

Australian Energy Market Operator
Att: Reena Kwong

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Submitted by email to reena.kwong@aemo.com.au

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REF: VALUE OF CUSTOMER RELIABILITY ISSUES PAPER

Dear Ms Kwong,

Thank you for the opportunity to comment on the Value of Customer Reliability Issues Paper.

As the peak body for the community services sector in South Australia, SACOSS has a long-standing interest in the delivery of essential services and particular the cost of basic necessities like electricity because they impact greatly and disproportionately on vulnerable disadvantaged people.

Context

The AEMO's work on the Value of Customer Reliability (VCR) is one of a number of related reviews and inquiries currently in play in the NEM. SACOSS does not have the capacity to engage in all of these processes nor to necessarily go into detail when it does engage.

This submission largely replicates or references recent submissions to the AEMC's review of the national framework for transmission reliability and ESCOSA's review of the South Australian Electricity Transmission Code as well as past submissions to other AEMC processes and AEMO's previous inquiries into VCR.

We also note that the AEMC's Reliability Panel has just released an Issues Paper for the 2014 review of the Reliability standard and reliability settings review in which the relationship between VCR and the reliability settings (specifically, the Market Price Cap or MPC) is canvassed.¹

SACOSS is concerned that the strategically important and historically neglected VCR issue is being handled in a disparate way.

We also note that the AEMO Issues Paper makes no mention of the National Electricity Objective (NEO). In general terms, SACOSS is of the view that the interests of residential consumers should be interpreted as:

- Households should only pay for the reliability they want, and;
- Households should get the reliability they pay for.

¹ <http://www.aemc.gov.au/market-reviews/open/reliability-standard-and-settings-review-2014.html>

VCR

VCR represents the dollar value that customers place on the reliable supply of electricity – an indicator of customers' *willingness to pay* for not having supply interrupted.

VCR is not a parameter that can be measured directly and it is not a parameter that has a single value applicable to all customers across Australia's National Electricity Market. It is a parameter that must be approximated or estimated and the methods by which this is done will impact on the uncertainty with which it can be determined. In turn, the uncertainty with which it can be determined should influence the way in which it is used.

In submissions² to ESCOSA during the 2011 Review of the ETC, concerns were raised about the use of a state-wide average VCR (as a measure of consumer's willingness to pay) of \$46k/MWh by AEMO and ElectraNet as compared to the \$15-20k assessed for residential consumers:

“... the implication of this is that significant transmission investment will exceed the willingness to pay of the most numerous customer class. This represents a significant challenge to the economic efficiency of these investments.”

It is also noted that ESCOSA support a more deeply considered approach to the use of VCR in network reliability matters³:

“The Commission is keen that an appropriate VCR is developed for South Australia, but is also interested in the need for the development of exit point-specific VCRs; or at least, regional VCRs in respect of the seven SA distribution regions as defined in the Electricity Distribution Code.”

In relation to the AEMC Transmission Reliability Issues Paper⁴ Question 10 'Use of the value of customer reliability', SACOSS re-stated its view that the range of VCR values used must include that attributed to households. Further, the use of VCR must reflect the uncertainty with which it has been determined.

Submissions to past AEMC⁵ and AEMO⁶ processes by Andrew Nance, SACOSS Member and end-use consumer representative on the AEMC's Reliability Panel, have outlined these matters in more detail.

