

5 June 2018

Ben Davis
Director
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235



Dear Mr Davis,

Establishing values of customer reliability rule change consultation paper

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC strongly supports the proposed rule change. The Value of Customer Reliability (VCR) has many potential applications in the NEM, as outlined in the rule change proposal. It will help ensure that decisions regarding market design, regulation, planning and investment are indeed in the long-term interests of consumers. Having the AER as the single national body responsible for establishing the VCR will encourage consistency and confidence in the results. Further, PIAC recommends the AER also publish a Guideline for applying the VCR in a variety of potential applications to encourage consistent and accurate use of the results.

Question 1 - Responsibility for establishing VCR

Having a single national body responsible for establishing the VCR is important as it will help encourage consistency and confidence in the results. The AER is an appropriate body.

Question 2 - Methodology

The AER should retain discretion to develop the detailed aspects of the VCR methodology and the need for and method of performing any annual updates. However, PIAC considers that consumers, the AER and NEM participants would benefit from the Rules including greater direction on matters the AER must have regard to in developing its VCR, such as:

- The consumer experience of outages from a whole-of-system perspective, with weighting according to where in the system most outages experienced occur;¹
- Consumers' willingness to pay to maintain or improve reliability levels;
- Consumers' willingness to accept current or lower reliability levels in return for lower costs;

¹ The AEMC's *2017 Annual Market Performance Review* found that 97.2% of supply interruptions occurred in the distribution network, 0.93% occurred in the transmission network and only 1.85% occurred due to wholesale reliability and system security issues.
< <https://www.aemc.gov.au/markets-reviews-advice/annual-market-performance-review-2017> >

- Consumers' willingness to implement demand response (i.e. the value of 'partial' reliability), noting that research and the experience in NSW² has suggested many consumers may be willing to do demand response without payment;
- The different costs of substitution and levels of expectation for various consumer groups;
- Alternatives to price/reliability trade-offs for managing reliability. For example, people are more accepting of outages if they have better information about when the outage will occur, the cause of the outage, and estimates of when supply is expected to come back on; and
- Consumer biases that may influence their response to questions about willingness to pay or accept. For example, the bias of 'Uncertainty aversion' has been shown to affect the consumer response to surveys on VCR. Uncertainty aversion could be accounted for by weighting the analysis according to respondents' experience of outages and ensuring minimum quotas of exposure to different outages.

Question 3 - Timing for first review

While PIAC makes no comment on whether the proposed 31 December 2019 date is appropriate, PIAC considers it imperative that the AER have sufficient time to develop its VCR methodology and conduct its analysis thoroughly.

Question 4 - Timing of subsequent reviews and updates

In setting the review period for the VCR methodology, it is important to balance the stability and consistency provided by having a single methodology against the ability to adapt not only to changing circumstances but also to potential new applications of the VCR. In this context, a five-year review cycle seems a suitable compromise.

However, PIAC considers that alignment with other NEM processes which rely on the VCR should also be considered. For instance, the Reliability Standards and Settings Review, which must have regard to the VCR, is conducted every four years rather than five years.

The AER should retain discretion as to whether an annual adjustment of the VCR values is required, as the need for and appropriateness of any annual update may depend on the particular detailed methodology employed.

Question 5 and 6 - Initial and subsequent processes

The AER should follow the Rules consultation procedure both when initially developing and subsequently reviewing the VCR methodology. This will help ensure transparency in the VCR setting process and confidence in its application. Minor or administrative amendments should be exempt from this in order to avoid an unnecessary burden.

Subsequent reviews should take into account, but not necessarily be bound to, the previously determined methodology. This will help ensure consistency in the application of the VCR results across time but still allow the AER to adapt its methodology to the changing conditions in the NEM and potential applications of the VCR.

Question 6 - Publication requirements

The AER should publish its estimates and methodology in order to ensure transparency of its process. Further, the AER should publish a Guideline for applying the VCR in a variety of potential applications. Publishing these documents will also encourage stakeholders to use its VCR estimates and methodology which will, in turn, help ensure consistency across the NEM.

² In February 2017, residential and business consumers voluntarily reduced their consumption in response to high demand driven by extreme weather conditions. These consumers were not explicitly compensated for their actions. < <https://www.aemo.com.au/Media-Centre/NSW-Electricity-supply-demand-update> >

Question 7 - amendment s.3.9.3(A)(e)(4)

The clause should be amended.

Question 8 - issues specific to the Northern Territory

No comment.

Continued engagement

PIAC would welcome the opportunity to meet with the AEMC and other stakeholders to discuss these issues in more depth.

Yours sincerely,

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