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Via email: VCR2024@aer.gov.au

Re: Values of Customer Reliability 2024

CitiPower, Powercor and United Energy welcome the opportunity to respond to the Australian Energy Regulator's (AER) revised draft determination on the Values of Customer Reliability (VCR) methodology. We also welcome the AER's decision to switch the VCR review from an expediated process to a standard rules consultation, recognising the complexity of these issues and the importance of understanding the impacts of electrification on customer values.

Our key recommendations for AER consideration are summarised below, and set out in more detail thereafter:

- segmentation analysis should be undertaken to review changes in willingness to pay and value of reliability amongst different cohorts
- electrification forecasts should be captured in both the VCR methodology, and its application
- current limitations of applying the VCR in practise should be addressed, including the consideration of worst-served customers and CBD security of supply requirements.

Should you have any queries on our submission, please contact Bel Matthews on 0499 925 253 or bematthews@powercor.com.au.

Yours sincerely

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Values of Customer Reliability 2024: CitiPower, Powercor and United Energy submission in response to the AER's revised draft determination

Segmentation analysis on the varying demographics could identify changes in willingness to pay and values of reliability amongst cohorts

Segmentation analysis allows for better understanding of how willingness to pay and the value of reliability may change across varying demographic and energy consumption patterns. In our customer values research, for example, we explored how customer willingness to pay varied across different demographics including age, household makeup, income, EV ownership, solar household, and customers with limited agency.¹

Our segmentation analysis provided a framework for a deeper understanding of willingness to pay survey outcomes. Our findings included:

- younger customers had a higher willingness to pay on their current energy costs than older customers. Across our three networks there is a material difference between willingness to pay between the 18-34 age group and the 50+ age group
- for household make-up, customers who live in house sharing arrangements had a higher willingness to pay relative to the median
- across both small and medium businesses (SMB) and residential customers, electric vehicle (EV) owners (or those considering purchasing an EV) were willing to pay more than those without EVs. Similarly, across both SMB and residential customers, those with solar were willing to pay more than non-solar customers
- customers with limited agency had a lower willingness to pay in United Energy compared to the median, and in CitiPower, customers with limited agency had a higher willingness to pay. No material difference between the groups was observed in Powercor.

In this context, we support the additional energy-specific questions proposed by the AER in its survey, and encourage further additional demographic questions, for example, on income, age, household make-up.

We also recognise the broader challenge of understanding customer preferences and how they are impacted by such factors such as budget and electricity consumption, and that correlation does not always infer causation. However, the advice we received from our Customer Advisory Panel on our research was that it is more meaningful to have the data to review any patterns than to not investigate at all (i.e. even imperfect data can be informative and has value).

To allow for transparency, the AER should publish the breakdown of the survey sampled including the percentage of respondents that fall into the key demographics. The AER should also highlight where any adjustment was required if the sample was significantly skewed from a representative sample.

Electrification forecasts should be captured in both the VCR methodology, and its application

Customers are more dependent on electricity now than ever before, and this dependence will materially increase in the short and medium-term future with electrification. As customers increasingly switch to EVs, and/or switch off gas, the impact of an outage will have higher consequence to our customers.

We support the AER accounting for electrification in the VCR methodology via an annual adjustment mechanism to ensure the VCR remains aligned to consumer preferences. To do this, we support investigating the differential

¹ Limited agency cohort includes customers with low income, medically vulnerable, single parent households and customers identifying as First Nations.

between VCRs for EV and non-EV owners as a way to quantify the appropriate annual adjustment in customer value which can increase in alignment with electrification forecasts.

However, the AER should also consider how the updated figures would be applied in practise. Any annual adjustments to the VCR would need to be set in advance to allow network service providers to deliver and respond to the changing value ahead of time. We note that there is precedent for this approach in the Value of Emissions Reduction (VER) resulting from the amendment to the National Electricity Objective (NEO) as well as the AER's customer export curtailment value, which supports certainty of investment planning.

While we understand the challenge of recruiting specific customer cohorts (such as EV owners) for quantitative analysis, these are not intractable. Learnings from our stakeholder engagement program are that feedback from 'harder-to-reach' groups can be achieved with bespoke and targeted approaches. For example, when seeking engagement with large commercial and industrial customers, we have found the following:

- engaging via large industry groups, such as Australian Industry Group, and Energy Users Association of Australia, leads to higher engagement response rates than contacting customers individually
- one-on-one interviews at the convenience of the individual tends to be more successful, given the time-poor nature of these individuals representing large customers
- it is important that customers understand the value of the research they are contributing to, and how it will benefit their business, industry, or stakeholder interests. Communicating the value and importance of the research is important to their engagement in the issues.

The VCR review should consider the current limitations of applying the VCR in practise

There are two key application challenges of the current VCR that we raised in our previous submission, and we consider these should be reviewed alongside other methodology considerations.

CBD security of supply requirements should be considered and accounted for in the current VCR methodology

In central business districts (CBD) of major cities there are often enhanced requirements for reliability due to the criticality of the economic and social activity in these areas. However, this is not accounted for in the VCR methodology, as there is no distinction between suburban and CBD VCRs—for example, it is not uncommon for suburban zone substations to attract a higher weighted VCR than zone substations in the CBD.

Other jurisdictions have responded to this discrepancy with direct solutions. For example, the Independent Pricing and Regulatory Tribunal (IPART) in NSW found that it was inappropriate to apply the suburban VCR to Sydney's CBD given the nature of the customers such as the Australian Stock Exchange, NSW Parliament, and large financial institutions. Instead, IPART adopted a VCR value of \$90/kWh.²

Given the criticality of the economic and social services dependent on these CBD assets, we recommend the AER consider the representation of critical CBD customers in quantifying a CBD specific VCR, or provide sufficient flexibility in the regulatory framework for networks to apply a higher VCR in CBD areas to recognise the increased jurisdictional security of supply requirements.

² <https://www.ipart.nsw.gov.au/sites/default/files/documents/supplementary-final-report-electricity-transmission-reliability-standards-november-2016.pdf>

The VCR review should address inequities from the application of the VCR, including for worst-served customers

Under the current regulatory and economic framework, regional and rural customers receive 4–5 times lower reliability outcomes on average. For example, customers on urban feeders experience approximately 70 minutes off supply per annum, compared to over 300 minutes for customers on rural long feeders.

Beyond the average supply for rural long feeders, some pockets of worst-served customers have experienced up to 1,600 minutes off supply in a single year. These lower service levels persist predominately because population density is the overriding factor in the application of the VCR in cost benefit analysis.

While some degree of variation in reliability is unavoidable, we have consistently heard from customers through our extensive qualitative stakeholder engagement program that the current gaps in reliability are neither equitable, nor sustainable over the longer-term. Following this consistent customer feedback, we quantified the customer value of improving reliability in worst served areas. Our customer values research found that our Powercor customers were willing to pay \$151/kWh for reliability improvements in worst-served areas.

We recommend the AER allow for sufficient flexibility in the VCR framework for distribution networks to apply their own VCR for worst-served customers where there is consistent customer engagement and willingness to pay evidence to support it.