evoenergy

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Mark Feather
General Manager
Policy and Performance
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Dear Mr Feather

Value of Customer Reliability – response to consultation paper

Evoenergy welcomes the opportunity to respond to the Australian Energy Regulator's (AER) consultation paper on the value of customer reliability (VCR). Evoenergy considers that the issues raised in the consultation paper, including how VCR values are derived and applied, are significant to the future of the electricity networks. VCRs are currently used in a range of contexts, including as an input into regulatory investment tests, to assess major capital projects as part of revenue proposals, and to calculate financial incentives for improving reliability under the Service Target Performance Incentive Scheme (STPIS). A robust and customer-focussed approach to VCRs will help ensure that network planning and investment achieves customers' preferred balance between efficiency and reliability.

Evoenergy is committed to consumer research and engagement, and has previously commissioned two peer-reviewed choice modelling studies conducted in the Australian Capital Territory (ACT) by NERA and ACNielsen in 2003,[1] and by the Australian National University (ANU) in 2012.[2] These studies estimated the value placed on network reliability by residential and non-residential customers, including customers' willingness to pay to avoid supply interruptions. Evoenergy (as ActewAGL Distribution) also made submissions to the 2014 review of VCRs by the Australian Energy Market Operator (AEMO).[3] As part of that process, we supported the use of choice modelling as the preferred methodology for estimating VCRs. We noted, however, that AEMO's VCR estimates, which are based on NEM region levels, may not be appropriate for applications that are specific to distribution networks in the ACT.[4]

This letter sets out our response to the AER's consultation paper in three areas: the use of ACT specific VCR values; potential additional uses of VCR; and methodologies for deriving

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[1] NERA and ACNielsen 2003, *Willingness to pay research study*, A report for ACTEW Corporation and ActewAGL, September.

[2] McNair, B.J. and Ward, M.B. 2012, *Balancing cost and standards of service: the stated preferences of Canberra households*, Energy Networks Conference, 2 May, Brisbane, Australia.

[3] ActewAGL Distribution, *Value of customer reliability – Response to Issues Paper*, 19 April 2013

[4] ActewAGL Distribution, *Value of customer reliability – Response to Application Guide Draft Report*, 7 November 2014.

VCR. Evoenergy looks forward to providing further input into the AER's VCR review process, including the draft directions paper to be published in early 2019.

The use of ACT specific VCR values

Evoenergy continues to advocate the use of targeted, network-specific analysis to set VCR values in the ACT. Such targeted analysis can capture valuable information on the heterogeneity of customer preferences across regions. Evoenergy does not support the application to the ACT of VCR values for the NEM region of NSW as a whole. The extent of potential differences is highlighted by the fact that AEMO's current VCR estimate for NSW of around $38/kWh is significantly different to an estimate derived by Evoenergy of around $67/kWh ($2014-15).[5]

As noted in our submission to the 2014 AEMO review, an ACT-specific VCR cannot be accurately derived by reweighting estimates from other regions (such as NSW) based on customer types. This is because ACT displays a number of distinct climatic and socioeconomic characteristics. For example, energy demand in the ACT has historically peaked in winter, whereas summer peaks are more common in other regions such as NSW. With respect to socioeconomic characteristics, ACT has the highest average weekly earnings in Australia, being nearly 20% above the national average.[6] ACT also has the lowest unemployment rate[7] and highest proportion of people with post-school qualifications across all states and territories.[8] We therefore strongly support the application of targeted VCR estimates for the ACT, such as those derived from local studies.

Potential additional uses of VCR

Evoenergy supports consideration of the use of VCRs where this can help achieve optimal resource allocation in the long-term interests of customers. Any expansion of the application of VCRs will require close examination of the potential customer benefits and costs.

The AER consultation paper suggests a possible use for VCRs is to inform scheduling of planned outages. We note that doing so would require the development of bespoke VCR values for planned outages that can be integrated with Evoenergy's processes for considering customer impacts as part of network operational planning. Similarly, the prioritisation of load-shedding (as determined by the Jurisdictional System Security Coordinator) based on variation in VCRs would need to be carefully assessed in relation to any equity implications. This would potentially warrant a specific consumer engagement focus to ensure the implications are well understood.

The AER consultation paper also proposes that VCRs could be used to apportion the recovery of investment costs across network tariffs corresponding to different customer classes. This option warrants further consideration and in doing so would need to reconcile the network pricing reform process centred on improving the cost reflectivity of prices, with having price

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[5] ActewAGL 2014, *Regulatory Proposal for 2015-19 subsequent regulatory control period – Attachment F1 STPIS reliability incentive rates 2015-2019,* June.

[6] Australian Bureau of Statistics 2018, *6302.0 Average Weekly Earnings, Australia*, May 2018.

[7] Australian Bureau of Statistics 2018, *6202.0 Labour Force, Australia*, September 2018.

[8] Australian Bureau of Statistics 2017, *2071.0 Census of Population and Housing*, 2016.

signals that reflect the willingness to pay for different levels of service reliability by specific customers or customer segments.

Methodologies for deriving VCR

The AER consultation paper canvasses a range of potential methodologies for deriving VCRs. Evoenergy supports the use of choice modelling as being most consistent with economic theory. This is in keeping with the position outlined in our response to the 2014 AEMO Issues Paper.[9] In particular, choice modelling can produce robust data sets because it allows for simultaneously valuing multiple attributes, such as frequency, duration, advance notice, and time of day of supply interruptions. Choice modelling has particular advantages for residential customers, since they are likely to incur indirect, non-financial costs due to supply interruptions that can be challenging to measure using alternative VCR methodologies.

Experience from the studies commissioned in the ACT has highlighted the value of using focus groups and pilot surveys to thoroughly test survey instruments before proceeding to the main survey. Evoenergy welcomes the AER's proposal to hold a pilot survey in early 2019. We also highlight the importance of specifically engaging with and surveying ACT customers as a separately identifiable cohort across both residential and business classes. This will help to ensure that the VCR estimates reflect the distinct characteristics of energy customers in the ACT, as discussed above.

We would be pleased to continue discussions with the AER on the application of VCR estimates to distribution network planning and regulation in the ACT. Please do not hesitate to contact Lev Yulin, Principal Economist, on (02) 6248 3107 or lev.yulin@actewagl.com.au

Yours sincerely

David Graham
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[9] ActewAGL, above n 3.