



19 November 2018

Mr Mark Feather
General Manager
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

Dear Mr Feather,

Values of Customer Reliability – Consultation Paper

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Australian Energy Regulator (AER), on its consultation on the *Values of Customer Reliability – Consultation Paper*. This submission is provided by Energy Queensland, on behalf of its related entities Energex Limited (Energex), Ergon Energy Corporation Limited (Ergon Energy), Ergon Energy Queensland (EEQ) and Yurika Pty Ltd (Yurika).

Should you require additional information or wish to discuss any aspect of this submission, please do not hesitate to contact either myself on (07) 3851 6416 or Trudy Fraser on (07) 3851 6787.

Yours Sincerely

A handwritten signature in black ink, appearing to read "Jenny Doyle", with a stylized flourish at the end.

Jenny Doyle
General Manager Regulation and Pricing

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Encl: Energy Queensland's submission to the Consultation Paper

Energy Queensland Submission on the Values of Customer Reliability

Consultation Paper

Energy Queensland Limited
19 November 2018



About Energy Queensland

Energy Queensland Limited (Energy Queensland) is a Queensland Government Owned Corporation that operates a group of businesses providing energy services across Queensland, including:

- Distribution Network Service Providers, Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy);
- a regional service delivery retailer, Ergon Energy Queensland Pty Ltd (Ergon Energy Retail); and
- affiliated contestable business, Yurika Pty Ltd.

Energy Queensland's purpose is to "safely deliver secure, affordable and sustainable energy solutions with our communities and customers" and is focussed on working across its portfolio of activities to deliver customers lower, more predictable power bills while maintaining a safe and reliable supply and a great customer service experience.

Our distribution businesses, Energex and Ergon Energy, cover 1.7 million km² and supply 37,208 GWh of energy to 2.1 million homes and businesses. Ergon Energy Retail sells electricity to 740,000 customers.

The Energy Queensland Group also includes Yurika, an energy services business creating innovative solutions to deliver customers greater choice and control over their energy needs and access to new solutions and technologies. Yurika is a key pillar to ensure that Energy Queensland is able to meet and adapt to changes and developments in the rapidly evolving energy market.

Contact details

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1 Introduction

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Australian Energy Regulator (AER) on its Values of Customer Reliability (VCR) Consultation Paper (Consultation Paper). This submission is provided by Energy Queensland, on behalf of its related entities Energex Limited (Energex), Ergon Energy Corporation Limited (Ergon Energy), Ergon Energy Queensland Limited (EEQ) and Yurika Pty Ltd (Yurika).

Energy Queensland's distribution network service providers (DNSPs) Ergon Energy and Energex are both members of Energy Networks Australia (ENA), the national industry association representing businesses operating Australia's electricity transmission and distribution, and gas distribution networks. The ENA has prepared a response to the AER's Consultation Paper to which we have contributed, and are supportive of the positions presented in their response.

In response to the AER's invitation for submissions, Energy Queensland provides specific comments in the following section.

Energy Queensland is available to discuss this submission or provide further detail regarding the issues raised, should the AER require.

2 Specific comments

2.1 Potential Uses for VCR

Energy Queensland notes the importance of the VCR as it is currently used in calculating capital expenditure (CAPEX) works, Service Target Performance Incentive Scheme (STPIS) incentive rates (associated with annual revenue outcomes) and the regulatory investment test (RIT) process and suggests that any extension to the use of the VCR should not diminish the importance of these uses.

2.1.1 Load-shedding priorities

Energy Queensland does not agree that the VCR is an effective measure for informing load-shedding priorities. Asset, network and overall system risk and security considerations are the first priority when considering load shedding and it would be difficult for a single VCR to be representative and useful to inform load shedding. As such, VCR should not be directly applied to operational decisions. Rather, current measures such as system average interruption duration index (SAIDI) and system average interruption frequency index (SAIFI) are more appropriate for this purpose.

