Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

23 November 2016

Dear Mr Pierce

Consultation Paper - National Electricity Amendment (Replacement expenditure planning arrangements) Rule 2016

The Australian Energy Council (the Energy Council) welcomes the opportunity to make a submission to the Australian Energy Market Commission (AEMC) National Electricity Amendment (Replacement expenditure planning arrangements) Rule 2016 Consultation Paper (the Consultation Paper)

The Energy Council is an industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia, and sell gas and electricity to over 10 million homes and businesses.

The Energy Council recently submitted its rule change request to the AEMC in relation to Chapters 5, 6, 6A and 7 of the National Electricity Rules. This previous submission addressed, amongst other things:

1. Changes to Regulatory Investment Tests (RIT) to ensure competitive non-network solutions are considered for the widest practicable range of investment decisions;
2. Review of the obligations of information provision alternatives to grid-supplied network services and of where on the network support services may have most value; and
3. The contestability of energy services with regard to demand response and network support.

There is significant overlap of issues between the AER's rule change proposal and that proposed by the Energy Council.

Should you have any questions in relation to this rule change request please contact David Markham, telephone 03 9205 3107 or david.markham@energycouncil.com.au.

Yours sincerely

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Introduction

The current structure of the electricity industry and its regulatory framework follows from the Hilmer review and its conclusions that competition, where practical, is the best mechanism for providing services to customers at an efficient cost, offering them choice of service levels and to drive innovation to continuously improve services. Regulation, as of monopoly network services, is a second-best approach. In other words, the National Electricity Objective is enhanced by the extension of effective competition as enabling technologies evolve. This has recently been demonstrated by the transfer of metering services to the competitive sector.

To be truly effective the rules framework needs to reinforce competitive neutrality, i.e. maximise the scope for independent competitive providers to supply network support services to networks. To do this they need to be exposed to both the information and price signals that indicate where and when network support services are most valuable. These prices would ideally seek to put monetary values to any and all services that can be provided alternative technologies. A range of regulatory tools are related to this and have been identified in the Energy Council rule change proposal to the AEMC on the classification of distribution services.

We recognise that the AEMC is considering a broad-ranging suite of reform proposals. Each proposal requires careful consideration and should not be undertaken in a piecemeal manner.

Are non-network solutions a viable alternative to replacing network assets on a like-for-like basis?

The technologies used to provide these viable alternatives are fairly immature. The issue is that dynamic price signals covering all parts of the value chain need to be seen so markets can respond accordingly, and only when this price signalling is occurring can viable alternatives be identified or emerge.

There are likely to be sizable cost reductions/technology improvements and business model innovations obtainable in the future that market dominance by the Network Service Provider (NSP) could delay or inhibit.

In the future the need to accommodate and allocate the values of the network peak, and the energy peak, mean that the NSP is not the best party to make the investment decision.

Are the current annual planning reporting requirements in the NER relevant and likely to be useful for replacement expenditure?

Information is critical to investors. Current Annual Planning Reports (APRs) are prepared in accordance with the NER. NSPs are required to report on capacity and load forecasts for sub transmission lines, zone substations and transmission and distribution connection points. The APR also report on any primary distribution feeders which were overloaded or forecast to be overloaded within the next two years. These reports are often touted as the equivalent of information symmetry, but by their own account they are not intended to be used for purposes such as making decisions to invest in generation, transmission or distribution capacity.

The efficient investment that flows from accurate and reliable information and forecasts is in the long term interests of energy customers and the NEM. To address the information requirements we consider that where a NSP is involved either directly (which is non-preferred) or indirectly through a related businesses in behind the meter (BTM) investments in NS and DR, the NSP should be subject to additional "standard access obligations" in relation to solutions. This obligation would include providing network performance data and load data to competitors to its related business that will enable decisions to invest in generation or storage as an alternative to distribution capacity.

Where are the gaps in the current annual planning reporting requirements in the NER for replacement expenditure?

The gaps in the current annual planning reporting requirements in the NER for replacement expenditure is that they do not provide:

- All necessary information (network performance data, load data) to competitors that will enable decisions to invest in generation or storage as an alternative to distribution capacity; and
- Technically equivalent access to the network to the competitors of any regulated or related business.

To provide clarity and certainty in the market we propose that NSPs be subject to these additional "standard access obligations".

Is it appropriate for a regulatory investment test to not be required where an NSP considers a like-for-like replacement of the asset is the only option to address the problem?

The regulatory framework should not inadvertently lead to less efficient investments. Like for like replacement should only be considered where there are no reasonable technology alternatives. This could be true for pole replacement programs for example, or for emergency works. In this regard we believe that this exemption for like-for-like should be defined as "where no reasonable technology alternative exists".

The regulatory investment test should be truncated that there is no obligation on the NSP to develop any technology alternatives. The NSP just needs to list the asset, its location, and its annualised cost on a website in reasonable advance of it having to be replaced/augmented.

Dynamic price signals covering all parts of the value chain need to be seen so as markets can respond accordingly.