

16 May 2017

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

Reporting on drivers of change that impact transmission frameworks – draft stage 1 report

Energy Networks Australia welcomes the opportunity to make a submission to the Australian Energy Market Commission's (Commission) analysis of the drivers of change that could impact transmission frameworks.

Energy Networks Australia is the national industry association representing the businesses operating Australia's electricity transmission and distribution and gas distribution networks. Member businesses provide energy to virtually every household and business in Australia.

The Terms of Reference for the Commission to develop this draft report relate to previous work undertaken on optional firm access (OFA) arrangements, designed to improve the efficiency of the co-ordination between transmission and generation investment in the National Electricity Market. The biennial review requested by the COAG Energy Council was in part due to the AEMC finding that OFA should not be progressed immediately, given that while it had the potential to deliver long-term benefits to the NEM, it was inherently complex.

The biennial reporting process is therefore intended to identify:

- the drivers of transmission and generation investment; and
- if necessary, via a second stage, whether implementing a model that would introduce more commercial drivers of transmission and generation development would meet the National Electricity Objective will be made.

The Commission previously noted that, where such an environment exists, the balance of expected costs and benefits could shift in favour of introducing an OFA regulatory framework.

The Commission's draft report provides an informative analysis of many aspects of the current energy sector environment. It correctly identifies a degree of uncertainty regarding future patterns and drivers of investment, largely driven by less predictable policy and regulatory frameworks, evidenced by:

- poorly integrated carbon and energy policy;
- multiple and overlapping policy reviews on similar issues;
- inconsistent State and Federal Government frameworks; and
- inaction or inconsistent implementation of agreed COAG Energy Council reforms.

We also note the Commission's identification of numerous reform processes currently underway, as well as recent announcements of government interventions into the energy

market. These reform processes and interventions are attempting to address investment uncertainty. They are likely to significantly influence how generation and transmission decisions are made in the future. Major generation and transmission investments which may be forthcoming as a result of these changes are likely to occur in a substantially different market and regulatory environment to the one we have now.

We note that at the completion of the final stage 1 report, the Commission will advise COAG [emphasis added]:

- whether there is sufficient changes in the drivers versus those at the time of the Review *to warrant a more detailed examination of whether OFA should be adopted*
- the broad nature of any actual changes in those drivers *relevant to the decision as to whether OFA should be implemented*
- whether those actual or forecast drivers *forestall or advance* the likely need for OFA
- its opinion of the continued requirement or otherwise of the reporting process outlined.

In the context of a reform agenda that will directly impact transmission frameworks but which is still unsettled, it is difficult to assess the need for further regulatory changes to introduce optional firm access at this time. Based on the Commission's analysis, it is unclear at this stage whether the potential changes in the policy, regulatory and market environment will increase or reduce the potential benefits of progressing previously considered OFA changes.

On this basis, Energy Networks Australia would support a pragmatic and precautionary approach, which avoids prejudging uncertain outcomes identified in the Commission's analysis. Energy Networks Australia suggests the Commission should consider deferring further consideration of OFA changes until key uncertainties in the policy and regulatory environment are resolved or minimised.

Please don't hesitate to contact Norman Jip, Senior Program Manager - Transmission on (02) 6272 1521, if you would like to discuss any aspect of our submission.

Yours sincerely



John Bradley
Chief Executive Officer

As of 10 November 2016, the Energy Networks Association commenced trading as Energy Networks Australia. Our website and email has changed to energynetworks.com.au. Please update your records accordingly.

