

Ms Paula Conboy
Chair
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

paula.conboy@aer.gov.au

Dear Paula,

Re: EUAA Notice of a Dispute under Clause 5.17.5 of the NER – Ausgrid Final Draft Assessment Report

Under Clause 5.17.5 of the NER and in accordance with the RiT-D Guidelines, the EUAA submits to the AER a Dispute Notice relating to Ausgrid Final Draft Assessment Project for the RiT-D project “Ensuring reliability requirements in the Sydney CBD area”.

The dispute is in relation to the value of customer reliability used in the assessment.

Ausgrid have used a Sydney CBD VCR value of \$170/kWh 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.

Details of the reasons for the dispute notice are contained in the attachment to this letter.

A copy of this letter has been sent to Ausgrid in line with the requirements of Clause 5.17.5.

Your sincerely



Andrew Richards
CEO

cc Ausgrid
assetinvestment@ausgrid.com.au

EUAA – Information on the reasons for the EUAA Dispute Notice

Introduction and Summary

Under Clause 5.17.5 of the NER and in accordance with the RiT-D Guidelines¹, the EUAA gives notice of a dispute with Ausgrid on their Final Draft Assessment Project for the RiT-D project “Ensuring reliability requirements in the Sydney CBD area”.²

The dispute is in relation to the value of customer reliability (VCR) used in the assessment.

Ausgrid’s Approach

The Final Project Assessment Report (FPAR) for Ausgrid’s project “Ensuring reliability requirements in the Sydney CBD area” project was published on 8th June 2018. The FPAR states³:

“Ausgrid has applied a central VCR estimate of \$170/kWh based on the mid-point of a range estimate of VCR for the Sydney CBD by HoustonKemp in 2017. This value considers that the \$90/kWh VCR estimate proposed in the recent Independent Pricing and Regulatory Tribunal (IPART) review of the transmission reliability standards is an average for the Inner Sydney area, with lower VCR estimates for several sub-sections of the network area – such as \$40/kWh which we have used for Canterbury-Bankstown, Inner West or Lower North Shore- and higher VCR estimates for Sydney CBD.

This approach recognises that there is higher-than average economic output produced by the CBD customers supplied from City East and Dalley St zone substations. We have also investigated the effect of assuming both a lower underlying VCR estimate. The lower sensitivity is based on the \$90/kWh VCR estimate for Inner Sydney, consistent with the recent IPART review of the transmission reliability standards for Inner Sydney, as well as the recently finalised Powering Sydney’s Future RIT-T.”

Ausgrid have undertaken limited sensitivity testing of a \$90/kWh VCR on one “low benefits scenario” only⁴ with no results shown for a \$90/kWh VCR in the baseline or high benefits scenario. Ausgrid:

“...considers that the baseline scenario is the most likely, since it based primarily on a set of expected/central assumptions. Ausgrid has therefore assigned this scenario a weighting of 50 per cent, with the other two scenarios being weighted equally with 25 per cent each.”

Table 4.1 – Summary of the three scenarios investigated

Variable	Baseline scenario	Low benefits scenario	High benefits scenario
Capital cost	100 per cent of capital cost estimate	125 per cent of capital cost estimate	75 per cent of capital cost estimate
Unplanned corrective maintenance cost	100 per cent of baseline corrective maintenance cost estimates	70 per cent of baseline corrective maintenance cost estimates	130 per cent of baseline corrective maintenance cost estimates
Demand	POE50	POE90	POE10
VCR	\$170/kWh	\$90/kWh	\$170/kWh
Discount rate	6.13 per cent	8.07 per cent	4.19 per cent

¹ See AER “Regulatory Investment Test for Distribution Application Guidelines” 18 September 2017 Section 6 <https://www.aer.gov.au/system/files/AER%20-%20Final%20RiT-D%20application%20guidelines%20-%20September%202017.pdf>

² See <https://www.ausgrid.com.au/-/media/Files/Industry/Regulation/Regulatory-Investment-Test/FPAR--Ensuring-reliability-requirements-in-the-Sydney-CBD--08-June-2018.pdf?la=en&hash=0EB1402AF64DBDDF89348C7F082661DE33849E4D>

³ Ibid p.21

⁴ Ibid p. 22

Why the EUAA is disputing the VCR value of \$170/kWh

How has the VCR values come about?

