

23 April 2024

Stephanie Jolly  
Executive General Manager, Consumers, Policy and Markets  
Australian Energy Regulator  
GPO Box 3131  
Canberra ACT 2601

Sent via email: VCR2024@aer.gov.au

### Values of Customer Reliability Methodology – Draft determination

Dear Ms Jolly,

SA Power Networks welcomes the opportunity to comment to the Australian Energy Regulator (AER) on the 'Draft determination: Values of Customer Reliability (VCR) Methodology' (**the Draft Determination**).

We support the continued work to refine the VCR so that it remains fit-for-purpose to adequately value network investments for customers of distribution services. This work is particularly important at a time when increasing electrification of homes, businesses and transport is making customers more dependent on energy supply, and as factors like climate change drive increasing risks of impacts to network services.

We welcome the AER's pending commencement of separate work to value outages that are of longer duration than those covered by the current VCR methodology. The current lack of a commonly accepted value for widespread and long duration outages is a key impediment to adequate consideration of network investments to address the increasing concerns of our customers with respect to resilience to more severe and frequent extreme weather events.

We largely support the more targeted amendments to the VCR methodology proposed in the Draft Determination. However, there are some additional considerations required to the final methodology to ensure that the VCR remains fit-for-purpose over the course of the VCR application period<sup>1</sup>. These include the need to:

- provide greater transparency and consultation on the price cap used in contingent valuations;
- mitigate against the potential for undervaluation considering current and likely short term economic pressures; and
- recognise the increasing dependence on reliable electricity supply that further electrification will pose to customers.

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<sup>1</sup> While the VCR is reviewed on a 5 yearly basis, its use may remain in application for longer than 5 years depending on the timing of a network's regulatory control period, noting that the VCR is an input to networks' 5 yearly ex-ante expenditure forecast proposals to the AER.

## Price cap in contingent valuation

The Draft Determination removes the specified \$22 per month cap for bill increases, representing the cost of a backup power system for an unspecified cap amount. It is important that this value cap is set using a transparent methodology which reasonably reflects the costs of a suitable system. Undervaluing the costs of a back-up power system could degrade customer service levels when network upgrades may deliver a more efficient outcome for customers.

The AER's Values of Customer Reliability – Draft Decision (2019) laid out a methodology for the formation of the \$22 per month cap<sup>2</sup>. Clarification of the methodology in setting future cap values will assist in generating an efficient final value. Key clarifications would include the duration of supply, if the generator or battery is self-starting, and the generator capacity.

We would consider fair parameters to be similar to the 2019 draft decision, e.g. 6kVA generator, with greater than 3 hours of capacity with an auto changeover system.

## Transient cost pressures on customers

The VCR must be suitable to valuing investments for customers over a significant period of 5 years or more. It is therefore important that the VCR survey design mitigates against the risk of downward (or upward) bias in valuation based on circumstances occurring in the short-term. This could be achieved in various ways, either through initial context provided to survey respondents or sensitivities in bill scenarios.

We think this is important because the 2024 VCR survey will be conducted during a difficult economic period with elevated prices in energy and the broader economy. This will likely have some impact on the short-term preferences of survey respondents. The cost of energy is of particular note to customers in South Australia, where volatility in the wholesale market is putting upward pressure on bills. However, while we are mindful of these current pressures on customers, these pressures are likely to ease over the course of the VCR application period, noting that:

- this environment is forecast to be temporary with the draft determination for the Default Market Offer (DMO) 6 seeing a 19% reduction in wholesale prices translating to a DMO real price reduction between 3.8% and 11.5% for SA Power Networks' customers.<sup>3</sup> We expect this downward trend to continue as we stabilise through our current energy transition; and
- we are also likely to see a reduction in inflation with the RBA anticipating a return to target levels in 2025<sup>4</sup>.

## Electrification of appliances and vehicles

For the VCR to adequately value investments over the whole VCR application period, it is also important that adequate context is given to survey respondents on the potential for greater electrification in homes, businesses and transport, driving increasing customer dependence on reliable energy supply. This could potentially be addressed in several ways including by adding attributes to the choice experiment to identify customers' willingness to pay in situations where for example, a customer decides to acquire an Electric Vehicle (EV) or abolish their gas connection.

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<sup>2</sup> AER, *Values of Customer Reliability – Draft Decision*, September 2019, AER, Appendix 4.

<sup>3</sup> Default market offer prices 2024-2025, AER, March 2024, Page 3.

<sup>4</sup> RBA, *The Outlook for Inflation and Employment*, Marion Kohler, 13 February 2024, <https://www.rba.gov.au/speeches/2024/sp-so-2024-02-13.html#fn0>



This is important because the energy transformation is seeing a significant uptake in electrification. This trend is expected to grow as pricing becomes more accessible and underlying technology continues to improve. This direction is a focus of our state government, which is targeting 170,000 EVs on South Australian roads by 2030.<sup>5</sup> We would expect this to lead many customers to have a markedly different relationship with their energy connections and reliance on energy over the course of the VCR application period.

While appreciating that increased electrification can be reflected in the quantity of unserved energy in forecasting considerations, an expectation that a greater dependence on an electricity connection would likely lead customers to assign a higher and more accurate value to their reliability. A key example may be where a customer purchases an EV in the latter part of the VCR application period - an outage for them may affect their ability to commute or increase their costs to do so, if they shift their EV load to peak times with higher costs.

SA Power Networks would welcome the opportunity to work with the AER, including through additional industry consultation, on how these additional matters can be addressed in the final VCR methodology to ensure that the VCR best serves the needs of customers in coming years.

Should you have any queries on the matters raised in this letter, please contact Bruno Coelho, Manager Regulatory Strategy on 0419 666 389 or [bruno.coelho@sapowernetworks.com.au](mailto:bruno.coelho@sapowernetworks.com.au).

Yours sincerely

A handwritten signature in black ink, appearing to read 'J. Morris', written in a cursive style.

Jessica Morris  
Chief Customer & Strategy Officer

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<sup>5</sup> DCCEEW, *National Electric Vehicle Strategy*, 2023, Page 42.

