AusNet

Meeting Snapshot

Coordination Group | Costed Options Deep Dive on Applying the QCV Values

Wednesday 29 May 2024

Participants

EDPR 2026-31 Panel members	AusNet staff
Peter Eben (Chair)	Charlotte Eddy, General Manager Regulation (Distribution)
Kieran Donoghue	Robert Ball, Price Review Manager
Mark Grenning	Lucy Holder, Manager, Customer Engagement
Gavin Dufty	Chirag Desai, Manager, Network Planning
Dean Lombard	Chloe Finn, Regulatory Economist
Helen Bartley	William Nixon, Strategic Network Planning Engineer

Observers

David Prins, AER Consumer Challenge Panel

Adam Petersen, AER

Michelle Shi, AER

Apologies

Emily Peel, Panel member

Gus Mandigora, AER

Purpose of the meeting: To collaborate with the Coordination Group on which values are fit for purpose for application to AusNet's EDPR proposal, and how they should be applied.

Additional context: This deep-dive was held in a regular, extended meeting of the Coordination Group. AusNet prepared the record for the deep-dive section for consistency, and the Coordination Group took its own minutes for the remainder of the session. This session also built on previous conversations held on the Quantifying Customer Values (QCV) research study.

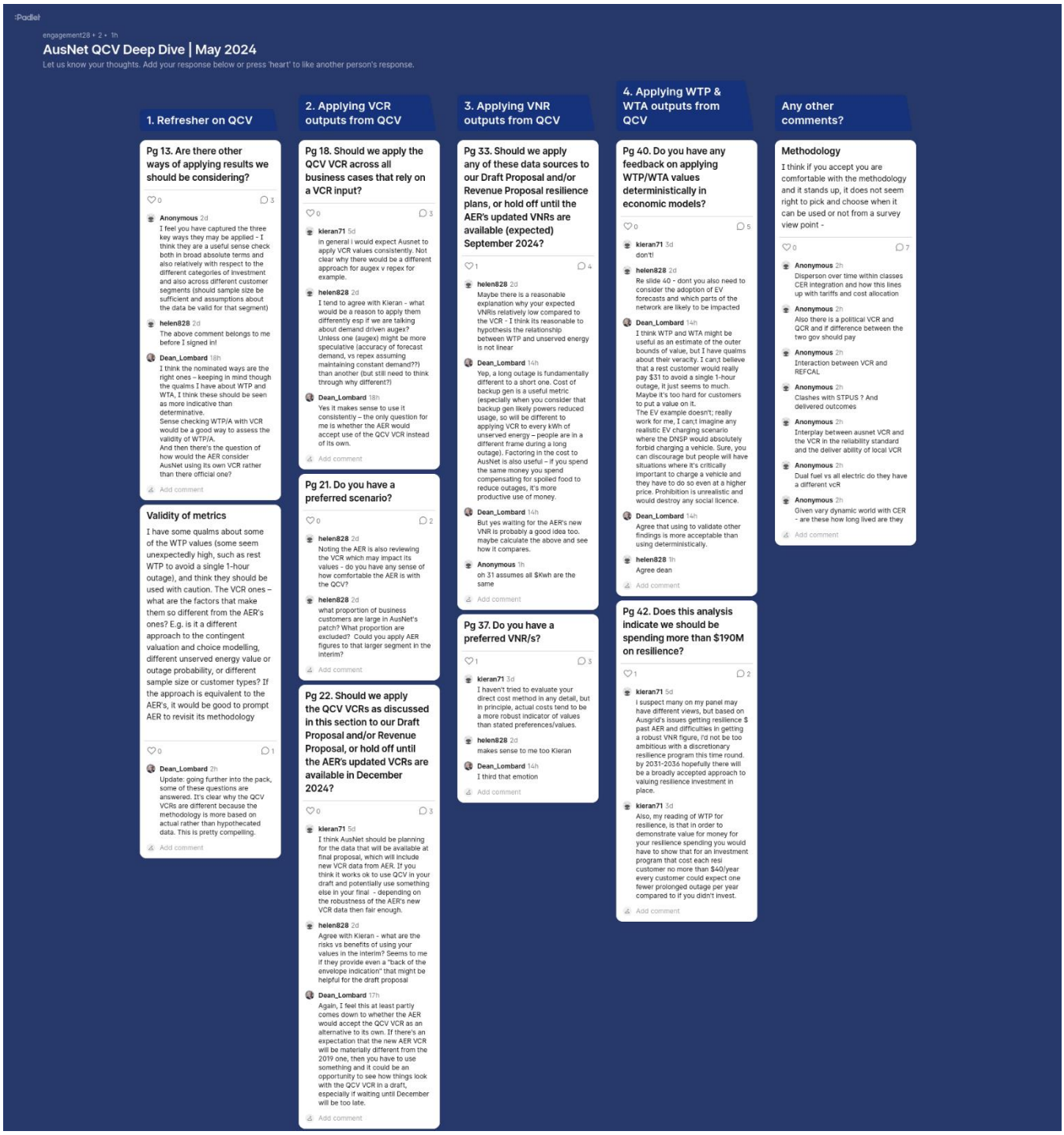
Key discussion points

Agenda item	Key discussion points
1. Refresher on QCV study and results	*There was agreement that the 3 broad ways the QCV study could be used to inform investment priorities are:* • *Applying values deterministically in economic models, and in scenario planning (added)* • *Comparing bill impacts of specific investment proposals with relevant WTP/WTA values* • *Using as a sense check/validation on customer priorities* There were a number of clarifying questions asked, including confirmation the QCV values could be used as scenarios in economic models.
2. Applying Value of Customer Reliability (VCR) outputs from QCV	*Agreement that AusNet's residential VCR and small business VCR are robust and fit-for-purpose, but for larger businesses the AER's should be used. AusNet will proceed with using a combination, acknowledging nuance is required, e.g. to adjust for/interpret any consistencies in definitions between AusNet and AER studies.* *Agreement that the VCRs should be applied holistically across the proposal capex categories from a methodological perspective, noting panel members would like to better understand the impacts which will be shared in future sessions.* Discussion covered: • Alignment to sun-soaker tariffs and VCR, and CER integration • Tension between VCRs and safety programs (like REFCLs which impacts reliability), and what the Victorian government considers to be the value of reliability. It was suggested that downstream (of REFCL) CER could be considered, and cost allocation of those impacted by outages of different causes might be factored in. There was broad agreement that it is complex and would need VicGov involvement to resolve, and no next steps to resolving this tension were agreed. • Confirming the QCV values could be used as scenarios in economic models, and there is analysis for this in the pack. • AusNet should consider introducing a new 'small business' customer category into its economic models to enable its small business VCR to