



**public interest**  
ADVOCACY CENTRE

## **Values of Customer Reliability – Widespread and Long Duration Outages Consultation Paper**

**11 June 2020**

## About the Public Interest Advocacy Centre

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in Sydney.

Established in 1982, PIAC tackles barriers to justice and fairness experienced by people who are vulnerable or facing disadvantage. We ensure basic rights are enjoyed across the community through legal assistance and strategic litigation, public policy development, communication and training.

## Energy and Water Consumers' Advocacy Program

The Energy and Water Consumers' Advocacy Program (EWCAP) represents the interests of low-income and other residential consumers of electricity, gas and water in New South Wales. The program develops policy and advocates in the interests of low-income and other residential consumers in the NSW energy and water markets. PIAC receives input from a community-based reference group whose members include:

- NSW Council of Social Service;
- Combined Pensioners and Superannuants Association of NSW;
- Ethnic Communities Council NSW;
- Salvation Army;
- Physical Disability Council NSW;
- Anglicare;
- Good Shepherd Microfinance;
- Financial Rights Legal Centre;
- Affiliated Residential Park Residents Association NSW;
- Tenants Union;
- The Sydney Alliance; and
- Mission Australia.

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Public Interest Advocacy Centre



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The Public Interest Advocacy Centre office is located on the land of the Gadigal of the Eora Nation.

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## **1. Introduction**

The Public Interest Advocacy Centre (PIAC) welcomes the opportunity to respond to the Australian Energy Regulator's consultation on a methodology for measuring the costs of Widespread and Long Duration Outages (WALDO).

PIAC supports attempts to measure the impact these kinds of outages have on consumers, and the economy and society more broadly. Determining the value customers place on reliability helps identify efficient levels of network expenditure and ensures the energy system is planned in a way that reflects consumers' preferences and willingness to pay. We consider the Values of Customer Reliability (VCR) is a key tool in ensuring NSW consumers face a fair and efficient cost of receiving their energy.

As the climate changes, making weather more extreme, and the energy system transitions, shocks that can cause WALDOs may become more likely, increasing the need for resilience in the energy system. As greater resilience is sought, balancing its costs with its benefits and determining who pays the costs and risks of investments are questions that must be answered.

Developing an accurate and robust measure of the costs of WALDOs will be important in guiding decisions around energy system reliability and resilience and the costs and risks associated with both. The steps taken by the AER to estimate WALDOs so far are welcome and reflect careful consultation with a range of stakeholders. While we support some aspects of the proposed approach, we are concerned by others, in particular the treatment of social and wideness costs and the potential for the process to result in consumers paying for levels of reliability above their preference and beyond what they alone benefit from.

For these reasons PIAC does not consider the model is appropriate for use in its current form. We elaborate on our concerns below.

## **2. Allocation of risk and cost**

PIAC considers investment risk should be borne by those best placed to manage it and costs should be recovered according to a beneficiary-pays framework, such that those who benefit from a given investment should also pay for that investment, and where there are multiple beneficiaries, the costs should be recovered proportionally to their share of the benefits. Where it is not practical and transparent to identify or measure the beneficiaries, a causer-pays principle should be used. Cost recovery should also include the risk, to the extent it exists, of the underutilisation of assets and hence asset stranding. Cross-subsidies should only be permitted where they are accepted by informed consumer feedback or immaterially small.

As consumers will not be the sole beneficiaries of preventing WALDOs and are not best-placed to manage the risk, it is not appropriate for consumers to bear the entire investment risk and costs associated with avoiding WALDOs.

### **3. Issues for consultation**

#### **3.1 Outages to be included in model**

PIAC is concerned with the AER's definition of WALDOs as ranging from 1 GWh to 15 GWh of Unserved Energy (USE). Many regional areas experience what could be considered widespread and long-duration outages which have less than 1GWh USE but last for more than 12 hours, for example small, remote bushfire affected towns in the NSW coast largely went without energy for days last summer. We recommend adjusting the model to allow for outages which may be widespread and long duration but do not meet the threshold of 1GWh of USE.

#### **3.2 Assumptions and settings in estimating additional costs of widespread outages**

PIAC supports the attempts to estimate the impact geographical spread of an outage has on those who experience it. More widespread outages have a greater impact on people and businesses, however, we are concerned the methodology proposed for measuring this impact is arbitrary, not based on relevant data and fails to reflect differences in population densities in what constitutes 'widespread'.

