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ENA Regulatory Seminar: Evolving Faster
26 July 2017

Check against delivery

The theme of today is “evolving faster”. And I couldn’t agree more. But while the speed of evolution might catch us off guard sometimes, the evolution itself shouldn’t.

It was always envisaged that technology, business models and customer expectation in the energy sector would change. That’s why the Commission and the rule change process exists – so that there is an opportunity for all of you to be involved in the change – so that the responsibility to keep up with change doesn’t rest solely with governments.

When the NEM was established, we expected that the power to determine how the sector developed would sit:

- first with generators – while the market was established,
- then with retailers as competition took hold and participants matured,
- and ultimately with consumers...after all consumers are the ones we are all here to serve.

So this “evolution” we talk about is really just the market maturing to a point where consumer choice drives industry investment.

At all points in this evolution, the role of networks has and will continue to be central – mainly because your businesses sit, quite literally in the middle of all the change. I don’t need to tell you that the generation fleet is changing. I don’t need to tell you that customers have different expectations and preferences than they did before.

The three points I want to make today are:

1. Networks are key to the transformation
2. We need to get ready for a two-way world; and
3. Your businesses need to embrace the change but not the spotlight

Networks are key to the transformation

Network businesses will be absolutely key to supporting the transformation of the energy sector.

At the big end of town, more generators, of varying size, technology and business model, will be connecting to the system as we reduce the emissions intensity of the sector. The timing and location of these investments is uncertain, but it will require better coordination of transmission and generation investment.

The Commission's *Review into the drivers of change that impact transmission frameworks*, flagged this as did Dr Finkel's in his reform blueprint. The Commission is currently assessing options to improve coordination with the aim of minimising total system costs through efficient and coordinated investments – and your businesses will be key to achieving this.

The change in generation mix is also challenging the security of the system. The Commission has recently proposed new obligations on transmission networks to provide:

- a minimum level of inertia – to resist frequency disturbances,
- and a minimum level of system strength at generator connection points to strengthen the system against voltage disturbances

Ideally, a market mechanism will be used in the future to value, buy and sell these services, but in the meantime, network businesses will play a key role in maintaining system security.

At the smaller end of town the take-up of distributed energy resources is expected to continue. The Commission released its fourth annual review of the state of competition in retail energy markets yesterday which showed that consumers have more choices and are taking up new technology options:

- 20% of consumers now have solar panels
- 21% are likely to adopt battery storage in the next two years
- 18% are likely to take up a home energy management system in the next two years.

As this plays out, consumers and their service providers will want more control over how their rooftop solar, battery storage, electric vehicles, smart energy appliances and other distributed energy resources are used. Networks will be a key platform supporting consumers to take control.

Get ready for a two-way world

Which brings me to my second point: we need to get ready for a two way world. And I mean the royal we.

In recent years the Commission has been putting down the foundations with rules that make it easier to:

- choose and switch retailers
- access and understand consumption data and
- receive and respond to price signals

Cost reflective network tariffs and the competitive provision of advance meters are now starting to provide consumers with more accurate information and price signals that can inform their purchasing and investment decisions. At the end of August we will publish draft rules that seek to open up the space behind the meter to greater competition.

We are also looking ahead to future opportunities to buy and sell distributed energy and energy services in better, more competitive and flexible ways through a project

we have named the Distribution Market Model. Those that are familiar with the project will know that platforms to better-utilise distributed energy resources would encourage customers to weigh up the value of *using* the electricity produced from their solar panels or battery against the value they could gain by *selling* it to whoever values it the most.

The Distribution Market Model is not intended to be a prediction of, or pathway for future regulatory reform, but rather an exploration of a potential evolution of the sector. After all, we already know that distributed energy resources can:

- help networks manage peaks in demand
- compete in the wholesale electricity market by exporting electricity
- help make the system secure
- help consumers reduce electricity bills

We are making these changes to deliver benefits to consumers. But there are also benefits across the industry if you get to know your business in a different and more detailed way.

Where are the constraints in your network? What is valuable to you? How will customers want to use your assets, and how can you use customer assets or their demand response to make your business operate more efficiently?

You'll recognise this thinking from our recent transmission connection and planning assessment framework rule change and one last week on replacement expenditure. Key aspects of these new rules require information about network constraints, load forecasts and asset retirements on your network to be published.

Information like this can decrease total system costs by helping participants make efficient investment decisions about where to connect to the network or about alternative solutions to address network needs.

Understanding what is valuable to your business will help you take advantage a broader range of opportunities that will become available as consumers invest in distributed energy and other energy services.

Embrace the change but not the spotlight

The last point I will make is that we - collectively - will have failed in meeting our objective to serve the long term interests of consumers, if we don't do it at lowest cost.

Our 2017 Retail Competition Report (published yesterday) noted that that retail price rises this year are largely the result of increases in wholesale prices. Rising wholesale costs are being driven by a range of factors, including the increasing costs and decreasing numbers of hedging contracts, and higher gas prices.

When people think of "wholesale prices" they think of spot prices because that's what they can see. But the spot market is just a way of coordinating the physical dispatch.

When it comes to setting retail prices or financing new investments, decisions are driven by the price and availability of forward contracts which in turn, are driven by what people expect to happen in the future.

What people can't see today (as distinct from what they could see in the past) is new generation coming online that will provide not just megawatts or megawatt hours, but forward contracts.

The Commission's retail competition report shows that we are seeing the emergence of new retailers and energy service providers offering a huge variety of products to help customers manage their energy use and bills. But in order for these new players to enter the market and compete with the majors, they need to access wholesale forward contracts to help manage spot price risk.

So while our report shows that competition is driving innovation and new choices for consumers in the retail market, these benefits are under threat from a wholesale market with rising costs and fewer contracts.

The wholesale challenges mean that the spotlight is not on network businesses right now. But your businesses will be adapting to a lot of change: new security obligations, more generator connections, increased levels of distributed energy.

I want to stress the point that your businesses, like the Commission and the national energy objectives, will do well to think about embracing change that is in the long term interests of customers.

And with that I'll finish by saying that the purpose of work the Commission does through its rule changes, reviews and technology work is to create a framework that minimises the total system costs faced by consumers.

Sometimes you'll agree with the changes we propose, sometimes you won't, but we take the view that if energy consumers are better off, then the economy is too.

Thank you.

ENDS.