

7 June 2018

Australian Energy Market Commission
PO Box A2449
Sydney South
NSW 1235

By direct lodgment

**Establishing values of customer reliability (VCR)
Consultation paper
ERC0231**

The Major Energy Users Inc (MEU) welcomes the opportunity to provide its views to the AEMC regarding the rule change proposed by the CoAG Energy Council to have the AER responsible for developing the value of customer reliability (VCR). The comments the MEU makes in this submission are informed from the experiences of some MEU members that provided input to AEMO process in 2014 and of the MEU involvement in that process.

The MEU makes the point that VCR is an aspect of the electricity market that is about what consumers want and need with respect to the delivery of the electricity. This means that the development of VCR must be focused on consumer needs rather than the views of what others in the electricity supply chain might consider necessary.

The value to consumers of the reliability of their electricity supply varies considerably between different consumers, the time of day, week and/or year when they most use electricity. So when an assessment of VCR is made, it must take into consideration how consumers value electricity supplies when they don't have as great a need as at peak time usage. If VCR is assessed purely on the VCR at times of most need, the outcome will be a massively oversized network and generation fleet, so it is important to assess VCR across a variety of users and times when electricity is being used but also reflecting when it is not needed as much.

These considerations influence the views provided by the MEU in this submission.

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The MEU considers that the VCR should be calculated on a national basis and not by the different jurisdictions, so appointing a national body to carry out the task is supported. While the MEU considers that AEMO (a national body) carried out a thorough and comprehensive process in the development of VCR in 2014, the MEU has no strong view as to whether future VCR reviews should be carried out by AEMO or the AER, as both are appropriate to do this task. The MEU can see there are some sensible reasons for AER to have this responsibility and so can accept the decision to change responsibility to the AER for generating the VCR in future.

The MEU was very active in the development of the AEMO approach to developing VCRs in 2014 and considers that the AEMO process reflects very good practice in achieving the goals for VCR. With this in mind, the MEU does not consider that the rules should be explicit as to how the AER should develop the VCRs but should allow the AER to develop its approach which should be guided by what AEMO learned in 2014.

The MEU agrees with the AEMC that the rules should only reflect objectives and agrees with the three objectives listed by the AEMC (ie regard for the uses of VCR, the need to have direct customer engagement and to reflect the range and geographic location of customers). However, the MEU also considers that the objectives should also highlight that there will be different VCRs for different classes¹ of customer and that there might be different VCRs for the same class of customer in different NEM regions and at different times of day/week/year. The MEU points to the diverse VCRs that AEMO calculated in 2014 for different customer classes and NEM regions to support this view.

The MEU does not consider there needs to be annual adjustments of VCRs. It must be recognised that VCRs are, at best, an approximation. To apply some annual adjustment to the values implies a precision in the process that simply does not exist. With VCRs being recalculated on a regular basis (eg on a five year cycle as is proposed) will mean that the values will be updated sufficiently frequently enough to reflect the imprecision inherent in the calculation process.

The current VCRs were calculated in 2014 and, following a five year cycle, would need to be recalculated by the end of 2019 for use in 2020. The MEU considers that the proposed time for the next recalculation is sensible. VCRs should then be reset every five years, with no adjustments made on the values between resets.

As noted above, the MEU considers that the AEMO process used in 2014 was good practice and this should be the starting point for the AER in future – AEMO carried out significant consultation as it developed its process and this work should not be lost. This consultation process had a wide focus but had a particular focus on consumers' representative bodies (eg advocates for consumers who were

¹ For example, customers direct connected to the transmission system, for large customers located in distribution but electrically close to transmission step down substations, HV customers, LV customers as well as large and small business customers from different industries and residential customers

active in the NEM at the time) as it was recognised that VCR is an issue for consumers more than for other stakeholders in the electricity supply chain. The MEU therefore considers that the rules should reflect that the main focus of the AER consultation process on setting the process should be on consumer input. The MEU considers that a requirement for the AER to establish a Consumer Reference Group to guide the AER in the process should be considered as well as requiring wider consumer input.

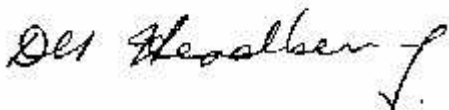
The process to be used for subsequent reviews of VCR should utilise the learnings from previous processes. This means that after each review, there should be an assessment of how well the process achieved the outcomes sought. If this review indicates the process used could not be improved, then there is no reason to reinvent a new process. In this event, there would be no need to go through the consultation process to change the methodology, but if change is considered necessary, then there should be further consultation about the changes to be made. Again, consumers should be the main group that is involved with assessing the new input.

The rules should require the AER to be transparent with the development of the process and the outcomes of their VCR reviews. The rules should require the AER to publish drafts at each stage of the process so that stakeholders (especially consumers) have the ability to provide the AER with input to the final decisions.

The MEU considers that the Reliability Panel should be required to have regard to the VCR calculated by the AER and that the AER should calculate VCRs for the Northern Territory using the same process as used in the NEM.

Should the AER require additional explanation as to the concerns expressed herein, please contact the undersigned.

Yours sincerely

A handwritten signature in black ink, appearing to read "David Headberry". The signature is written in a cursive style with a large initial 'D' and a long tail on the 'y'.

David Headberry
Public Officer