Remote areas with low population densities may be much more severely impacted by a widespread outage than people in densely populated urban areas. This discrepancy is not reflected in the measurements of 'wideness' or any other modelling aspect concerning geographic area. We recommend the methodology reflect the effects of remoteness in the 'wideness factor'.

PIAC is concerned the methodology used to estimate the 'wideness factor' contradicts advice from previous VCR consultations and is inconsistent with the approach the AER committed to take based on this advice. Feedback from earlier consultations on VCR methodologies cautioned against using Willingness to Pay (WTP) surveys to measure the impacts of wideness as so few people have experienced widespread outages and so are not able to accurately value avoiding them. In response to this feedback, the AER and stakeholders agreed on a macroeconomic approach to estimating the costs of widespread outages. However, the 'wideness factor' in this model is based on estimates of WTP to avoid widespread outages determined from European studies. If the model does apply a 'wideness factor' based on WTP estimates then Australian rather than European WTP values should be used.

#### **3.3 Assumptions and settings in estimating social costs**

PIAC agrees widespread and long duration outages have social costs attached to them, however, we do not consider consumers should pay for these social costs. The methodology attempts to capture the social costs of a WALDO in a 'social cost factor', which we consider is arbitrarily determined and may result in an over-counting of the perceived social cost to consumers of a WALDO.

We do not consider it appropriate that consumers should shoulder the social costs of WALDOs as defined in the consultation paper. The paper describes social costs as including the financial cost of managing social responses to an outage (e.g. increased crime) and the financial and non-financial costs for consumers from being unable to access services. It lists emergency and

essential services; transport; communication and financial system failures; domestic violence; and poor mental and physical health as examples of social costs of WALDOs. We agree these increased costs are a possible outcome of WALDOs, however, mitigating them is not the responsibility of energy consumers to fund through energy bills.

Energy is an essential service that provides broad benefits to society including health and wellbeing, household productivity and societal participation. This is reflected in part in the special treatment the provision of energy receives in the form of energy specific consumer protections, government support for access, and in some cases public ownership of energy generation and network assets. This cost is generally borne by the government and funded through tax revenue, largely because of the positive externalities of keeping people and businesses connected to an affordable energy supply. The social costs outlined in the Paper go well beyond the scope of an individual household and include the kinds of services and utilities usually supported by government. Given preventing WALDOs has broad public benefits, PIAC considers it is appropriate and fairer to socialise the cost of avoiding them through tax revenue rather than charging consumers through bills.

We are concerned the method for determining the 'social cost factor' – largely based on studies of a 1977 New York blackout - is arbitrary and lacks relevance and applicability to an Australian context. We recommend pursuing a different approach, which uses more relevant data, to measuring social costs if they are to be included in the consumer costs of a WALDO.

### **3.4 Modelling results**

We do not support publishing WALDO VCRs in addition to publishing the final WALDO model. As standard VCRs are derived from surveying customers they have a connotation of representing customer preferences and feedback. As WALDO results are derived through modelling and are not the result of direct customer engagement we do not think presenting results as VCRs is appropriate.

In any presentation of model results, we recommend clear guidelines are established for how they can be applied, what they represent and their limitations.

### **3.5 Applications of the model in reviews of the System Restart Standard and declarations of protected events**

As the energy system transitions and the climate changes we consider accurately measuring the impacts of WALDOs will become increasingly important. We support reflecting the impacts of WALDOs in reviews of the System Restart Standard and declaration of protected events, however, we do not support applying the current model in these settings due to concerns around the wideness and social cost factors and its overall robustness.

While we do not support this specific approach being used in significant planning and investment decisions, a WALDO VCR would have value in setting the System Restart Standard, and we recommend the AER establish guidelines for how any model outputs are applied in future.

## Other issues

### 3.6 Alternative approaches

PIAC does not consider the approach detailed in the consultation paper robust and accurate enough to be used to guide significant energy system planning and investment decisions at present. In particular, the setting of the social cost and wideness multipliers lacks rigour and we are not confident the use of these multipliers improves on the standard VCR measures.

We support the AER exploring further, long-term approaches to valuing WALDOs. We consider recent events in Australia such as the bushfires and South Australian Black System present opportunities to study the cost impacts of WALDOs, including social and wideness costs, and suggest the AER consider examining them as part of further work. We support the AER collaborating with a university or other qualified institution to undertake this work.