



Establishing values of customer reliability

Publication of final rule and final determination

The Australian Energy Market Commission has made a final rule to require the Australian Energy Regulator to assume responsibility for calculating values of customer reliability.

Background

Values of customer reliability (VCRs) indicate the value different types of customers place on having reliable electricity supply under different conditions, measured in dollars per kilowatt hour. VCRs play an important role in a variety of contexts within the NEM. For example, VCRs are used by the Reliability Panel in conducting the reliability standard and settings review and by the AER and network service providers in a variety of network regulation and planning processes.

VCRs are generally determined through surveys of customers which seek to understand what value different customers place on reliability in different situations. This helps strike a balance between delivering secure and reliable electricity supplies, and maintaining reasonable costs for electricity customers.

In Australia, VCRs have been estimated a limited number of times, and there has been only one comprehensive national examination of VCRs in the NEM. No single body is formally responsible for determining VCRs. This has led to variations in both the methodology and the resulting VCRs in previous estimations, impacting transparency and making comparisons difficult. Further, VCR estimations may be duplicated resulting in higher costs on network planners, systems operators, regulators, policy makers and consumer representatives.

On 22 December 2017, the COAG Energy Council made a request to the Australian Energy Market Commission to make a rule to establish the AER as responsible for developing a methodology for the calculation of VCR, and for updating and reviewing VCRs on a regular basis.

Final rule

The final rule establishes the Australian Energy Regulator (AER) as responsible for calculating VCRs, and developing the methodology that is used to determine those values. The first VCRs developed under the methodology must be published by 31 December 2019.

Additionally, under the final rule:

- the methodology the AER develops must align with the VCR objective to develop VCRs that are fit for purpose for any current or potential uses
- the methodology must include the AER directly engaging with customers to calculate the VCR estimates, and a mechanism for annual adjustments
- when developing or reviewing the methodology for calculating VCRs, the AER will need to consult with a wide range of stakeholders under the rules consultation procedures
- at least every five years the methodology will need to be reviewed with new VCRs calculated and published.

The final rule is a more preferable final rule. It is generally consistent with the rule change request, but includes differences regarding timing of the VCR calculations and the level of guidance in the NER provided to the AER. The final rule commences on 13 July 2018.

Benefits of the final rule

The Commission considers that the final rule will promote the efficient operation of electricity services with respect to reliability of supply and reliability of the national system. It does this by:

- removing unnecessary duplication and decreasing administrative burden for bodies calculating VCRs and for stakeholders contributing to their development by assigning responsibility to one body to develop the VCR methodology and calculating VCR estimates
- assigning responsibility to the AER because the responsibility most closely aligns with its statutory functions
- enhancing transparency and certainty from the timeframes and overarching processes for developing the VCR methodology and estimates and reviews, along with publication requirements
- improved certainty and accountability by including an objective for the VCR methodology
- enabling the AER to determine fit-for-purpose VCRs in a rapidly changing energy market by providing appropriate guidance to the AER, but enabling the AER to determine the methodology .

The final rule does not provide guidance on the parameters to be considered when determining VCRs, for example customer types, geographic locations and outage duration. Under the guidance of the VCR objective, the AER will determine the parameters to be considered when consulting with stakeholders on the methodology.

For information contact:

AEMC Senior Advisor, **Alisa Toomey** (02) 8296 0633

AEMC Director, **Ben Davis** (02) 8296 7800

Media: Communication Director, Prudence Anderson 0404 821 935 or (02) 8296 7817

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