and values, including survey questions

We support the indicative consultation process set out by the AER for its VCR review, as it provides an opportunity to engage on the methodology and approach for estimating VCRs, as well as the actual values.

We also request the AER provide an opportunity for feedback on the specific questions to be included in its customer surveys. As the design of survey questions can lead to different outcomes, this will ensure confidence that customer responses provide a true representation of the value they place on reliability.

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

The AER's proposed timeline for completing its VCR review falls between the 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 limits the

time available to update capital investment plans that underpin investment over a five year horizon. This includes limiting the time available to consult with stakeholders on the impact of changing our investment plans.

It is also 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. Further, if new projects were proposed, distributors 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.

We accept there is no clear way to avoid these issues for our upcoming determination. However, for future VCR reviews, the AER should determine each jurisdiction's VCRs one year prior to the initial regulatory proposal being due. Alternatively, updating VCRs on a cycle other than every five years would mean Victorian stakeholders would not be required to manage these issues at every regulatory determination.

Next steps

Should you have any queries about our submission please do not hesitate to contact Jeff Anderson on (03) 9683 4809 or janderson@powercor.com.au.

Yours sincerely



Brent Cleeve
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