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Values of Customer Reliability Methodology – Revised draft determination

Dear Ms Jolly,

SA Power Networks welcomes the opportunity to provide comment to the 'Revised Draft determination: Values of Customer Reliability (VCR) Methodology' (**the Revised Draft Determination**).

We welcome the AER consulting further on this review, and the proposal to have regard to factors that can change the value that customers' place on electricity supply, such as through increasing dependence on electricity with trends toward the increased electrification of homes, businesses and transport. This will help ensure that the VCR remains fit-for-purpose in guiding the evaluation of efficient distribution network investments that meet the needs of customers.

However, some aspects of the proposed methodology require further consideration as set out below.

Balancing certainty, predictability and the changing landscape

As stated in our earlier submission to this methodology review, we consider it important that the VCR methodology account for factors that might, over the course of the VCR application period, significantly alter the value that customers place on uninterrupted electricity supply. Changes toward greater electrification, which increases customers' dependence on electricity, are key among these.

However, consideration should also be given to the need to ensure a reasonable degree of certainty / predictability in the VCR over a set period. This is so that the VCR can be practically and readily incorporated into network investment planning decisions (including optimal project timing), Regulatory Proposal business cases, and Regulatory Investment Tests (RITs), all of which require multi year assessments. The VCR also interacts with the setting of, and performance against, Service Target Performance Incentive Scheme (STPIS) targets.

Therefore, our views are that:

- we do not support the VCR surveys being conducted more frequently than the current 5 year process, as this would introduce unpredictability in network planning; and
- an annual adjustment mechanism, set to pre-determined criteria / metrics, would appear to best provide ongoing predictability for networks while accounting for material changes in customer values.

Approach to annual adjustment mechanism

An annual adjustment mechanism could account for various changes in the energy landscape that significantly alter customers' willingness to pay (WTP) to avoid outages. Of these changes, we consider increasing electrification of homes, businesses and transport will likely be most significant on the overall VCR results. In order to capture these changes, we consider that:

- using energy-specific demographic questions can inform different baseline WTP for customer cohorts – e.g. questions on whether customers have EVs, solar PV and a gas connection may be significant electrification indicators and demonstrate shifts in customer valuations;
- having multiple demographic fields to draw upon for the annual adjustment mechanism appears sensible, provided factors prove to have a statistically significant impact and there is sufficient survey data resulting in a low margin of error; and
- once metrics are agreed, the mechanism should be informed annually by current trends (e.g. Electric Vehicle uptake) forecast and set at the beginning of the VCR application period rather than drawing on new data on an annual basis. This will ensure a reasonable degree of predictability in the VCR to allow for practical application in network planning processes.

However, we consider it important that brief consultation be undertaken prior to publishing the values derived by an annual adjustment mechanism. Given that this would be the first time that such a mechanism is applied, there remain a number of uncertainties such as:

- which energy-specific questions may yield a statistically significant change in WTP; and
- whether the annual adjustment factor would be applied as a point in time forecast or a percentage weight updated on yearly actuals, and the weightings to apply to changes in trends of key inputs such as EV uptake or other factors.

Consultation prior to publishing of values would allow the following:

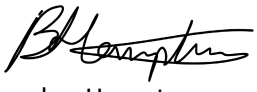
- networks to provide feedback on potential data sources for adjusting annual customer weightings for the annual adjustment factor; and
- a top-down assessment on whether the application of energy-specific questions has yielded reasonable results. If results appear nonsensical or counter-intuitive, the original method of calculating VCRs (i.e. without attempting to weight by customers with EVs etc) could be used while potential adjustment methods are refined for use in the following VCR methodology.

Customer Energy Resources

With respect to CER customers unserved / unused energy, we employ the VCR in terms of unserved energy 'in front of the meter' as this is the accessible data that does not require any modelling or further assumptions. The AER's methodology of applying the WTP survey results to in front of the meter energy is compatible with that current methodology. Lost export capacity would likely be a consideration of CER customers taking the survey and therefore would be reflected in the VCR results.

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

Yours sincerely



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