

23 April 2024

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

By email only to: [VCR2024@aer.gov.au](mailto:VCR2024@aer.gov.au)

Dear Ms Jolly

**Re: Values of Customer Reliability Methodology – Draft Determination – March 2024**

TasNetworks welcomes the opportunity to make a submission to the Australian Energy Regulator (AER) consultation on the Values of Customer Reliability (VCR) Methodology, Draft Determination, March 2024.

As both the Transmission Network Service Provider and Distribution Network Service Provider in Tasmania, TasNetworks uses VCR in making network planning and expenditure decisions. We consider that a robust methodology is essential to ensure that VCR are an accurate representation of the value that customers place on a reliable electricity supply. This review is particularly pertinent. The VCR determined as part of this review will be used to facilitate prudent and efficient investment during a period of unprecedented level of network investment as the National Electricity Market transitions to net-zero.

TasNetworks supports Energy Networks Australia's submission and makes the following additional comments.

In the 2019 VCR Review, Tasmania was part of Climate Zone 7 – Cool temperature segment for residential customers. Responses for this segment were split into inner and outer regional segments. Analysis found statistically significant differences between responses between the outer and inner regional segments but, these were ultimately merged to produce a single VCR as the sample size from the outer regional segment was too small. We would encourage the AER to try to increase sampling from the outer regional segment of Tasmania to explore whether these statistically differences in responses persist with a larger sample size.

Table 1.2 in the 2019 VCR Review Final Report on VCR Values, December 2019, shows the residential VCR for Tasmania decreased from 30.78 to 16.96 between the 2014 and 2019

reviews, going from the highest VCR to the lowest of the States. No explanation was offered for this large change. We are concerned that, without further explanation, this may be an indication that the survey methodology is producing inconsistent results.

One of the AER's main justifications for retaining the 2019 methodology with only limited changes is to ensure regulatory consistency. We encourage the AER to examine the methodology, responses, and outcomes to ensure that this goal is being achieved. Trends and changes in VCR should be examined to ensure that they can be explained by actual changes in customer preferences and are not due to limitations in survey-based methodology.

Key limitations in survey-based methodologies may include differences in willingness to act and willingness to pay because customers exaggerate losses and demand higher compensation while they are willing to pay much less to avoid an outage, customers lacking knowledge to accurately estimate economic losses, extreme responses (zero<sup>1</sup> or exaggerated costs) and strategic responses to influence survey results.<sup>2</sup>

We support the use of a deliberative forum for the purposes of exploring customer responses in more depth as discussed at the public forum on 4 April 2024. We also support extending comparisons to model-based approaches to individual customer segments.

Increasing electrification and more widespread adoption of consumer energy resources (CER) are likely to significantly impact the value that customers place on a reliable energy supply. The methodology needs to account for this in customer segmentation of responses. The AER should consider segmentation of customers with household battery storage and electric vehicle ownership to determine if there are significant differences in VCR for these customer segments.

VCR may also vary over the five-year period with accelerated adoption of CER. We consider that the AER should further examine whether the annual VCR adjustment should account for changing attitudes due to increasing electrification or increased uptake of CER. This may involve adopting an X value in the CPI-X annual adjustment that reflects the annual change in customer reliability preferences due to CER uptake including household battery storage and electric vehicle ownership.

Once again, thank you for the opportunity to comment on the proposed VCR methodology. To discuss the views expressed in this letter, please contact Gemma Hutchison, Senior Economic Policy Analyst, Regulation, on [REDACTED] or by email to [REDACTED].

Yours sincerely



Chantal Hopwood  
Head of Regulation

<sup>1</sup> AER Values of Customer Reliability, Final Report on VCR values December 2019, Page 42 noted that in total 41 per cent of respondents to the residential customer survey had a willingness to pay of zero.

<sup>2</sup> Sinan Küfeoglu, Matti Lehtonen, Interruption costs of service sector electricity customers, a hybrid approach, 20 Aug 2014