be applied, reserving the AER's VCR for very large business. • AusNet's VCR being just a more network-specific, accurate version of the AER's VCR that is more appropriate for AusNet's network, and that this should address some of the limitations that networks have previously faced using the AER's VCRs in terms of developing proposals reflective of customer needs. Panel members were in unanimous agreement that AusNet's VCR should be used over the AER's. • The AER confirmed it has accepted VCRs provided by networks in the past (so is open to this). AusNet added that feedback from customers/advocates is a key part of the discussion with the AER on whether it accepts the AusNet-specific VCR. • Needing nuance when merging results from different data sources (QCV & the AER's VCR) to adjust for any inconsistencies in definitions etc • The size of VCR changes the investment timelines. AusNet confirmed it wouldn't be seeking reduced asset lives, as the asset lives under the rules need to reflect the economic life of the asset. Would the economic life change to reflect VCRs? VCRs haven't typically been considered, but AusNet will take an action to give this more thought. • There being 2 ways to look at the VCR increasing – as an increase in capex and "dumping a whole lot of new expenditure in", or that the VCR has been wrong

	for AusNet customers and AusNet is playing catch-up on under-investing compared to customers' preferences? There is a question on whether investment could be smoothed. • Confirming additional investment from higher VCRs would likely help load as well as generation. Suggestion that it's worthwhile talking about tariffs/tariff reform in the proposal. • Incorporating the VCR in shouldn't remove consideration of worst-served customers in the proposal.
3. Applying Value of Network Resilience (VNR) outputs from QCV	*Agreement that AusNet should use direct costs be used as the QCV preferences are too flawed, noting that no solutions are perfect.* Discussion included: • The relationship between costs and time without power is somewhat non-linear • Lots of discussion about the range of generator sizes / configurations / ownership vs rental models customers have, and that this varies between businesses and households, and some businesses may have claimed tax reductions / insurance offsets, benefitted from increased demand if others can't operate ... should businesses be obligated to cover/insure themselves? Acknowledgement this isn't practical.
4. Applying Willingness to Pay / Willingness to Accept (WTP/WTA) outputs from QCV	*Agreement that WTP/WTA values should not be applied deterministically in economic models, given the uncertainty.* Discussion included: • On resilience, WTP probably shouldn't be averaged across the network as only some customers benefit, and there needs to be a balance of considering localised investment and broad-brush resilience investments, and who's willing to pay for what. *No decision reached on comparing bill impacts of specific investment proposals with relevant WTP/WTA values* Discussion included: • We should not be investing to 'match' resilience values however there is a need for further analysis to establish if WTP/WTA values are useful bounds to test preference for investment

