

2 July 2020



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

Dear Mr Pierce

Electricity Network Economic Regulatory Framework Review (EPR0085)

Energy Queensland Limited (Energy Queensland) appreciates the opportunity to provide a submission to the Australian Energy Market Commission (AEMC) in response to the *Approach Paper: Electricity Network Economic Regulatory Framework 2020 Review* (approach paper). The approach paper sets out the AEMC's approach to its 2020 review of the economic regulatory framework for electricity networks.

Energy Queensland is generally supportive of the approach outlined in the AEMC's approach paper. We agree that it is important for the economic regulatory framework to be sufficiently robust and flexible to support the long-term interests of consumers and facilitate a future environment of increased decentralised energy supply driven by customer choice. Energy Queensland's detailed comments on the issues raised in the approach paper are provided in the attached submission.

Should you require any additional information or wish to discuss any aspect of this submission, please contact me on 0467 782 350 or Charmain Martin 0438 021 254.

Yours sincerely

A handwritten signature in black ink that reads "Trudy Fraser".

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Energy Queensland

Submission to the
Australian Energy Market Commission

Electricity Network Economic Regulatory Framework 2020 Review

Energy Queensland Limited
2 July 2020



About Energy Queensland

Energy Queensland Limited (Energy Queensland) is a Queensland Government Owned Corporation that operates businesses providing energy services across Queensland, including:

- Distribution Network Service Providers, Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy);
- a regional service delivery retailer, Ergon Energy Queensland Pty Ltd (Ergon Energy Retail); and
- affiliated contestable business, Yurika Pty Ltd (Yurika), which includes Metering Dynamics Pty Ltd (Metering Dynamics).

Energy Queensland's purpose is to 'safely deliver secure, affordable and sustainable energy solutions with our communities and customers' and is focused on working across its portfolio of activities to deliver customers lower, more predictable power bills while maintaining a safe and reliable supply and a great customer service experience.

Our distribution businesses, Energex and Ergon Energy Network, cover 1.7 million km² and supply 34,000GWh of energy to 2.25 million homes and businesses each year.

Ergon Energy Retail sells electricity to 738,000 customers in regional Queensland.

Energy Queensland also includes Yurika, an energy services business creating innovative solutions to deliver customers greater choice and control over their energy needs and access to new solutions and technologies. Metering Dynamics, which is a part of Yurika, is a registered Metering Coordinator, Metering Provider, Metering Data Provider and Embedded Network Manager. Yurika is a key pillar to ensuring that Energy Queensland is able to meet and adapt to changes and developments in the rapidly evolving energy market.

Contact details

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1 Introduction

On 4 June 2020, the Australian Energy Market Commission (AEMC) published an approach paper on the *Electricity Network Economic Regulatory Framework 2020 Review (2020 Review)*. The approach paper sets out the AEMC's approach to the 2020 Review and seeks feedback on the issues the AEMC proposes to consider as well as providing an overview of the AEMC's broader program of work on network-related issues arising from the transformation of the electricity sector currently underway.

The approach paper seeks feedback on questions relating to Identifying priority and emerging issues for future reform, including:

- Whether stakeholders consider the issues included in the approach paper are relevant and important; and
- Whether there are any other issues that have not been identified in the approach paper that should be considered.

The AEMC has requested that interested parties make submissions on the questions raised in the approach paper by 2 July 2020. Energy Queensland's comments are provided in sections 2 and 3 of this submission.

2 General comments

Energy Queensland welcomes the opportunity to provide feedback in response to the AEMC's consultation on the 2020 Review approach paper.

Energy Queensland appreciates that monitoring market developments on an annual basis and assessing the economic regulatory framework in proactive cooperation with Network Service Providers (NSPs) and other stakeholders, particularly in a rapidly changing economic and energy management environment, is in the interests of our customers, communities and the National Electricity Market (NEM). We agree that it is important for the economic regulatory framework to be sufficiently robust and flexible to facilitate a future environment of increased decentralised energy supply driven by customer choice.

