



EnergyAustralia

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Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

EnergyAustralia Pty Ltd

ABN 99 086 014 968
Level 33
385 Bourke Street
Melbourne Victoria 3000

Phone +61 3 8628 1000
Facsimile +61 3 8628 1050

enq@energyaustralia.com.au
energyaustralia.com.au

Lodged electronically: aemc@aemc.gov.au

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Draft Rule Determination – Alternatives to grid-supplied network services

EnergyAustralia welcomes the opportunity to comment on the Australian Energy Market Commission's (the Commission) Draft Determination on a rule change proposal by Western Power on alternatives to grid-supplied network services. We are one of Australia's largest energy companies, with over 2.6 million household and business customer accounts in NSW, Victoria, Queensland, South Australia and the Australian Capital Territory. We also own and operate a multi-billion dollar portfolio of energy generation facilities across Australia, including coal, gas and wind assets with control of over 4,500MW of generation in the National Electricity Market (NEM).

The Commission provides a comprehensive discussion of its reasons for not proceeding with Western Power's proposal – or with a potentially more preferable rule – to allow distribution networks to provide off grid supply as a 'distribution service'. This is because any definitional change would create inconsistencies between the NEL and NER, which the Commission has no ability to resolve.

However, Western Power's rule change proposal raises similar issues to those raised in the contestability of energy services rule change proposal (ERC0206), namely, the future role of networks in an environment of rapid technological change. The Draft Determination provides a useful discussion of some key issues that policymakers need to consider as the energy market evolves.

As the Commission notes, the declining cost of solar PV and batteries means there are more viable alternatives to conventional grid connected services, particularly in remote areas. The rationale for extending or maintaining regulated monopoly networks in some areas is diminishing as competitive service providers can provide a more complete range of services. These developments are implicit in the Commission's Draft Determination on contestable services and the Australian Energy Regulator's forthcoming ring-fencing guideline for distribution networks.

Customers are the ultimate beneficiaries of these developments as the cost of services will fall and many customers will have far greater control over their energy consumption. The regulatory framework needs to evolve to deliver customer focussed and efficient outcomes; this implies a key role for competition and the removal of biases in favour of network solutions.

Despite its decision not to proceed with the proposed rule change, the Commission makes recommendations about how the regulatory framework for off-grid services could evolve. The remainder of this submission contains our views on those recommendations.

Commission recommendations

EnergyAustralia agrees that the COAG Energy Council should proceed with its Energy Market Transformation Project as a priority and publish 'proposed action items with indicative timeframes'.

We offer qualified support to the Commission's recommendation to implement more cost reflective network tariffs, including those with some locational component where this reflects the long run marginal cost of network service provision. We believe customers will benefit from more cost reflective network tariffs over the longer term but the transition must be orderly and reflect the point from which the industry is starting.

These are relatively new pricing rules but we expect it will take some time before we observe fully cost reflective tariffs (which incorporate a time and location component) that are captured in widely marketed retail products. This is due to a range of factors, including the existing stock of smart meters across the NEM and their rate of penetration following the commencement of metering competition from 1 December. More importantly, the gradual evolution of more cost reflective pricing should reflect customers' acceptance and comprehension of the rationale for sharper price signals. We expect this could potentially take as many as two or three more regulatory periods.

We agree with the Commission's recommendations to amend the NERL, NERR and relevant jurisdictional instruments to implement an appropriate regime of energy specific consumer protections for off-grid customers. We welcome the chance to participate in this process and the objective should be to harmonise the regulatory framework across all jurisdictions.

While there is merit in extending core consumer protections to all energy consumers, including those who choose to go off-grid, the regulatory framework should include flexibility for customers to determine the level of service (and associated cost of that service) they are willing to accept and by implication, pay for. For example, a customer may be willing to accept a lower reliability standard and pay a reduced charge.

Finally, we note the Commission's recommendation to allow distribution networks to provide regulated off-grid services where their use would result in network savings and where the customer has no financial incentive to obtain off-grid supply from the competitive market. We support the Commission's suggestion to narrow the scope of 'eligible' customers to those who currently have a grid connection or where some event has occurred (e.g. natural disaster) that has broken that connection. In our view, there should be strict controls over networks' involvement in off-grid solutions and we are mindful of potentially detrimental impacts on the development of competitive markets for contestable services. As the Commission is aware, promoting effective competition is a key objective of its Draft Determination with respect to contestable services and is consistent with the AER's ring-fencing guideline.

Should you require further information regarding this submission please call me on (03) 8628 1242 or Samantha Nunan on (03) 8628 1516.

Yours sincerely

Melinda Green

Industry Regulation Leader