

2 February 2017

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2499
Sydney South NSW 1235



Dear Mr Pierce

"EPR0050" *Electricity Network Economic Regulatory Framework Review Approach Paper*

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Australian Energy Market Commission (AEMC) on its Electricity Network Economic Regulatory Framework Review Approach Paper (the Approach Paper).

Energy Queensland is a recently established Queensland Government Owned Corporation that operates a portfolio of businesses providing energy services across Queensland, including:

- Distribution network service providers (DNSPs), Energex and Ergon Energy; and
- A regional service delivery retailer, EEQ, limited in its scope of operations by jurisdictional legislation.

Energy Queensland's vision is to "be at the core of how Queenslanders choose to use electricity" and it is focused on working across its portfolio of activities to deliver customers:

- Lower, more predictable, power bills while maintaining a safe and reliable supply;
- A great customer service experience;
- Greater control over their energy consumption; and
- Access to the next wave of energy linked innovative technologies and renewables.

Energy Queensland is supportive of the Council of Australian Governments (COAG) Energy Council's request that the AEMC monitor market developments and provide advice to inform future policy decisions as it relates to the economic regulatory framework. We consider it paramount to proactively stay ahead of and assess emerging issues to ensure appropriate management.

Energy Queensland supports the three areas of focus for the 2017 report. Additionally, we agree there are no major weaknesses with the current regulatory framework. However, as the market is constantly evolving alongside customer choice, the framework must be sufficiently adaptable and robust to cater for a decentralised supply model and individual supply models. This is particularly evident for edge-of-grid customers. These customers are at the edge of the network, and often the cost to supply is excessive. An alternative model would be to provide these customers with a stand-alone solution. However, given the definition of distribution service which is a service provided by means of, or in connection with, a distribution system, a stand-alone power system will not meet this definition. This is because in order for a stand-alone solution to be a distribution system, it must be connected to another transmission or distribution system.¹ This creates uncertainty for networks in being able to offer least cost solutions and not jeopardising reliability while meeting their connection obligations.

Furthermore, Energy Queensland notes that the AEMC is required to provide advice annually to the COAG Energy Council on whether the economic regulatory framework for electricity networks is sufficiently flexible and robust to continue to achieve the National Electricity Objective (NEO). We consider the AEMC should fully utilise the work undertaken by the Energy Networks Australia (ENA) and Commonwealth Scientific and Industrial Research Organisation (CSIRO), in its Electricity Network Transformation Roadmap Report, as an information source when completing this requirement. Through the Electricity Network Transformation Roadmap initiative, industry bodies and stakeholders are also proactively exploring options on how electricity networks can transform to respond to the changes rapidly.

As previously stated regarding our support for the priority areas, which include network pricing reform, we consider it important to highlight the emergence of new drivers of network investment in addition to growth in demand. The shift to decentralised generation has meant there is a significant (and growing) amount of generation in the market, namely connected at the distribution network level, which is changing the way in which energy flows, and triggers new operational and capital network investments, much the way in which load has historically.

Establishing network pricing signals that enable investment decisions by generators and reflects costs to other users of the network is fundamental in this changing market. This approach would reward generators to connect in locations that have long-term economic viability, as opposed to just initial investment incentives. It would also support the NEO, as it will result in lower electricity prices through more efficient usage of the distribution network by creating a lower cost network.

¹ National Electricity Rules, Ch 10.

At a broader level determining a methodology for pricing that recognises the costs associated with new investments to maintain quality of supply and reliability rather than incremental kVA growth alone is a rapidly emerging priority.

Should you require additional information or wish to discuss any aspect of Energy Queensland's submission, please do not hesitate to contact either myself on (07) 3851 6416 or Trudy Fraser on (07) 3851 6787.

Yours sincerely



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