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Dear Stephanie,

Ausgrid welcomes the opportunity to provide this submission to the Australian Energy Regulator (**AER**) in response to its Values of Customer Reliability (**VCR**) Methodology Draft Determination (**Draft Determination**).

While we agree that the Draft Determination does constitute a Non-material Proposal, our concern is that the Draft Determination does not properly outline why a Non-material Proposal is justified. Therefore, we submit that the AER use the standard rules consultation procedure rather than the expedited procedure in this case.

Note that the comments below relate to the residential and small business (**small customer**) methodology only.

Our key concern is the Draft Determination provides an insufficient assessment of alternative VCR methodologies. The justification for continuing the existing survey-based methodology does not contemplate the superior results that can be gained through well-structured deliberative engagement with customers. This approach has been executed successfully by most network businesses to inform regulatory proposals, and can yield richer and more trusted outcomes than short surveys with limited context or the ability to ask clarifying questions.

For example, a deliberative process allows customers to clarify the degree to which any CER investments they have made would support them during an outage and respond accordingly. A survey is unlikely to offer this opportunity (beyond high level information) and could therefore deliver biased results.

It is not clear to us why the AER considers that changing methodology from the 2019 VCR review could result in a VCR that does not reflect changes in customer preferences.¹ In our view the purpose of the VCR review should be to find the values most reflective of customer preferences in a rapidly changing and increasingly complex energy market. It is not clear that the 2019 survey methodology will adequately capture the nuances of how customers are considering, for example:

- the rapid adoption of solar panels and electric vehicles;
- the shift in customer sentiment towards net zero via electrification; and

¹ AER, Values of Customer Reliability (**VCR**) Methodology Draft determination, March 2024, p 17.

- the impact of more frequent and severe weather, and the value of climate resilience.²

In the short time available under the expedited process, it is not possible to properly consider such issues and whether the current methodology remains fit for purpose.

While we appreciate that the AER is time-constrained in completing this work, the review is of critical importance to future investment in electricity networks. We note that the AER was able to delay the publication of the 2022 Rate of Return Instrument to ensure an appropriate decision could be made, and this was supported by industry. A similar approach might be considered for this review. We also support the suggestion made by EUAA at the public forum on 4 April to form a stakeholder reference group to discuss and assist in resolving the issues stakeholders have raised with respect to this review. Ausgrid would be happy to participate or support another network business' involvements if a group was formed.

Finally, the Draft Determination proposes that the initial VCR value be subsequently adjusted by CPI only. In the 2019 VCR Final Report, the AER noted that there was a lack of information on what the key drivers of changes in customer reliability preferences were and how they affect VCR.³ The same position is taken in the Draft Determination without explanation.⁴ This is something that could be further explored through a standard rules consultation procedure and direct engagement customers.

If you have any questions regarding this submission please contact Fiona McAnally at fiona.mcanally@ausgrid.com.au or 0479 100 519.

Regards,



Alex McPherson
Head of Regulation

² See Ausgrid's customer engagement for its 2024-29 Regulatory Reset. <https://www.aer.gov.au/system/files/2023-12/Ausgrid%20-%20Revised%20proposal%20-%202024-29%20Revised%20Regulatory%20Proposal%20-%2030%20Nov%202023%20-%20public.pdf/>.

³ AER, Values of Customer Reliability Final report on VCR values, December 2019, p 8.

⁴ AER, Values of Customer Reliability (VCR) Methodology Draft determination, March 2024, p 16.