



20 December 2018

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

Dear Mr Feather,

Values of Customer Reliability

Origin Energy Limited (Origin) welcomes the opportunity to provide additional comment on the issues raised during stakeholder consultation of the 2019 Values of Customer Reliability (VCR) review being undertaken by the Australian Energy Regulator (AER).

The consultation has highlighted that while VCR is informative for guidance, it should only factor as part of the decision making process by policy makers when estimating payoffs between reliability and consumer cost. After attending the public forum, we consider that there are two elements under discussion that the AER should refrain from including in the VCR assessment. These are High Impact Low Probability (HILP) events and the opportunity costs for customer participation in the energy market. Including either of these factors will have minimal benefit in guiding the VCR estimates, while requiring the commitment of a high level of resources from the AER.

High Impact Low Probability Events (HILP)

Previous reviews of the VCR did not ask consumers about their willingness to pay for HILP events. In the survey for 2019, the AER should also refrain from surveying consumers about these events.

We observe that it is difficult to specify what constitutes a HILP event and it is therefore difficult to formulate questions for customers that adequately describe what a HILP event may entail. Most customers have never experienced a HILP event, and thus have no way of specifying the value of actions to avoid these occurring. Due to the difficulty in estimating VCR for HILP, this will likely alter the overall results in an unpredictable fashion.

Additionally, it is unclear how results, once estimated, will be used. VCR is currently not used to develop policy or valuing mitigation actions for HILP events. Protecting from HILP events is often a matter of preserving system security, and this is generally managed through technical standards, and not economically evaluated investments. The AER should not include HILP events in the survey unless it can specify an application of its inclusion in the estimated VCR value.

Demand response and embedded generation

Due to the changing nature of consumer participation in the market, some stakeholders have raised the possibility that the opportunity costs for demand response and embedded generation be included in estimates of VCR. When supply is lost to a consumer, that consumer is not able to export to the grid or participate in the market. This loss of market access has a cost, which has historically not been measured as part of determining the VCR.

Origin considers it inappropriate to include this cost in the estimate of the customer's VCR. Registered Generators also face a risk of losing or having constrained access which is not included in evaluating network reliability or the calculation of VCR. Losing the ability to participate in the market is a different order of risk to losing supply of electricity and should not be counted equivalently. Including such a risk

in the VCR calculation is asking all consumers to bear the risk of the commercial activity of some consumers in the market.

We also note that the opportunity cost of losing the ability to interact with the market would be unique to each customer. A customer's opportunity cost is likely to relate to their specific investment and use of energy technology, and not the other demographic data that may be used to segment these customers in the VCR review.

Should you have any questions or wish to discuss this submission further, please contact Alex Fattal in the first instance via email alex.fattal@originenergy.com.au or phone, on (02) 9375 5640.

Yours sincerely



Steve Reid
Group Manager, Regulatory Policy