Action items

Action	Assigned to	Status	Due date
To think about cost allocation and VCRs, noting this may be limited under postage stamp pricing and in general customers electrifying will be paying more (given they use more) which should reduce per unit costs for others.	AusNet Reg Team	Open	July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engagement28 + 2 • 1h
AusNet QCV Deep Dive | May 2024
Let us know your thoughts. Add your response below or press 'heart' to like another person's response.
1. Refresher on QCV
Pg 13. Are there other ways of applying results we should be considering?
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3
Anonymous 2d
I feel you have captured the three key ways they may be applied - I think they are a useful sense check both in broad absolute terms and also relatively with respect to the different categories of investment and also across different customer segments (should sample size be sufficient and assumptions about the data be valid for that segment)
helen828 2d
The above comment belongs to me before I signed in!
Dean_Lombard 18h
I think the nominated ways are the right ones – keeping in mind though the qualms I have about WTP and WTA, I think these should be seen as more indicative than determinative.
Sense checking WTP/A with VCR would be a good way to assess the validity of WTP/A.
And then there's the question of how would the AER consider AusNet using its own VCR rather than there official one?
Add comment
Validity of metrics
I have some qualms about some of the WTP values (some seem unexpectedly high, such as rest WTP to avoid a single 1-hour outage), and think they should be used with caution. The VCR ones – what are the factors that make them so different from the AER's ones? E.g. is it a different approach to the contingent valuation and choice modelling, different unserved energy value or outage probability, or different sample size or customer types? If the approach is equivalent to the AER's, it would be good to prompt AER to revisit its methodology
0
1
Dean_Lombard 2h
Update: going further into the pack, some of these questions are answered. It's clear why the QCV VCRs are different because the methodology is more based on actual rather than hypothecated data. This is pretty compelling.
Add comment
2. Applying VCR outputs from QCV
Pg 18. Should we apply the QCV VCR across all business cases that rely on a VCR input?
0
3
kieran71 5d
in general I would expect Ausnet to apply VCR values consistently. Not clear why there would be a different approach for augex v repex for example.
helen828 2d
I tend to agree with Kieran - what would be a reason to apply them differently esp if we are talking about demand driven augex? Unless one (augex) might be more speculative (accuracy of forecast demand, vs repex assuming maintaining constant demand??) than another (but still need to think through why different?)
Dean_Lombard 18h
Yes it makes sense to use it consistently – the only question for me is whether the AER would accept use of the QCV VCR instead of its own.
Add comment
Pg 21. Do you have a preferred scenario?
0
2
helen828 2d
Noting the AER is also reviewing the VCR which may impact its values - do you have any sense of how comfortable the AER is with the QCV?
helen828 2d
what proportion of business customers are large in AusNet's patch? What proportion are excluded? Could you apply AER figures to that larger segment in the interim?
Add comment
Pg 22. Should we apply the QCV VCRs as discussed in this section to our Draft Proposal and/or Revenue Proposal, or hold off until the AER's updated VCRs are available in December 2024?
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3
kieran71 5d
I think AusNet should be planning for the data that will be available at final proposal, which will include new VCR data from AER. If you think it works ok to use QCV in your draft and potentially use something else in your final - depending on the robustness of the AER's new VCR data then fair enough.
helen828 2d
Agree with Kieran - what are the risks vs benefits of using your values in the interim? Seems to me if they provide even a "back of the envelope indication" that might be helpful for the draft proposal
Dean_Lombard 17h
Again, I feel this at least partly comes down to whether the AER would accept the QCV VCR as an alternative to its own. If there's an expectation that the new AER VCR will be materially different from the 2019 one, then you have to use something and it could be an opportunity to see how things look with the QCV VCR in a draft, especially if waiting until December will be too late.
Add comment
3. Applying VNR outputs from QCV
Pg 33. Should we apply any of these data sources to our Draft Proposal and/or Revenue Proposal resilience plans, or hold off until the AER's updated VNRs are available (expected) September 2024?
1
4
helen828 2d
Maybe there is a reasonable explanation why your expected VNRs relatively low compared to the VCR - I think its reasonable to hypothesis the relationship between WTP and unserved energy is not linear
Dean_Lombard 14h
Yep, a long outage is fundamentally different to a short one. Cost of backup gen is a useful metric (especially when you consider that backup gen likely powers reduced usage, so will be different to applying VCR to every kWh of unserved energy – people are in a different frame during a long outage). Factoring in the cost to AusNet is also useful – if you spend the same money you spend compensating for spoiled food to reduce outages, it's more productive use of money.
Dean_Lombard 14h
But yes waiting for the AER's new VNR is probably a good idea too. maybe calculate the above and see how it compares.
Anonymous 1h
oh 31 assumes all $Kwh are the same
Add comment
Pg 37. Do you have a preferred VNR/s?
1
3
kieran71 3d
I haven't tried to evaluate your direct cost method in any detail, but in principle, actual costs tend to be a more robust indicator of values than stated preferences/values.
helen828 2d
makes sense to me too Kieran
Dean_Lombard 14h
I third that emotion
Add comment
4. Applying WTP & WTA outputs from QCV
Pg 40. Do you have any feedback on applying WTP/WTA values deterministically in economic models?
0
5
kieran71 3d
don't!
helen828 2d
Re slide 40 - dont you also need to consider the adoption of EV forecasts and which parts of the network are likely to be impacted
Dean_Lombard 14h
I think WTP and WTA might be useful as an estimate of the outer bounds of value, but I have qualms about their veracity. I can;t believe that a rest customer would really pay $31 to avoid a single 1-hour outage, it just seems to much. Maybe it's too hard for customers to put a value on it.
The EV example doesn't; really work for me, I can;t imagine any realistic EV charging scenario where the DNSP would absolutely forbid charging a vehicle. Sure, you can discourage but people will have situations where it's critically important to charge a vehicle and they have to do so even at a higher price. Prohibition is unrealistic and would destroy any social licence.
Dean_Lombard 14h
Agree that using to validate other findings is more acceptable than using deterministically.
helen828 1h
Agree dean
Add comment
Pg 42. Does this analysis indicate we should be spending more than $190M on resilience?
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2
kieran71 5d
I suspect many on my panel may have different views, but based on Ausgrid's issues getting resilience $ past AER and difficulties in getting a robust VNR figure, I'd not be too ambitious with a discretionary resilience program this time round. by 2031-2036 hopefully there will be a broadly accepted approach to valuing resilience investment in place.
kieran71 3d
Also, my reading of WTP for resilience, is that in order to demonstrate value for money for your resilience spending you would have to show that for an investment program that cost each resi customer no more than $40/year every customer could expect one fewer prolonged outage per year compared to if you didn't invest.
Add comment
Any other comments?
Methodology
I think if you accept you are comfortable with the methodology and it stands up, it does not seem right to pick and choose when it can be used or not from a survey view point -
0
7
Anonymous 2h
Disperson over time within classes CER integration and how this lines up with tariffs and cost allocation
Anonymous 2h
Also there is a political VCR and QCR and if difference between the two gov should pay
Anonymous 2h
Interaction between VCR and REFCAL
Anonymous 2h
Clashes with STPUS ? And delivered outcomes
Anonymous 2h
Interplay between ausnet VCR and the VCR in the reliability standard and the deliver ability of local VCR
Anonymous 2h
Dual fuel vs all electric do they have a different vcR
Anonymous 2h
Given vary dynamic world with CER - are these how long lived are they
Add comment


