SUBMISSION

EUAA
Energy Users Association of Australia

AER VALUES OF CUSTOMER RELIABILITY METHODOLOGY: REVISED DRAFT DETERMINATION JUNE 2024

12 JULY 2024

INTRODUCTION

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

We appreciate the opportunity given by the AER to engage on this very important issue. We also appreciate the AER's decision to follow our earlier submission[1] recommendation to follow the normal two stage review process rather than the previously proposed expedited process. This submission brings together in one place a range of correspondence with the AER over the last month.

In our earlier submission we noted that our objective in recommending a normal two stage process was:

> "…to get a robust VCR that is the result of a comprehensive engagement process to give all stakeholders confidence in the methodology and results. The risk of failing to do that is consumers (and networks) lack confidence in the results. This then rebounds on networks when they are seeking to meet their obligations under the Better Reset's Handbook in their engagement on expenditure proposals reliant on the new VCR values."

In this submission we provide:

- General comments on the proposed methodology
- Submit that the next survey should be done by the end of 2027, rather than the previous 5 yearly intervals, and
- Provide detailed comments on the draft questionnaires in the Attachment.

PROPOSED METHODOLOGY

The purpose of the survey

Both Appendix A and B provide little or no background commentary on what the survey is about and how the results will be used. These words at the start of the residential and small business survey are insufficient context and potentially misleading:

[1] https://www.aer.gov.au/system/files/2024-04/Energy%20Users%20Association%20of%20Australia%20%28EUAA%29%20-%20submission%20on%20consultation%20procedure%20-%20VCR%202024_0.pdf

> "Power reliability is important. Interruptions can be costly, but it can be expensive to avoid them completely due to the cost of building and maintaining electricity poles and wires.
> This survey is for you to share your thoughts on how unexpected power outages affect you and how far we should go to avoid them. The results of this survey will be used by the AER to help ensure electricity providers invest in the right amount, balancing reliability and affordability to deliver power to energy consumers"

For example, while the first sentence refers to 'poles and wires', the second does not and how are respondent to know that 'electricity providers' only includes networks and does not also include generators or retailers?

We suggest inclusion of something like the following in both questionnaires:

- This survey covers interruptions as a result of electricity network issues – not reliability associated with the generation of electricity
- VCR covers interruptions up to 12 hours – and explain why you are asking for information on outages longer than 12 hours
- the $ values provided by respondents will be used in a calculation by the AER to get VCR – you can see how this calculation is done [here] (provide a link)
- that calculation will be used by networks to justify additional network investment
- that will influence the price a business pays for its electricity – many of these investments have very long asset lives so this payment will in some cases continue for decades
- paying that price will not guarantee the unexpected interruption the respondent has been asked to value, will be prevented
- given 'the costs of electricity network investment are shared by all customers' (Appendix B p.1) the residential consumer/business will still pay that price even it if spends $ on back-up supply; it will only be avoided if the consumer isolates themselves from the grid.

The questions from the Reliability Panel

Appendix A has proposed questions from the Reliability Panel (pp28-9 for residential and p. 58 for small business). It is understood that these questions are unlikely to be asked of large consumers.

These questions can be very confusing to respondents. How are they supposed to separate out reliability due to the lack of generation and bulk transmission (the basis of the NEM reliability standard advised by the Panel) and reliability due to fallen trees in the distribution network (the purpose of VCR?) They are not told that interruptions due to generation and bulk transmission are very minor (<1%) and the standard has not been breached since 2008-9[2]. Further, it is not clear whether any amounts they say here are in addition to the $ amounts they have provided earlier.

[2] See slide 14 https://www.aemc.gov.au/sites/default/files/2024-06/FY2023%20AMPR%20final%20report.pdf

Residential and small business customers

As we commented in our earlier submission, we consider the proposed methodology for residential and small business customers is not fit for purpose. It seems that the desire to ensure comparability with the 2019 results drove the decision to continue with a short online survey with a few modifications to the 2019 version. Appendix A says that respondents will be expected to spend at least 15-20 minutes completing ~25-30 questions. We understand that there will be very small payment for this.

Based on our extensive experience in network engagement with small business, it can be very difficult to get them fully engaged in an informed way, even when they are being paid considerably more than what they will be paid for the VCR questionnaire.

While many of the questions are easily answered basic information questions, a number are quite complex with the questionnaire apparently not providing any background information on the electricity market context apart from a few brief comments on p.1. There is no explanation, for example, about how the results will be used to justify increased network investment, the costs of which will be recovered from consumers over their asset lives which can be decades.

It would be helpful for the AER to provide, perhaps through Lonergan, evidence on the response rates and data rigor for surveys of this complexity.

While there is a brief part of one question that seems to provide an opportunity to value a reduction in reliability for a lower bill (Appendix A p.49) the implicit intention of the questions in Appendix A is to get a positive number for willingness to pay. We have observed extensive residential and small business engagement by distributions networks in the last couple of years. Affordability is far and away the most important factor, well ahead of reliability. Consumers have seen their bill rise significantly when they were promised it would fall. They consider that higher price should bring them a reliable service and provide a lot of insurance against future interruptions. For example, Energex and Ergon have not introduced a CSIS for 2025-30 because their customers said they were not willing to pay more to incentivise the networks to improve their performance. Customers expect a highly reliable service without any extra payment. There should be more opportunity to express the preference for less reliability and lower bills.