The development of robust VCR values, that consumers can have confidence in, has been a difficult process. Prior to the AEMO estimates developed in 2014, there were a variety of measures used, all of which lacked broad based consumer support. The EUAA, whose members made a large contribution to the AEMO VCR process, felt that the final results, while having some limitations, were a very useful and robust measure that they supported.

In the course of IPART's 2015/16 review of NSW reliability standards, Ausgrid and TransGrid used a study they commissioned from Houston Kemp⁵ to justify much higher values than the AEMO values⁶:

Table 3.2 Value of customer reliability (\$/kWh)

Customer	HoustonKemp (\$2016)	AEMO NSW aggregate, inc direct connect (\$2014)
Inner metropolitan	\$90	\$34.15
CBD	\$150-\$192 (\$170)	\$34.15

Source: HoustonKemp, *CBD and inner metro VCR estimates – A final report for TransGrid on research, methodology and results*, 28 July 2016. AEMO, *Value of customer reliability review – Final report*, September 2014.

Houston Kemp said in its report that it⁷:

“...has been engaged by TransGrid to determine defensible values of the Value of Customer Reliability (VCR) that can be applied to unserved energy estimates in both Sydney's CBD and Sydney's Inner Metropolitan (Inner Metro) areas, drawing on existing, publicly available VCR estimates. The resultant VCR estimates are to be suitable for use in the 'Powering Sydney's Future' (PSF) study of electricity supply to the CBD and Inner Metro sub-regions of Sydney, being jointly undertaken by TransGrid and Ausgrid.”

The HoustonKemp report gave great weight to an earlier Oakley Greenwood report. Parsons Brinckeroff, appointed by IPART to review VCR estimates, said in its May 2016 report that it supported the use of the AEMO values and commenting on the Oakley Greenwood report, concluded that⁸

“Whilst these values do not align with the AEMO values, we do not consider these values to provide any more certainty.”

The EUAA in its submission to IPART review noted⁹:

⁵ HoustonKemp CBD and Inner Metro VCR estimates – A final report for TransGrid on research, methodology and results 28 July 2016 <https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/investigation-section-12-publications-electricity-transmission-reliability-standards/consultant-report-transgrid-vcr-estimates-july-2016.pdf>

⁶ IPART “Electricity transmission reliability standards” Supplementary Report September 2016 p. 19 <https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/investigation-section-12-publications-electricity-transmission-reliability-standards/supplementary-draft-report-electricity-transmission-reliability-standards-september-2016.pdf>

⁷ HoustonKemp op cit p.1

⁸ Parsons Brinckeroff “NSW Transmission Reliability Standards Review – Value of Customer Reliability” May 2016 p.7 <https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/investigation-section-12-publications-electricity-transmission-reliability-standards/parsons-brinckerhoff-nsw-transmission-reliability-standards-review-may-2016.pdf>

⁹ See “EUAA Submission on Electricity Transmission Reliability Standards – Supplementary Draft

“The estimation of VCR has had a chequered history. Over time there has been no shortage of organisations, particularly networks, who wish to claim they know how much users value reliability. These proponents then use these values to justify additional investment that may or may not be in the long term interests of consumers. One thing is clear, that it has certainly been in the long term interests of the networks expanding their regulated asset base.

Unfortunately, these values were generally derived from desktop studies or very limited consumer surveys. The EUAA welcomed the AEMO analysis in 2014 and a number of our members actively participated in it. It was the first comprehensive study that actually engaged with a range of consumers to get their views. We recognise that the numbers had limitations e.g. in terms of the coverage across all categories of users in all locations, when the interruption occurs and its duration. But they were based on actually talking with consumers.

TransGrid has submitted a study by HoustonKemp to justify much higher VCR values for metropolitan Sydney and the CBD than implied by the AEMO analysis. The HoustonKemp study is a desk top study drawing on existing VCR estimates from Ausgrid and Oakley Greenwood, which are in turn desktop studies.”

