

1 December 2011

John Pierce  
Chair  
Australian Energy Market Commission  
PO Box A2449  
SYDNEY SOUTH NSW 1235



Your Ref: EPR0027

Dear Mr Pierce

## **Review of Distribution Reliability Outcomes and Standards – NSW Workstream**

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit, law and policy organisation that works for a just and democratic society by taking strategic action on public interest issues. PIAC has, as a key area of work, energy and water policy. The Energy + Water Consumers' Advocacy Program (EWCAP) represents the interests of low-income and other residential consumers of electricity, gas and water in New South Wales.

PIAC thanks the Australian Energy Market Commission (AEMC) for the opportunity to have input to the Review of NSW Distribution Reliability Outcomes and Standards. This letter will focus on public consultation and the use of the Australian Energy Market Operator's (AEMO) methodology to estimate the Victorian Value of Customer Reliability (VCR).

### **Question 7      Estimating the willingness of NSW customers to pay for distribution reliability**

- a) Are there any potential issues with the use of AEMO's Victorian VCR methodology in estimating the willingness of NSW customers to pay? If so, how should the Victorian VCR methodology be adapted to ensure that it reflects the characteristics of NSW customers?**

PIAC supports the request outlined in the Review's Terms of Reference that the AEMC estimate 'the willingness of the NSW community to pay for a range of reliability outcomes' through 'expert analysis and public consultation'.<sup>1</sup>

The AEMC notes that the price customers are willing to pay for electricity can be understood in relation to costs customers face when supply is interrupted.<sup>2</sup> As such, the AEMC proposes to use AEMO's Victorian VCR methodology to estimate the willingness of NSW customers to pay. In developing its response to this Review, PIAC assumes the AEMC will follow AEMO's previous approach of using surveys aimed at residential, agricultural, industrial and commercial customers in this process.

This Review has been initiated in response to concerns about the effect reliability standards have on consumers' energy bills. In recognition of this, PIAC contends that the process for establishing consumers' willingness to pay should give consumers the opportunity to record their preferences against a range of models for providing reliable supply which are indicatively costed.

<sup>1</sup> Ministerial Council on Energy, *Terms of Reference, Australian Energy Market Commission Review of Distribution Reliability Outcomes and Standards: Review of NSW distribution reliability outcomes*, 2011, 4.

<sup>2</sup> Australian Energy Market Commission, *Review of Distribution Reliability Outcomes and Standards: Issues Paper – NSW Workstream*, 2011, 29.

The residential survey featured in the AEMO methodology for establishing a Victorian VCR, focuses on goods and services people may need to purchase to offset impacts of supply interruptions<sup>3</sup> that last for one hour, four hours, eight hours and 24 hours.<sup>4</sup> In its present form, it does not include a facility for consumers to provide input on their ability or willingness to pay for a range of reliability outcomes.

PIAC recommends that the consumer surveys include an additional section with a line of questions capable of canvassing consumers' views on the price impacts of various reliability outcomes. This additional component would allow some analysis of the relationship between consumers' ability to pay and their need for continual supply (something that is not currently possible). As the residential survey also collects data on income, information about cost preferences could be cross tabulated with income data to produce a picture that is more reflective of consumers in each income band.

This inclusion would enhance the ability of consumers to record their preferences for a range of reliability outcomes — aligning with the request contained in the Terms of Reference that the AEMC estimate 'the NSW community's willingness to pay for a range of reliability outcomes'.<sup>5</sup> It would also allow consumers' willingness to pay to be understood by more than an average figure that may not reflect any NSW consumer's desire for a reliable, secure and affordable energy supply. Information that more closely reflects the needs of different sectors in the community would be useful in developing more responsive tariff structures and assistance measures where reliability outcomes had unavoidable impacts on price.

PIAC also recommends that the residential survey seek to clarify whether anyone in the household is reliant on life support equipment or any other essential health or mobility aids, such as motorised wheelchairs. PIAC believes the value of reliability in these circumstances should be viewed in the context of the consequences of unreliable service, rather than people's willingness to pay.

In PIAC's view, the quality of this Review's public consultation will be contingent on the ability of the AEMC, and its agents, to translate technical information and high-level concepts into information that is accessible to the consumers being consulted. Having had access to this information, consumers will be better placed to provide quality feedback on the standard of service reliability they require; and the costs they are able to meet to achieve them.

PIAC is keen to continue to engage with the AEMC as surveys and public consultation methods used to inform this Review are further developed. Should you require any further information please don't hesitate to contact Carolyn Hodge, Senior Policy Officer via email [chodge@PIAC.asn.au](mailto:chodge@PIAC.asn.au) or telephone, 02 8898 6520.

Yours sincerely



**Edward Santow**

**Chief Executive Officer**

Public Interest Advocacy Centre

Direct phone: +61 2 8898 6508

E-mail: [esantow@piac.asn.au](mailto:esantow@piac.asn.au)

---

<sup>3</sup> Ibid, 30.

<sup>4</sup> CRA International, *Assessment of the Value of Customer Reliability (VCR) Survey: Appendix A Residential Questionnaire*, 2008 <<http://www.aemo.com.au/planning/0409-0002.pdf>>.

<sup>5</sup> Ministerial Council on Energy, above n 1.