

Economic regulatory framework review

2018 Report

Stakeholder forum:

Incentives facing network service providers when providing regulated services

23 April 2018

AEMC

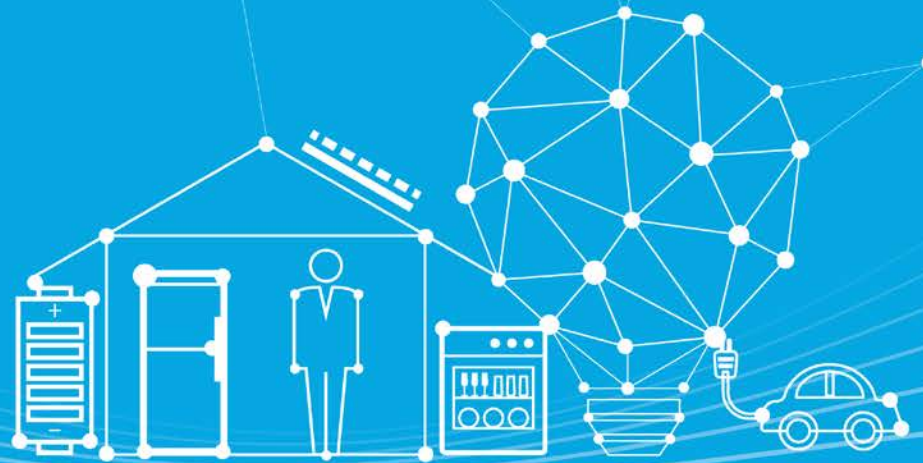


Welcome

- Housekeeping
- Speakers/presenters today
 - AEMC
 - CEPA
- Agenda for today

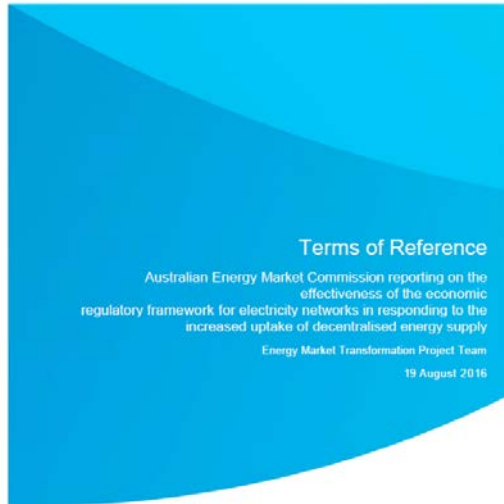
Economic Regulatory Framework Review

Overview of the 2018 Report





Background of the review



COAG
Energy Council

- Tasking from COAG Energy Council
 - Annual review
 - Will the economic regulatory framework continue to deliver the national electricity objective in light of changes in the energy market
 - Provide advice and recommend changes to COAG Energy Council if required
- First report: 2017



The 2018 Report – what are the key issues

Network Service Providers' (NSPs') financial incentives

- Does the current framework provide incentives for NSPs to prefer capital expenditure over operating expenditure

Distributed energy resources – impact on the regulatory framework

- What impact will the high uptake of DER have on the regulatory framework?
- What changes, if any, do we need to make?

Annual monitoring

- Monitoring the uptake of new technology and new business model
- Trends in grid usage



Key themes in the 2018 report

- The electricity system is transforming
- Opportunities and challenges for networks – transitioning to a distribution market model
- Transitioning the regulatory framework to continue to be fit for purpose
- A pathway forward – a proposed approach to making the transition



Financial incentives facing NSPs when providing regulated services





The changing operating landscape for NSPs

- **Once upon a time ... discussions about NSPs expenditure**
 - were only in relation to NSPs revenue and prices
 - whether NSPs are efficient on a stand-alone basis
- **The Times They Are A-Changin'...**
 - Technological advances and distributed energy resources (DER) penetration
 - NSPs are no longer just purchasers of DER and new technologies – they are also facilitators and 'platforms'
 - Networks' choice of investment will impact both their operations and uptake of DER and DER related services (also new technologies)



Why are we looking at NSPs incentives again?

- **Address concerns about NSPs' past behaviours**
 - Long standing concerns about bias towards capex
 - Finkel Review – 'AEMC to conduct modelling ...'
- **Look to the future**
 - NSPs are likely to have more options to solve their network problems – they could be either capex or opex solutions
 - NSPs' role in the energy system might evolve too ...
 - Framework needs to enable efficient investment choices – whatever the future role of NSPs may be



The network incentives section of the 2018 Report is ...

- Examining the strengths of the financial incentives facing NSPs
 - Especially in relation to whether the incentives are balanced between opex and capex
- If the incentives are not balanced ...
 - What is causing the imbalance?
 - Can we fix the imbalance by incrementally changing the framework?
 - Or ... is a more fundamental change needed on how different types of expenditure should be treated under the framework?