Pg 25. If we are to apply QCV VCRs, should we apply them to all projects/programs within a category?
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helen828 2d
I feel if the QCV adds another dimension to your decision making then why wouldn't you? (unless you didn't have confidence in the results for those projects)
helen828 2d
Last reset we also asked for estimates on the number of customers who would benefit and the specific likely impacts on reliability if the projects were deferred, which would also be useful information in the decision making to see alongside the QCV
Dean_Lombard 17h
Yes – what would the rationale be for doing otherwise?
Add comment
Pg 26. Do you have any feedback on these impacts and which VCRs should be applied?
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3
kieran71 5d
LV electrification augex is interesting, logically if QCV is higher, then customers are less likely to electrify as they will also likely place more value on maintaining a gas connection as a second energy vector.
helen828 2d
Agree - I think we need to consider the drivers of demand driven augex for context - electrification being one, pop growth forecasts, Greenfield developments - rest commercial et, location and affluence which might also hep predict EV penetration
Dean_Lombard 17h
There may be other things driving increased demand on SWERs than electrification of gas appliances.
If the QCV VCRs are robust, then the case is that they reflect reality better than the AER's and should be used in lieu of the AER's. I feel like it's all or nothing, I can't see any point on using different ones for different purposes (except for the already established view that AER's business VCR is more robust than AusNet's)
Add comment
Pg 26. Should we conduct further investigation to identify and assess potential DDA projects that might be brought forward/ economically justified (using QCV VCRs) in the 2026-31 period?
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2
helen828 2d
What sort of investigation are you contemplating? And how do projects get onto the "current" list in the first instance - wouldn't the "idea" projects just be lower priority projects than those on the "current" list?
Dean_Lombard 14h
Since the ones you have evaluated have given an indication of the extent to which the new VCRs make a difference, it might be reasonable to reanalyse ones that were only marginally not cost-effective, but it doesn't,t look like there's any value in doing anything more than that
Add comment
Pg 28. Do you have any feedback on these impacts and which VCRs should be applied to our repex forecast?
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2
helen828 2d
I'm struggling to understand this one
Dean_Lombard 14h
So it's a one-off jump because the change of VCR has made a step change in the threshold. It doesn't make sense to vary the VCR according to the outcome of the calculation – maybe it's better to treat it like a managed transition and ramp up to the new level of reliability threshold over two or three regulatory periods.
Add comment