

16 September 2024

Dr. Yuliya Moore
Director, Values of Customer Reliability
Australian Energy Regulator
GPO Box 3131
Canberra, ACT, 2601

Your Ref: 171507765

Dear Dr Moore,

Values of Customer Reliability Methodology Final Determination

The Justice and Equity Centre (JEC) welcomes this opportunity to provide additional input in response to the Australian Energy Regulator's (AER) final determination on the Values of Customer Reliability (VCR) Methodology final determination (the final determination).

'Objectivity' of surveys

We do not consider the AER's justification for continuing to rely solely on a survey-based methodology reflects an understanding of good engagement practice.

The AER has asserted that the survey methodology is 'an objective and rigorous method that directly engages with customers and allows us to achieve statistical significance, good representation, and granularity'.¹ The clear implication of this is that other methods of engagement are not as 'objective' or 'rigorous', and that surveys are inherently superior on both counts. This is not a reasonable assertion, and we are concerned it reflects a misunderstanding of the roles and purposes of different engagement methods. In any case, these terms relate to how methods of gathering and processing data are used, not the methods themselves. Statistical significance, granularity and representation can be aspects of good engagement but can also be present where the engagement itself (through poorly presented or overly complex content) is poor. Achieving these is not a valid argument against including deliberative methods alongside surveys.

¹ AER, VCR Methodology final determination, p.2.

We have previously established our position that good practice for a robust VCR determination would utilise a range of engagement methods, including deliberative engagement as well as well-designed surveys.²

For the next review, we recommend the AER develop more internal engagement capability in relation to its VCR work, in particular expanding their capacity to engage in social research and integrate deliberative engagement methods.

We also reiterate our recommendation for a standing reference committee on the VCR. This committee can help inform the VCR review process, and how consumer values are derived and utilised, per the model used in the 2019 review. This will increase the breadth of perspective to the process and help limit 'blind spots'.

Timing of the next review

The JEC has a strong preference for the next review being completed in a shorter cycle than the maximum five years allowed for in the rules.

The energy market is changing at an unprecedented rate, driven by myriad factors on both the demand and supply sides, and the changes to rules and policy. This pace of change substantially increases the risk that the VCR will move away from customers' true preferences over a five-year period, relative to previous cycles.

The AER should aim to complete the next review in three years, with work to commence on establishing a reference panel no later than 18 months from now. It is crucial the process of reviewing the methodology is not unduly curtailed by time considerations, as this review has been. This is not in the long-term interest of consumers.

The next VCR methodology should be 'forward-facing'

The VCR methodology should explicitly aim to produce estimates that it deems are accurate over the period the VCR is expected to be employed, not merely the year it is produced.

Given the pace of change, the AER should have regard to the changing ways people use and generate energy. They should have regard for how that is expected to change over the period to the next review.

In particular, the AER should have regard to the balance of energy provided behind the meter and from the grid, in calculating unserved energy. The rise of behind the meter generation has an out-sized impact on VCRs by impacting the denominator – energy demanded – rather than the numerator. The effect is to artificially inflate the VCRs of households with these resources, without impacting their actual preferences or the impacts of outages on them.

² JEC, 15 July 2024, https://www.aer.gov.au/system/files/2024-07/2024-07-16%20Justice%20and%20Equity%20Centre%20-%20submission%20on%20revised%20draft%20determination%20-%20VCR_1.pdf

The rise of appliances that make a proportion of household loads time-shiftable with only marginal disutility for the households – such as electric vehicles – are also likely to impact consumers' preferences regarding the VCR by reducing the disutility of outages.

A forward-facing VCR methodology should give explicit consideration to the impacts of changes like these, and use forecasting to estimate the levels of market saturation of new products. It should then adjust the VCR in light of these considerations.

We thank the AER for the opportunity to provide further comment on the final determination, and welcome the opportunity to meet with the AER and other stakeholders to discuss these issues in more depth. Please contact me at mlynch@piac.asn.au regarding any further follow up.

Yours sincerely,

Michael Lynch, PhD
Senior policy officer

0404 560 386
mlynch@jec.org.au