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**Independent Pricing and Regulatory Tribunal
New South Wales**



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**EUAA Submission on Electricity Transmission Reliability Standards – Supplementary Draft
Report September 2016**

Introduction and Summary

Thank you for the opportunity to make a submission on this draft report. The Energy Users Association of Australia (EUAA) is the peak body representing Australian energy users. Our membership covers a broad cross-section of the Australian economy including significant retail, manufacturing and material processing industries. The annual energy bills paid by our members collectively amounts to billions of dollars and constitutes a significant input cost to their businesses.

We have only recently become aware of the IPART review. It seems that other consumer organisations are in the same position as there do not appear to be any previous submissions from consumer organisations on this matter. This is of concern to the EUAA and should be of greater concern to IPART and Transgrid as energy users are becoming increasingly sceptical that regulatory price setting processes are delivering them the value implied by increased costs.

The reliability and security of the electricity supply system is of vital importance to our members and this is why we welcome the comprehensive analysis undertaken by IPART as part of this review. Our comments will focus on the debate around which value of consumer reliability (VCR) to use for the inner metropolitan and CBD regions of Sydney.

We are disappointed that the \$90/kWh measure used by IPART is based on a desktop study provided by a consultant to Transgrid without any direct consumer input. While IPART's Terms of Reference required it to consider AEMO's VCR estimates, we believe that IPART should have sought at least some direct consumer input on the values that might apply in inner metropolitan and CBD of Sydney, rather than simply relying on desktop studies – whether they be from IPART's consultant (WSP | Parsons Brinckhoff) or Transgrid (HoustonKemp).

We are pleased to see Recommendation 9 in the May 2016 Draft Report:

“IPART should undertake a new study of the value of customer reliability (VCR) for NSW in time to inform the next review of reliability standards”

However, this will have no impact until the review of the next regulatory period that starts on 1 July 2023.

All stakeholders in the IPART process have highlighted the need to more accurate VCR estimates. There is debate around whether IPART should do its own VCR estimates or if it should be a co-ordinated national approach. The EUAA does not have any strong views either way, but we do see advantages in measures developed through COAG Energy Ministers so as to achieve greater national consistency. However if this would create a substantial delay to the process, then we support IPART undertaking its own study for NSW and other jurisdictions can catch up and coordinate at a latter time.

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In the end we simply want to see the development of customer focussed VCRs as a central part of electricity policy. Reliability is becoming more important as the NEM transitions to a lower carbon footprint. We need to ensure full transparency around the costs of this transition and this includes what consumers are prepared to pay for. These values can then be used across electricity markets to assess policy and investment alternatives.

Specific Responses

1. Support the concept of allowing some level of unserved energy based on the social cost (asset cost + VCR). We do not think it is efficient for Transgrid to plan to reduce the level of unserved energy to zero as this does not indicate that much consideration has been given to the cost impact on consumers.
2. Support the approach in the Draft Report that reliability standards be expressed in a language that promotes evaluation of the most efficient network or non-network solution. The current network regulation process creates a strong bias towards achieving reliability standards by investment in network solutions to increase the regulated asset base with consumers left with the stranded assets risk.
3. The value of customer reliability used in IPART's analysis should be the result of actually asking consumers.

The estimation of VCR has had a chequered history. Over time there has been no shortage of organisations, particularly networks, who wish to claim they know how much users value reliability. These proponents then use these values to justify additional investment that may or may not be in the long term interests of consumers. One thing is clear, that it has certainly been in the long term interests of the networks expanding their regulated asset base.

Unfortunately these values were generally derived from desktop studies or very limited consumer surveys. The EUAA welcomed the AEMO analysis in 2014 and a number of our members actively participated in it. It was the first comprehensive study that actually engaged with a range of consumers to get their views. We recognise that the numbers had limitations e.g. in terms of the coverage across all categories of users in all locations, when the interruption occurs and its duration. But they were based on actually talking with consumers.

Transgrid has submitted a study by HoustonKemp to justify much higher VCR values for metropolitan Sydney and the CBD than implied by the AEMO analysis. The HoustonKemp study is a desk top study drawing on existing VCR estimates from Ausgrid and Oakley Greenwood, which are in turn desktop studies.