The HoustonKemp study raises some valid points suggesting that the AEMO methodological approach may mean the AEMO VCR estimates for inner metropolitan and CBD Sydney are under estimates. HoustonKemp then proceed to justify a methodological approach to arrive at what these higher numbers should be by doing a desktop study built on other desktop studies, particularly Ausgrid’s. Nobody seems interested in asking consumers what they actually think.”

IPART, like other regulators, commented on the need to develop update estimates based on deep consumer consultation. In the expectation that the current rule change proposal will be approved, the EUAA welcomes the forthcoming AER review of VCR values.

IPART did not accept the HoustonKemp analysis of \$170/kWh but did conclude that the appropriate value for the CBD was \$90/kWh, still significantly above the AEMO value.

What VCR value was used in the Powering Sydney’s Future study?

The issue of the VCR value in the Sydney CBD was an important consideration in the joint TransGrid/Ausgrid evaluation of the Powering Sydney’s Future Project RiT-T, developed in parallel with the TransGrid 2018-23 Regulatory proposal.

The AER in its draft TransGrid decision in September 2017¹⁰ highlighted the use of the HoustonKemp \$170/kWh CBD VCR value that differed from the IPART \$90/kWh value. The AER noted the significant concerns expressed by the Consumer Challenge Panel in its submission about this failure to follow the IPART VCR. AER also commented on the TransGrid VCR sensitivity analysis that used:

- the AEMO value,

Report September 2016” October 2016 p. 2 <https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/investigation-section-12-submissions-electricity-transmission-reliability-standards-supplementary-draft-report/online-submission-energy-users-association-of-australia-a-richards-31-oct-2016-161800000.pdf>

¹⁰ AER “Draft Decision TransGrid transmission determination 2018 to 2023 Attachment 6 – Capital expenditure” September 2017 pp 103-4 <https://www.aer.gov.au/system/files/AER%20-%20Draft%20decision%20TransGrid%20transmission%20determination%20-%20Attachment%206%20-%20Capital%20expenditure%20-%2028%20September%202017.pdf>

- TransGrid's original VCR estimate (\$170/kWh) and
- TransGrid's original estimate plus 20 per cent.

Concluding that:

“... We consider that these sensitivities are upwardly focused.”

The AER’s overall conclusion was:

“We also agree with the CCP that TransGrid's VCR assumption of \$170/MWh for the CBD is inconsistent with the VCR \$90/MWh value used by IPART to determining the unserved energy allowance as part of the planning standard for the inner Sydney and CBD area.”

The Project Assessment Conclusions Report in November 2017 commented under the heading “The use of bespoke VCR estimates to value unserved energy”, that¹¹:

“The AER, in its Draft Decision, queried the use of VCR estimates in the analysis that are above those used by IPART in reviewing the reliability standard for the Sydney CBD and Inner Suburbs. The Consumer Challenge Panel also stated that the assumed VCR values were ‘bullish’ as part of the separate regulatory review process”

TransGrid Revised Revenue Proposal in December 2017 concluded¹²:

“The RIT-T analysis conducted for the Powering Sydney’s Future (PSF) project used VCRs of \$90/kWh for customers in the Inner Sydney and \$170/kWh for CBD customers. These were based on analysis by HoustonKemp of earlier VCR studies. The AER considers these to be too high.

....

We acknowledge that consistency with the IPART VCR values is desirable, so we have changed the PSF analysis to reflect this. A central VCR estimate of \$90/kWh is used for customers in both the CBD and Inner Sydney. As shown in the sensitivity analysis in the following section, this does not impact on the timing of the project need.”

Conclusion

Ausgrid have completed a RiT-D using an “expected/central assumption for VCR that was not supported in the joint Ausgrid/TransGrid Powering Sydney’s Future RiT-T.

EJAA

2nd July 2018

¹¹ Transgrid and Ausgrid “ RIT-T: Project Assessment Conclusions Report – Powering Sydney’s Future” November 2017 p. 28 <https://www.transgrid.com.au/news-views/lets-connect/consultations/current-consultations/Documents/Powering%20Sydney%27s%20Future%20-%20PACR.pdf>

¹² Transgrid “Revised Revenue Proposal 2018/19-2022/23” December 2017 p.59 <https://www.aer.gov.au/system/files/TransGrid%20-%20Revised%20Revenue%20Proposal%20-%201%20December%202017.pdf>