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Dear Reena

Value of Customer Reliability - Issues Paper

A: Introduction

Energy Australia welcomes the opportunity to comment on the Australian Energy Market Operator's (AEMO) "Issues Paper" on the Value of Customer Reliability (VCR).

We support AEMO's development of a nationally consistent approach to determining VCR and to improve the accuracy and precision of VCR's by location, customer type and scenario. More accurate and precise estimates of VCR's will better inform efficient investment in regulated transmission and distribution networks across the National Electricity Market (NEM).

Below, we outline our thoughts on the key aspects of this issues paper.

B: Role and scope of VCRs

Energy Australia makes the following key points in response to the AEMO's Value of Customer reliability (VCR) Issues Paper.

1. Economic based approach to planning

Augmentations should be justified through the application of an economic based approach to planning which uses VCRs to help value unserved energy.

The valuation of customer reliability is critical in the application of an economic based approach to building transmission and distribution networks. Using VCR allows Network Service Providers (NSPs) to determine whether a proposed augmentation is likely to yield net market benefits in accordance with the criteria in the Regulatory Investment Test (RIT-T).

2. VCR for transmission and distribution

Whether it is on the transmission or distribution system, it is important that we have more refined VCRs that reflect the more precise details of the customer responding to the conditions they face.

Interrupting supply creates a cost regardless of whether it occurs in the distribution system or the transmission system. Therefore, planning transmission and distribution networks should basically promote economic efficiency and ensure that least cost options for improving the overall level of network reliability. A more refined national VCR will support this outcome.

3. More precise VCRs

Customer reliability will vary at different connection points on the both the distribution system and the transmission system.

Therefore, VCR needs to be reconfigured to the following including the requirement for it to be:

- location specific
- customer type specific
- scenario specific.

As such, we support AEMO previous consultation process that highlighted stakeholder preference for a more refined VCRs that reflect more precise details about the type of customer responding and the conditions that they face.

4. VCR indexing

VCR should be indexed at different connection points over time in the NEM.

In this regard, we support NERA's recommendations that suggest that the income/economic growth approach is the most appropriate approach which we understand that VENCORP has previously applied.

5 Low probability high impact events

High impact low probability events should be captured in the VCR.

We understand that the nature of ordinary interruptions is difficult enough to quantify. Asking customers to quantify their cost implications for these events may cause spurious outcomes. Nevertheless, we consider it is important that an attempt is made to capture the costs of these events.

B: Challenges associated with using VCRs to inform the Market Price Cap (MPC)

Currently, the wholesale reliability standard of 0.0002% is achieved under the current wholesale market reliability settings including the Market Price Cap (MPC) and the Cumulative Price Threshold (CPT).

In its consultation paper, AEMO asserts that in some respects the MPC plays a similar role in the wholesale NEM as VCRs play in transmission planning.

It argues that both should reflect the price at which consumers would be willing to forgo supply due to insufficient generation or network capacity respectively.

However, it is difficult to directly compare wholesale market reliability settings (MPC, CPT, APC) and regulated network reliability settings (VCR) as the regulatory frameworks, incentives and risks are different. While the value of reliability to customers should inform both the market and regulatory reliability settings, different methodologies to determine and efficiently express this value are needed.

Significant further work would be required to define a direct relationship between MPC and VCR.

C: Conclusion

EnergyAustralia appreciates the opportunity to make a submission on this issue. For further inquiries regarding this submission, please feel free to contact Mr. Con Noutso Regulatory Manager at EnergyAustralia on Tel: 03 8628-1240.

Regards

Yours sincerely

Signed for email

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