



**ENERGY  
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George Huang  
Director, Policy and Performance  
Australian Energy Regulator  
GPO Box 520  
Melbourne VIC 3001  
[VCR@aer.gov.au](mailto:VCR@aer.gov.au)

Dear Mr Huang,

**Re: AER – Response to the Values of Customer Reliability Consultation Update Paper**

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the Council of Australian Governments (COAG) in 2015, our objective is to promote the long-term interests of consumers with respect to price, quality, reliability, safety and security of supply.

We appreciate the opportunity to comment on the Values of Customer Reliability Consultation Update Paper. The Values of Customer Reliability (VCR) is a critical regulatory setting for consumers because it is one of the key determinants of what the electricity grid looks like and how much it costs consumers.

The VCR informs a wide range of electricity industry reliability investment criteria, including the wholesale market's 0.002% unserved energy reliability standard, and thereby the AEMO's activation of the emergency reserve trader (RERT). It also sets the value of reliability for networks via the Regulatory Investment Test for Transmission (RIT-T) and Distribution (RIT-D), and the Service Target Performance Incentive Scheme (STPIS).

It is critical therefore that the VCR reflects consumer preferences, ensuring they pay no more than necessary for electricity services. We are engaging in this review because consumers are telling us through the Energy Consumer Sentiment Survey that they are more satisfied with the current levels of reliability of their electricity supply, than they are with the value for money – indicating that the current settings are not getting the balance right.<sup>1</sup>

To get the right outcome for consumers in a system that is transforming, the approach to setting the VCR must apply contemporary methodologies that are robust and fit for purpose into the future. Specifically, methodologies must recognise that consumers are managing their energy use in a more flexible way – a trend that continues to accelerate as technology unlocks greater opportunities. Other things being equal, this would suggest that over time the value of customer reliability in Australia could be lower than it has been historically, when consumers had fewer cost-effective or behavioural options to manage electricity outages.

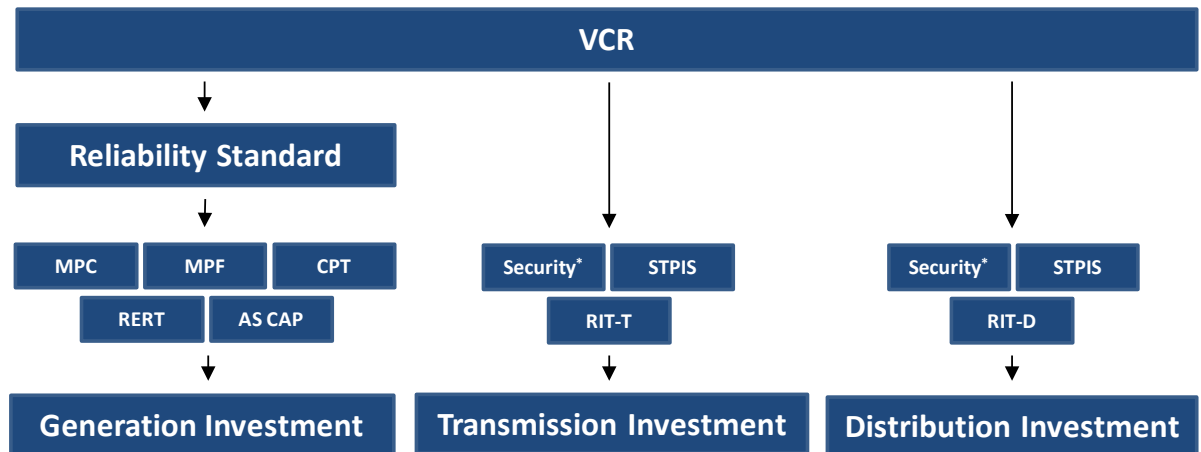
We have commissioned Energeia to review the VCR settings and provide advice on how they might be updated to ensure they are aligned with the long-term interests of consumers. We provided this work to the Australian Energy Regulator (AER) in April 2019. In this submission we reflect on the AER's latest thinking and identify key issues for consumers in the next phase of the process.

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<sup>1</sup> Energy Consumer Sentiment Survey <https://energyconsumersaustralia.com.au/projects/consumer-sentiment-survey/>



**Figure 1 – VCR Impact Mechanisms Across Generation, Transmission and Distribution Investment**



MPC: Maximum Price Cap; MPF: Minimum Price Floor; CPT: Cumulative Price Threshold; RERT: Reliability and Emergency Reserve Trader; AS CAP: Ancillary Services Price Cap; RIT-T: Regulatory Investment Test for Transmission; STPIS: Service Target Performance Incentive Scheme; RIT-D: Regulatory Investment Test for Distribution. \*For VIC only.

Source: Energeia research

**Key risks and issues arising from AEMO’s 2014 VCR Review need to be addressed in 2019**

Energeia’s report *VCR – Getting it Right for Australia* (attached) found that the VCR established by the Australian Energy Market Operator (AEMO) in its 2014 review was high by international standards: 20% and 50% higher than studies from comparable OECD countries using the same (survey based) methodology, and 50%-66% higher using (alternative) model-based methodologies.

Accordingly, Energeia recommended changes to update the methodology:

- develop and apply a VCR Methodology Selection Criteria for the 2019 review that more explicitly reflects the long-term interests of consumers test at the heart of the National Electricity Objective;
- consider adopting hybrid VCR methodologies because customer survey methods alone appear to be overestimating the value; and
- VCR methodologies account for technological and market developments that change the reliability landscape for consumers, notably the adoption of solar PV, storage and microgrids – changes which should tend to give consumers scope to be more flexible and lower VCR numbers.

**The AER’s approach is headed in the right direction**

Energy Consumers Australia has appreciated the opportunity to engage with the AER and welcome the good progress that is being made to update the methodology. In particular, we acknowledge the move to more explicitly embed in the NEO in the methodologies and to adopt a hybrid of survey and model-based approaches for the 2019 VCR setting-process.



The AER has also indicated that it will account for key changes in the energy sector since 2014, including enhanced reliability communications which notify customers of expected outage duration times, and behind the meter reliability solutions such as solar PV, battery storage and microgrids.

In the next phase of work, we are keen to discuss:

- how communications enhancements will be addressed;
- how the AER proposes to determine the 'reasonableness' of VCR estimates; and
- how the risk to consumers of over-investment in electricity network assets due to higher than necessary VCRs can be mitigated.

We have provided additional detailed comments from Energeia on issues raised in the AER's April 2019 Consultation Update that are material for consumers (see Appendix).

Thank you again for the opportunity to participate in this important process. If you have any questions regarding our submission, please contact Lynne Gallagher on 02 9220 5500 or email on [lynne.gallagher@energyconsumersaustralia.com.au](mailto:lynne.gallagher@energyconsumersaustralia.com.au).

Yours sincerely,

Rosemary Sinclair AM

Chief Executive Officer