2.1.2 Assessing special protection schemes to address high impact low probability (HILP) events

As protection schemes are developed in accordance with the National Electricity Rules (NER), Energy Queensland suggests the relationship between outage duration, scale of event and VCR should be investigated on an individual case basis. We note that alternative techniques may be required for some scenarios and suggest a robust survey design and methodology should be considered to provide accurate and useful results.

2.1.3 Scheduling planned outages

Energy Queensland suggests that an understanding of the difference in value that customers place on planned outages vs unplanned outages could help inform how DNSPs undertake planned works. Specifically, it could inform decisions such as to work live or arrange an outage; and the appropriate use of generators to prevent loss of supply during planned work. Energy Queensland would like to understand if there is a material difference in how customers value planned vs unplanned outages before considering if a separate category is required.

2.2 Methodologies for deriving VCR

2.2.1 Approaches to deriving VCR

Energy Queensland agrees that the current methodology appears reasonable and that any method chosen by the AER should be fit for purpose.

2.2.2 VCR customer segments

Energy Queensland supports retaining current customer types of residential, business, industrial and agricultural, which is consistent with all other reporting requirements. However, we also see value in assessing sub-categories as part of the survey design. In particular, we suggest that some sub-categories of business or industry may have a greater sensitivity to production and therefore value reliability more highly than others and these should be investigated.

We note that the current application of VCR focusses on the value of energy consumed by customers from the grid. However, there may also be merit in investigating the value of energy exported by customers. With increasing penetration of micro generation exporting into the grid, customers (or prosumers) may also value this facility rather than just consumption. As such, the research should include how customers with new technology (e.g. solar photo-voltaic, electric vehicles, batteries) value consumption as well as generation of energy.

While this cohort of customers may not be large enough to materially impact a VCR-type calculation now, it is forecast to significantly increase over the coming years so it may be beneficial to include in the base research now.

Energy Queensland does not support the proposed segmentation into socio-economic status. The accuracy of recording this segmentation would be subjective and of limited value to network planning.

2.2.3 Determining which outage characteristics to test for

Energy Queensland agrees that the characteristics listed seem reasonable. However, we note that additional outage characteristics will add to the complexity of the analysis.

Notwithstanding, we support the inclusion of additional characteristics into the research and use of this to determine where or if material differences exist. Where the differences are material, then these should be included.

2.2.4 Combining segmented VCR values at a point of investment

Energy Queensland agrees that a weighted average based on either demand or energy would be appropriate. However the appropriateness of the weighting method should be considered following the determination of customer segments and outage characteristics. In addition, the most appropriate method should be informed by the outcomes of the research to ensure that any additional complexity is balanced with customer needs.

2.2.5 Annual adjustments to VCR and frequency of VCR reviews

Energy Queensland agrees that the AER review the VCR at least every 5 years, including the value, method and impacts to the National Electricity Market (NEM). In addition, regular customer research and consultation with DNSPs should continue to ensure that the assumptions of customer needs remain accurate.

Furthermore, Energy Queensland suggests the AER produce a forecast of VCR over a 10 year period that describes how it expects VCR to change in response to changes in the NEM. This forecast should reference other published forecasts such as consumer price index (CPI) and the Australian Energy Market Operator's electricity forecasting insights.

By incorporating a mechanism such as this, the VCR would be forecast on a similar basis to demand and consumption. Therefore, we suggest updating the underlying forecasts is preferable to applying a simple CPI, and would provide a more accurate VCR for use in revenue proposals where regulatory control periods fall between review periods.

Furthermore, a VCR forecast based on economic factors/forecasts and reflective of the needs of customers should produce a less volatile VCR over the longer term.

2.2.6 Transitioning to new VCR values

Energy Queensland suggests that by presenting the VCR as a forecast linked to changes in the NEM and conducting ongoing research with customers, annual adjustments should reflect the needs of customers. As such, smoothing should not be required over the long term. However, it may be beneficial to initially smooth the VCR until such time as the AER is confident with the value, noting that it is premature to commit to smoothing or transitioning to the initial VCR at this stage.