Energy Queensland acknowledges that declining costs, continuous technological development and changing consumer attitudes will continue to drive the uptake of distributed energy resources (DER) and an evolution in the way in which our customers interact with energy and provide opportunities to optimise the value of investment in new technologies. We also understand that the growing penetration of DER within customers' premises and of grid-connected variable and non-synchronous generation, in conjunction with the future retirement of coal-fired generators, will create significant challenges for the NEM, particularly with respect to maintaining the security and reliability of electricity supply. However, Energy Queensland notes that differences exist in different jurisdictions across the NEM and that solutions for these emerging challenges should be appropriate to those differences.

As the energy market continues to transform, distribution network service providers (DNSPs) will require flexibility and agility in a regulatory framework which encourages efficient investment and the application of non-network alternatives and services. DNSPs will be required to support an increasingly high penetration of DER and other emerging technologies at all levels of the network without compromising safety, security and affordability outcomes for customers. Energy Queensland is supportive of the work the AEMC is undertaking to assist DNSPs to deliver a grid of the future.

Energy Queensland is generally supportive of the approach outlined in the AEMC's approach paper and, in particular the question the AEMC is using as a guide for the 2020 Review, that is:

“Does the economic regulatory framework provide sufficient flexibility to allow and incentivise networks to adapt to changes in the market, including increased decentralised supply?”¹

¹ AEMC, *Approach paper: Electricity Network Economic Regulatory Framework 2020 Review*, 4 June 2020, p. 1.

We consider that the regulatory framework should remain fit-for-purpose and sufficiently flexible to meet the needs of networks (and customers) as far as is practicable in this rapidly changing energy market environment.

Our feedback on the issues identified in the approach paper as well as recommendations on issues that should also be considered by the AEMC as part of its 2020 Review are provided in section 3 of this submission.

We are available to discuss this submission or provide further detail regarding the issues raised.

3 Specific comments

Energy Queensland provides the following comments on the questions raised in the approach paper for consideration:

AEMC Question	Energy Queensland's Response
Question 1: Identifying priority and emerging issues for future reform	
1. For the issues included in this paper, do stakeholders consider them as relevant and important?	<p>Overall, Energy Queensland considers the issues raised in the approach paper are relevant and important. However, we make the following observations on the current transformation policy work programs highlighted by the AEMC:</p> <ul style="list-style-type: none">• Moving to a Two-sided Market In response to the Energy Security Board's (ESB's) discussion paper on <i>Moving to a Two-Sided Market</i>, Energy Queensland expressed concern that decisions about the need to make fundamental changes to electricity market design appear to have been made before extensive consultation and cost-benefit analysis has been undertaken to understand the costs and complexities of the proposed transformation. As highlighted in our submission, Energy Queensland considers that, rather than presenting decisions that have far-reaching impacts on the NEM as a 'foregone conclusion', there needs to be:<ul style="list-style-type: none">- A sufficiently defined problem statement, rationale for and costs to implement the two-sided market as proposed, including the likely supporting changes and complexities required at a customer's premise;- Detail and implications of changes to the roles and responsibilities of market participants and consumer feedback on the desire to adopt a more complex market at a granular level;- Recognition of existing regulatory changes that may provide opportunities for managing future risks, many of which have yet to be fully designed or implemented; and

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- An options analysis to determine if other mechanisms may deliver comparable benefits with reduced complexity and costs.²

It is also unclear how the proposed move to a two-sided market interacts with the existing work outlined in the AEMC's approach paper, such as the ongoing work on 'customer reward' pricing.

Further, Energy Queensland has had long-running success using load control and demand management programs, supported by incentives and reduced tariffs, to efficiently manage the networks in Queensland. The strong customer participation, acceptance and demonstrated success of such programs should be considered in terms of how they can provide incremental tools and examples to assist in addressing increasing levels of DER.

Finally, Energy Queensland considers that the sentiments expressed in our submission on the ESB's consultation above apply to decision-making relating to all major, transformational changes to the NEM under consideration now and into the future.