The HoustonKemp study raises some valid points suggesting that the AEMO methodological approach may mean the AEMO VCR estimates for inner metropolitan and CBD Sydney are under estimates. HoustonKemp then proceed to justify a methodological approach to arrive at what these higher numbers should be by doing a desktop study built on other desktop studies, particularly Ausgrid's. Nobody seems interested in asking consumers what they actually think.

The EUAA's specific concerns

IPART provides little justification for selection of the \$90/kWh VCR

Houston Kemp proposed \$(2016)90/kWh for inner metropolitan areas and \$(2016)150-192/kWh for the CBD. This compares with the AEMO NSW aggregate of \$(2014) 34.15. While we agree that escalating the AEMO \$2014 value to \$2016 will probably give an underestimate, IPART seems to have simply adopted the \$90/kWh number across inner metropolitan and CBD customers for no other reason than there is no alternative estimate available.

Basing reliability standards that consumers will have to pay for on desktop studies without actually asking consumers what they are willing to pay

There seems to be strong agreement from IPART, the networks and the economic consultants advising on VCR values, that we should actually ask consumers what they are willing to pay for e.g.

HoustonKemp notes:

"We agree with IPART that the only robust way to derive appropriate VCR estimates would be to conduct a new VCR study..."¹

¹ Houston Kemp p.3

This has been a common comment since the AEMO results were published in 2014. The EUAA would suggest it is time to stop talking about doing a study and actually get on and do one. Our members are very willing to participate.

We do not know what difference using a particular VCR will make to the level of network investment

We recommend that IPART seek further information from Transgrid on how different values of VCR would impact on their network investment plans. What would or would not be built with the AEMO vs IPART vs HoustonKemp values?

Reliance on the desktop study numbers may result in many consumers in Sydney paying a lot more than they are willing to pay

We agree that customers like the airport, the rail network and the stock exchange will have higher VCRs than most other businesses. However we are concerned that the application of a “blanket” VCR across inner metropolitan or CBD customers will result in over investment in network infrastructure. How many businesses in the inner metropolitan and CBD areas are prepared to pay for only 0.6min interruption per year? Or are they happy with 1.7 minutes per year using the AEMO VCR values?

It seems extraordinary that significant investment is undertaken, resulting in rapidly escalating network charges, to improve reliability of networks by such a small amount. This is a key “value” question that should be put to consumers and not just assumed by regulators, economists or network owners.

We welcome the application of customer based VCR estimates from 1 July 2023, but are concerned about the potential for long lived network assets being built prior to that date that would not have been built after that date if proper VCR values were available. Consumers are left with the costs of those assets for their remaining life.

While the proposed reliability standards (and the RIT-T and RIT-D rules) emphasise the requirement to consider non-network alternatives, we are concerned that the result may be a large increase in network investment that all inner metropolitan/CBD consumers pay for. If consumers were consulted and fully informed of their options the most efficient outcome might be for a few high VCR consumers to install their own reliability mechanisms e.g. distributed generation and/or battery systems. Indeed an outcome where all consumers pay for the reliability mechanisms of a few might be a preferable outcome to a large network augmentation or replacement.

Another alternative is the City of Sydney’s renewable energy master plan where new generation can offset the need for network augmentation or replacement.

Flow-on impacts of acceptance of high VCR numbers in other parts of Sydney and other metropolitan areas in Australia

While the VCR numbers presented by HoustonKemp desktop study were developed in the context of the Powering Sydney’s Future study by TransGrid and Ausgrid, the intention is that they apply more widely:

“...both TransGrid and Ausgrid are seeking VCR estimates that would be suitable for use in other network planning assessments (including RIT-T and RIT-D) relating to augmentation to supply to the Sydney CBD”²

We are concerned about how this might impact on reliability standards developed in other States and Territories under the COAG Energy Council response.

What do the high VCR numbers actually mean for consumers?

They do potentially mean more network investment that consumers have to pay for and bear the market risk for. However, we have yet to hear the proponent actually say that the higher VCR numbers are the basis for the compensation that consumers will receive if the reliability standards built on these VCR numbers are not met. We look forward to this confirmation.

The EUAA are committed to working with network operators, investors, regulators and governments to deliver better, fairer outcomes for consumers. We would welcome further discussion on the issues raised in this submission.

² Houston Kemp p.4

Once again, thank you for the opportunity to make this submission. The EUAA remain open to further consultation on these important issues.

Regards

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