



Alisa Toomey  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Our Ref: JC 2018-071

7 June 2018

Dear Ms. Toomey,

**S&C Electric Company response to the AEMC Consultation Paper – Establishing Values of Customer Reliability (ERC0231)**

S&C Electric Company welcomes the opportunity to provide a response to the Consultation Paper covering the Rule Change that would place a requirement on the Australian Energy Regulator to determine Values of Customer Reliability.

S&C Electric Company has been supporting the operation of electricity utilities in Australia for over 60 years, while S&C Electric Company in the USA has been supporting the delivery of secure electricity systems for over 100 years. S&C Electric Company not only supports the “wires and poles” activities of the networks, but has delivered over 8 GW wind, over 1 GW of solar and over 45 MW of electricity storage globally, including batteries in Australia and New Zealand. We have also deployed over 30 microgrids combining renewable generation, storage and conventional generation to deliver improved reliability to customers.

S&C Electric are particularly interested in facilitating the development of markets and standards that deliver secure, low carbon and low cost networks and would be very happy to provide further support to the Australian Market Energy Commission on the treatment and potential of emerging technologies and approaches.

Yours Sincerely

A handwritten signature in blue ink, appearing to read 'Jill Cainey'.

Dr. Jill Cainey  
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## General Comments

The most current work on the value of lost load (VOLL, similar to VCR) to customers has been undertaken by GB Distribution Network Operator, Electricity North-west, via an Ofgem-funded innovation project.

One key issue, is that while the value is highly dependent on the type and location of customer, meaning that customer engagement in any process to determine the value of reliability to the customer is essential, achieving effective engagement to deliver meaningful values is incredibly difficult.

The details can be found here: <https://www.enwl.co.uk/innovation/smaller-projects/network-innovation-allowance-projects/enwl010---value-of-lost-load-to-customers/>



## Responses to Questions

### **Question 1 - Responsibility for establishing VCRs**

- 1.1 Is it important to have one national body responsible for establishing VCRs?  
Yes. A single responsible body will ensure a uniform approach.
- 1.2 Is the AER the appropriate body to be responsible for updates to the VCR? If not, which body should be responsible for this task, and why?  
Yes. VCRs will largely be used by the entities that the AER has jurisdiction over and also has good links to the stakeholders (DNSPs). Plus the AER can utilise the Consumer Challenge Panel.

### **Question 2 - Methodology**

- 2.1 Should the NER provide an objective for the AER in calculating VCRs? If so, should the objective be to calculate fit for purpose VCRs for the current and potential uses of VCRs? Are there any other objectives that should be explicitly stated?  
The NER should provide an objective that AER should determine the VCRs. The methodology should not be defined in the NE, but AER should determine the best methodology and consult on that methodology before proceeding. Methodologies for determining VCR have changed over time and a likely to do so in the future, so fixing an approach in the NER will not deliver best results.
- 2.2 Should the NER guide the AER in determining the VCR methodology? If so, how?  
No.
- 2.3 Should the NER guide the AER regarding the methodology for annual adjustments to VCR estimates? If so, how?  
No. The AER should consult on the best methodology for annual adjustments (probably at the same time as confirming the approach for the longer, say, 5 year, methodology) and consult initially on the process to assess whether there is a need for an adjustment.

### **Question 3 - Timing for first review**

- 3.1 Is 31 December 2019 the appropriate date for the AER to be required to have published the first estimated VCRs? If not, what should the date be?  
This is a very ambitious date. The AER would need to consult on the process (5 year and annual) and also consult on the methodology. It doesn't seem feasible to deliver reasonable/accurate VCRs by 31 December 2019.

Given that the process for the 2021-2025 rate determination period has already commenced, it would seem better to ensure that the processes and methodologies for calculating VCR are in place for the process leading to the 2026-2030 determination period. So perhaps have VCRs available for use by 2023. This means a delay in providing



VCRs, but it would be preferable to deliver VCRs that are accurate, rather than rush the consultation and development process.

Perhaps, “interim VCRs” could be developed by the end of 2019, but this may result in duplication and not be an efficient use of AER time.

#### **Question 4 - Timing of subsequent reviews and updates**

- 4.1 Do stakeholders agree that a five yearly review period is an appropriate review cycle for updating VCRs?

Yes. However, the 5-yearly review cycle for VCRs should be staggered with the current regulatory determination periods. That is, the publication of 5-year VCRs should occur so that the update values can be used the rate determination process for the subsequent determination period. E.g. delivery of updated VCRs by 2023 for use in the process to set rates for the 2026-2030 period.

- 4.2 Is an annual adjustment of the VCR required?

Adjustments to rate determinations are made, so it will be important that any adjustments within a determination period use appropriate VCRs.

The VCRs should be reviewed annually, particularly given the pace of change in the distribution network environment, but “no change” could be a valid result of the annual review.

#### **Question 5 - Initial process**

- 5.1 Should the AER be required to consult with specific parties when determining the methodology for the initial estimation of VCRs? If so, who?

Yes, the AER should consult with industry stakeholder, including but not limited to DNSPs and customer groups.

- 5.2 Should the AER be required to follow the Rules consultation procedures in developing the VCR methodology?

Yes.

#### **Question 6 - subsequent review process**

- 6.1 Should the AER be required to follow the Rules consultation procedure for updates to VCR methodology?

Yes.

- 6.2 Should the AER be required to consult with specific parties when reviewing and updating the methodology? If so, who?

See above (5.1)



- 6.3 If the Rules consultation procedures are to be followed for updates to VCR methodology, is it reasonable for minor or administrative amendments to be made outside of the Rules consultation procedures?

It is difficult to know what would constitute a minor or administrative amendment, so therefore difficult to provide a reasonable answer.

The AER should consult on the process around delivering the VCRs (rather than methodology), so issue would be covered in that consultation.

- 6.4 Should subsequent reviews take into account the previously determined methodology?

Yes. It may be that the previous methodology used for either the annual or 5-yearly review requires no change. A review of the methodology used for the 5-yearly determination of VCRs should be performed, but a “no change needed” may be the result. The results of the 5-yearly reviews should be consulted upon and the methodology of the annual reviews that would occur within a specific 5-year period, would be defined and established as part of the 5-year review process. Including the annual update methodology in the 5-year review would seem to be a more efficient approach than having to consult annually on the methodology for each annual review.

- 6.5 Is it appropriate for reviews of the methodology to occur on a five yearly basis? If not, what would be an appropriate review cycle?

Yes, but see earlier comments (4.1) on staggering the VCR determination period with the rate determination period.

#### **Question 6a - publication requirements**

- 6.1a Should the AER be required to publish estimates and the methodology, both when initially determined and when any updates or adjustments occur?

Yes.

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

- 7.1 Should clause s3.9.3A(e)(4) be amended to replace AEMO with the AER?

Yes.

#### **Question 8 - issues specific to the Northern Territory**

- 8.1 Is a differential rule required in the Northern Territory? If so, in relation to which parts of the indicative rule and why?

No. The indicative drafting (appendix A, clause c.ii) would require the AER to have regard to “geographic locations” when developing the methodology and so any need for different treatment would be addressed when developing the methodology.