

EUAA – AER FORUM ON VCR - SYDNEY

EUAA
Energy Users Association of Australia

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1. Run through the key points of our submission and reflect on some issues raised in other submissions
2. Focus on the role of consumer engagement – advice to the AER
 - Very complex issues
 - Meet the same standard of best practice consumer engagement you expect networks to meet in a revenue reset process
 - This is essential to consumers supporting the results
 - So need to ensure transparency and funding to enable consumer participation

We are in the early stages of a long journey where we seek to ensure the results are in the long term interests of consumers

- Strong advocate of evidence based VCR for many years so welcome this review to remove the influence of desktop studies
- Participated in the 2014 AEMO study
- Submission to IPART in 2016 arguing against the use of the Houston Kemp “desktop study of desktop studies” in setting NSW reliability standards
- Initiated a RiT-D dispute with Ausgrid when we viewed the analysis as not using evidence based VCR and welcome the AER conclusion that:
 - “We do not regard this decision to be a precedent for estimating this parameter in the future”
- We are in the early stages of considering how to approach the detail of measurement so look forward to participating in extensive consumer engagement to ensure consumer support for the process and hence the outcomes

- VCR value should be a “willingness to pay” measure and connect this with cost outcomes – not the compensation measure inherent in AEMO’s “tolerance of load shedding” measure
- Primary use of VCR is in network planning - need more evidence on the impact on consumers before expressing a view on proposed other uses
- Segmentation on both customer classes and outages should be more rather than less
- Initial support for AEMO’s 2014 approach – choice modelling and contingent value survey for business and residential, direct cost for direct connected consumers
- Do not support VCR for outages associated with high impact low probability events
- Do not support a connection between the market price cap and the VCR – MPC is to signal investment to meet the reliability standard
- Recognise the trade-off between accuracy and respondent fatigue – which is why we emphasise effective consumer engagement

- In general the more segmentation the better but there is a balance to be struck
- “Business” is a very broad church - our members cover a wide variety of industries with varying needs for reliability
 - For a smelter loss of power for a few hours can have a catastrophic impact but loss of power for 1 hour might be manageable
 - For a food processor the impact of loss of power depends on the sophistication of the process and the level of UPS back-up with the time before major impact varying from 1-8 hours
 - For a retailer having obligations around food health and safety they can draw on back-up supply options that may mean they can “survive” an interruption of 1-2 hours and so have a low VCR for that time
- So we are willing to work closely with the AER to help their engagement with our members and to better understand the range of situations to inform their segmentation decisions and survey questions

- Care required in how DER and demand response is incorporated into the analysis eg South Australia post September 2016
- Our members make judgements all the time about how reliable their supply needs to be for their particular operations vs what they perceive the grid supplies eg
 - Self supply, paying for greater connection redundancy, back-up generation for essential demand, batteries, business interruption insurance and, consciously, “do nothing”.
- So one of our major concerns with the use of the Houston Kemp estimates was that they did not take account of the major users in the Sydney CBD having back-up generation
- We agree with the inference in the AER paper that VCR should be capped at the price of back-up
- Our members do not want to find they are paying twice – once from their internal business decisions and again via a VCR that does not take account of DER

HILP events

- Very difficult to get consumers to properly envisage these circumstances
- Concerned that values will be misleading and lead to upward bias in the VCR values that are then used to justify over investment in the electricity networks

VCR as a value for exporting to the grid

- We are wary about using VCR to measure the value prosumers get from exporting to the grid – “unserved grid availability”
- Generally these prosumers do not face the full costs of their network access to export – we do not want the existing cross-subsidy to increase at the expense of those without the ability to export

QUALITY CONSUMER ENGAGEMENT IS KEY

- We are in the early stages of a long and complex journey where we seek to ensure the results are in the long term interests of consumers
 - EUAA experience in 2014 AEMO survey
- Best practice CE focusses on early engagement – we are now at the network stage of the AER preparing its Draft Plan for consultation and trial
- Need specific engagement with different customer segments prior to the pilot survey
 - Consumer need to understand “reliability” and AER needs to understand how it can vary even within a sub-category of consumer
 - Consult on survey questions
 - so February may be too early for the pilot?
 - caution on putting too much reliance on “recency bias”
- Cost of a comprehensive best practice approach minor compared to costs from a poor process and outcome leading to excessive network investment that consumer pay for over decades