- **Existing Economic Regulatory Framework**

Energy Queensland recommends that further consideration is given to how the economic regulatory framework can provide greater flexibility to support NSPs in adapting to changes in the NEM, including:

- facilitating increased penetration and integration of DER and emerging technologies; and
- providing for increased visibility of networks on a more granular level as this is fundamental to facilitating more dynamic management to enable growing levels of DER integration.

Energy Queensland supports continued investment in distribution level monitoring and visibility projects. We look forward to contributing to work to explore NSP data requirements for DER visibility as outlined in the AEMC's Future Grid Report in 2019.

² Energy Queensland, *Submission to the Energy Security Board: Moving to a Two-Sided Market*, 18 May 2020, p. 2.

Energy Queensland understands that the Distributed Energy Integration Program (DEIP) is reviewing access and pricing arrangements. It is anticipated that there may be a requirement for further consideration of the treatment of access to networks by the AEMC. With developments such as those relating to embedded networks, stand-alone power systems and ongoing technological advances, access arrangements may no longer represent the most economical approach for network connections in the long-term.

- **Distribution System Access and Connections**

Energy Queensland agrees with the AEMC's assessment that "customers could bear significant costs if DER is not integrated efficiently"³ and supports further consideration of this issue.

Likewise, Energy Queensland is of the view that further consideration is required of the issue of uneconomic connections and the potential for customers to bear significant costs. In Queensland, uneconomic connections are most likely to occur in regional and remote areas of Ergon Energy's network (primarily on single wire earth return lines). The obligation for DNSPs to provide customer connection services often results in uneconomic consequences for the distribution network and adds unnecessary costs to network operations, as well as a high risk of asset stranding in the future (especially in circumstances where alternative competitive technologies, such as third party stand-alone power systems, become available to customers) and high network costs for customers.

Although it is possible for the distribution businesses to request a capital contribution towards shared network augmentation, the capital contribution will not always reflect the true cost of providing the connection service. In fact, the cost differential that will need to be recovered from network prices charged to all customers can be significant. Consequently, there is the potential for small customers to subsidise large customer connection costs.

Energy Queensland therefore considers greater focus should be directed towards minimising inefficient network investment generally to avoid expensive network upgrades

³ AEMC, Approach Paper, p. 3.

	<p>that may be uneconomic and result in higher average network prices and more inefficient outcomes for customers in the long run.</p> <p>Given the new and evolving technologies which are now available to customers, Energy Queensland considers that the ability to encourage customers to adopt alternative, more cost-effective solutions would be of benefit. Such a mechanism would enable customers to consider an alternative electricity supply arrangement that is not physically connected to the national grid, such as a stand-alone power system solution, or solar pumps for high cost to serve pump connections. It may also be worthwhile for distributors to have the ability to offer financial assistance to customers to enable them to disconnect from the network where there are more efficient supply solutions available in order to remove the need for network investment.</p>
<p>2. Are there any other issues that have not been identified in this paper that should be considered by the Commission?</p>	<p>Energy Queensland has also identified other regulatory issues that require further consideration by the AEMC, including:</p> <ul style="list-style-type: none"> • Integration of DER <p>Energy Queensland’s DNSPs, Energex and Ergon Energy, have enabled some of the highest levels of DER in Australia with the existing resources at their disposal, such as load control, improved technical standards and connection agreements. We believe there needs to be a balanced view of the technical challenges associated with integrating DER and that regulatory bodies should not preclude or assume technical solutions without considering existing regulated and unregulated capabilities as well as incremental ‘no regrets’ options which may provide more efficient outcomes. Any direction and / or guidance on investments by the appropriate bodies on enabling safe, secure DER access is beneficial to the industry, noting this may include catering for ‘future grid’ needs, such as advanced communications systems, power quality monitoring and wider secondary systems, all of which will be required to accommodate the high levels of small-scale distributed energy systems.</p> • Incentives and Cost Recovery <p>Energy Queensland is of the view that consideration of issues associated with incentives and cost recovery is required, including that there is limited economic incentive to retire assets that are no longer serving a purpose.</p>