SACOSS notes the Productivity Commission concerns over the historic approach to VCR derivation and use⁷:

“From a methodological perspective, the existing Australian data seem to have several major flaws. ... Theoretically, a single VCR also fails to account for

² <http://www.escosa.sa.gov.au/library/120215-ElectricityTransmissionCodeDraftDecisionSubmission-StKitts.pdf>

³ <http://www.escosa.sa.gov.au/library/130405-AmendmentsToRevisedElectricityTransmissionCode-DraftDecision.pdf>

⁴ <http://www.aemc.gov.au/market-reviews/open/review-of-the-national-framework-for-transmission-reliability.html>

⁵ St Kitts Associates submission to EPR0027 at <http://www.aemc.gov.au/Media/docs/St-Kitts-Associates---120711-3a99b294-f470-476d-8223-e9d49e8e0905-0.PDF>

⁶ AEMO's 2011-12 inquiry into VCR at <http://www.aemo.com.au/Electricity/Policies-and-Procedures/Planning/National-Value-of-Customer-Reliability-VCR> includes two submissions from St Kitts Associates: <http://www.aemo.com.au/Electricity/Policies-and-Procedures/Planning/~media/Files/Other/planning/0409-0013%20pdf.ashx>, <http://www.aemo.com.au/Electricity/Policies-and-Procedures/Planning/~media/Files/Other/planning/0409-0016%20pdf.ashx>

⁷ Productivity Commission Inquiry into Network Regulation, Draft Report Chapter 14 page 476 (http://pc.gov.au/_data/assets/pdf_file/0014/120065/17-electricity-draft-chapter14.pdf)

differences in the mix of customers affected by an investment for reliability. ... AEMO uses the same weighted customer costs in areas with different customer profiles.”

SACOSS also emphasises the importance of matters relevant to low income consumers and welcome AEMO’s acknowledgement of this⁸. The AEMO paper also refers to recent comments made by the Productivity Commission on the relationship between VCR and income⁹.

SACOSS is of the view that the VCR expressed by consumers with limited capacity to pay does appear to be materially lower than households in general and that, in turn, households in general express lower VCRs than the ‘statewide’ averages employed in network planning to date. Robust and reliable VCR estimates have important roles to play in the fair allocation of costs in the NEM and SACOSS is of the view that this forms a fundamental part of pursuing the NEO.

The NEO, as stated in the National Electricity Law:

- ... to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to –
- price, quality, safety, reliability, and security of supply of electricity; and
- the reliability, safety and security of the national electricity system.

The NEO and the interests of consumers are intended to be interpreted in an economic efficiency sense. Economic efficiency is interpreted by the NEM institutions and policy makers as having three broad components: productive, allocative and dynamic efficiencies. While there is some relationship to the dynamic efficiency of the market inherent in VCR (i.e. the ability to attract efficient levels of investment over time to sustain the market), SACOSS is of the view that VCR is largely about the NEM’s allocative efficiency.

The end result of the current use of VCRs in network investments that are multiples of what households have expressed represents a fundamental challenge to allocative efficiency in the NEM unless this is reflected in the way pricing recovers costs from different customer costs.

Summary

SACOSS remains concerned the investments continue to be made based on VCR values that are multiples of that expressed by households, especially low-income households.

SACOSS acknowledges the challenges and complexity of deriving VCR estimates but given its inherent importance to the efficient allocation of resources in the NEM supports the allocation of adequate resources to ensure adequate and robust estimates are derived and refined over time.

SACOSS encourages greater coordination between the NEM institutions and the SCER on this strategically important matter. Further, SACOSS encourages AEMO to take advice on survey design from the Australian Bureau of Statistics (ABS) as recommended by the Productivity Commission. With all respect to AEMO, it is clear that VCR estimation is a complex area that will require skills and experience not necessarily close to the historic core business of AEMO (or the AEMC or AER for that matter).

⁸ www.aemo.com.au/Consultations/National-Electricity-Market/Value-of-Customer-Reliability-Issues-Paper, section 6.2.5 at page 22.

⁹ Productivity Commission Inquiry into Network Regulation, Draft Report Chapter 14 page 480-

SACOSS would be pleased to engage further in progressing these matters. We thank you in advance for your consideration of our comments. If you have any questions relating to the above responses, please contact SACOSS Senior Policy Officer, Jo De Silva on 8305 4211 or via jo@sacoss.org.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Ross Womersley', with a large, sweeping flourish at the end.

Ross Womersley
Executive Director