We provide specific comments on the pilot questionnaire for small business in the Attachment to this submission.

Large customers >10MVA

There is no recommended time for completion of this survey. Advice from the AER suggests they expect the survey to take 15-20 minutes to complete with the time depending on how much information they have readily available. The AER also advises that large customers will not be paid to complete the questionnaire. Our advice is:

- Businesses have a large number of requests to fill our various questionnaires/surveys etc; some are required under legislation e.g. ABS, others are discretionary; when they received this discretionary one they will assess the time/benefit trade-off - quick judgement/guess or more considered calculation?
- It is unlikely the information you are seeking is readily available – in some cases it could take considerable time depending on the level of accuracy a firm is willing to provide; it is not a simple calculation to measure 'lost

production, damage to plant and equipment, overtime labour costs, damaged goods etc'. It could take hours if not days of labour time, particularly for a business that has not had an actual unexpected outages of the type you are wanting them to value
- It is problematic that all respondents will apply the degree of rigor required to provide fully informed responses and some respondents will decide not to participate because of the work involved - especially when they are not receiving any payment for their time; perhaps this was also the case in 2019 when the AER received 67 responses out of 300 requests?
- So, it would be good to understand how you assess the 'thoroughness' of the responses so that all effectively have equal weight in the analysis
- How does the AER ensure appropriate sample size and diversity – what evidence was available to show that the 67 responses received in 2019 were representative of large energy users across the NEM?
- We understand that there has been no pilot testing of the large customer questionnaire – we think there should be

While we support the direct cost methodology, there is not always a direct correspondence between the costs of an unexpected power outage and what a business is actually prepared to pay to stop it. A large industrial user may bear significant costs from an extended outage but they may be unwilling to pay that cost to avoid those costs in the future. They may undertake their own mitigation e.g. have onsite back-up generation and multiple grid connections. To suggest it should be willing pay the cost of an interruption may bring the response that they are unwilling to pay twice.

Appendix B seems to acknowledge that (p.1):

> "Even if your business has installed back-up supply options to enable business operations to continue as usual through a power outage limiting the cost of an outage for your business, it is still important your views are captured by filling out this survey because the costs of electricity network investment are shared by all customers."

Which would suggest that using direct costs will over-estimate willingness to pay, but it is not clear how the AER's calculation will take account of that influence in the survey responses.

TIMETABLE FOR NEXT REVIEW

Our experience with this rushed process for the 2024 review supports the case for a more comprehensive approach to be taken for the next review and that this next review should be completed no later than the end of 2027. It is reasonable for the AER to expect networks to undertake best practice stakeholder engagement under the Better Resets Handbook. It is also reasonable to expect that the AER would following a similar best practice engagement approach.

This would require starting around mid-2026, a formally constituted consumer/stakeholder reference group that would be involved in all stages e.g. co-design of the engagement plan, consideration of the role of deliberative forums, advising on questionnaire design, involvement in any pilot surveys and analysis of how changes in electricity consumption will impact on the value of grid reliability.

Our discussions with the AER have suggested to us that budget constraints are influencing the level of engagement the AER is able to undertake for these reviews. Given that we would support a request for specific, additional funding for this process due to the significant impact VCR can have on final energy bills.

Do not hesitate to be in contact should you have any questions.

Andrew Richards
Chief Executive Officer

ATTACHMENT – COMMENTS ON APPENDIX A: SMALL BUSINESS <10MVA QUESTIONNAIRE

Page 31
Do not understand the purpose of this question. Why is it relevant whether the person in the large user is the owner or employed full or part time?

Page 32
It is not always that case that the best person to answer the questions is someone who has responsibility to pay or manage the electricity bill. It could be someone in the finance or procurement department who then liaises with a whole range of other people in the business to get the data to answer the questions. The relevant question is more like ‘do you have or are able to obtain the information needed to answer these questions?’

Page 40
Why is this question asked when page 34 specifically tells them ‘this survey is designed to be answered in relation to **a single business site in Australia’** (emphasis in original)?

Page 41
What does the AER do to ensure the representation of different types/sizes of small businesses in their response sample is representative of this consumer cohort in each jurisdiction? How did the 67 responses in 2019 compare to ABS small business data and show appropriate coverage for business types and location?

Page 43
How is ‘unexpected failure…’ defined? Why does this question not specifically exclude momentary or >12 hour interruptions?

Page 44
Unclear question given previous question. What if the answer to the previous question was 5 interruptions ranging from 1 minute to one day. Which of those is the respondent to refer to when answering this question? There may be a wide range of ‘disruption’ flowing from the ‘unexpected failure’.

Page 48
Why were these peak times chosen? Peak times vary and network peak time windows in TOU pricing vary. The assumption on p.49 seems to be that these time are the same in summer and winter which is not the case.

Page 49
Good to see that you are asking this question even if it is very limited. How from a VCR methodology standpoint, do $ measures of willingness to accept a lower bill for lower reliability feed into the VCR calculation? Where is that explained in the Revised draft determination?

The choice of peak times could be confusing given different networks use different peak time windows in their network pricing.

Page 51 (and similar for pp 52/53/54)

Very confusing question as it is not clear how long the increase in the bill would apply for. Use of the words 'over 6 month this is the total $' is misleading. It could be interpreted by the respondent that they only have to pay that amount for 6 months. But this is not the case. If a higher VCR results in higher capex then customers will be paying for that over the asset life which could be decades.