



Ben Davis
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Our Ref: JC 2017-034

31 October 2017

Dear Ben,

**S&C Electric Company response to the Draft Determination on the Contestability of Energy Services
(ERC0206)**

S&C Electric Company welcomes the opportunity to provide a response to the Consultation on the Draft Determination for the Contestability of Energy services, proposed by the COAG Energy Council and the Australian Energy Council.

S&C Electric Company has been supporting the operation of electricity utilities in Australia for over 60 years, while S&C Electric Company in the USA has been supporting the delivery of secure electricity systems for over 100 years. S&C Electric Company not only supports “wires and poles” activities but has delivered over 8 GW wind and over 1 GW of solar globally. S&C Electric Company has been actively engaged in deploying Battery Energy Storage Systems for over 10 years, supporting a full range of business models and using a range of battery technologies, at the kW and MW scale, and currently has 76 MW/189 MWh in operation. In Australia, S&C projects include the Ergon Grid Utility Support System in Queensland, which reduces peak loads and provides voltage support on rural Single Wire Earth Return lines and the 2 MW battery for PowerCor in Victoria.

S&C Electric are particularly interested in facilitating the development of markets and standards that deliver secure, low carbon and low cost networks and would be very happy to provide further support to the Australian Market Energy Commission on the treatment and potential of these technologies.

Yours Sincerely

A handwritten signature in blue ink, appearing to read 'Jill Cainey'.

Dr. Jill Cainey
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Introduction:

Australia's Distribution Network Service Providers (DNSPs) need regulations and rules that best facilitate the transition to low carbon and secure electricity at lowest cost to the end consumer. The Draft Determination seeks to eliminate or curtail the involvement of the DNSPs from interacting in behind-the-meter activities. As drafted the Determination will reduce competition, driving up the cost to the end consumer by ensuring that behind-the-meter services can only be supported by retailers and limiting DNSP access to innovative approaches to managing their networks.

General Points

Current Rules and Regulations (e.g. Ringfencing) adequately cover the operation of DNSPs in any behind-the-meter activities. Unless there is convincing and substantiated evidence that DNSPs are behaving outside the current regulatory framework, it would be preferable to avoid restricting new business models.

While accepting that consumers must be protected, a balance must be struck between over-regulation and the successful operation of the market. The guiding principles must be that electricity must be delivered securely, while meeting international requirements to reduce carbon emissions in the electricity sector and do so at lowest cost to the end consumer.

In an energy environment where technology is advancing more rapidly than regulation and market arrangements, and where new approaches make "winners" and "losers", extreme care is needed to ensure that regulation is actually required, that any new regulation does not stifle innovation and new business models and that new regulation doesn't unintentionally, or intentionally, create "winners" and "losers". Unnecessary regulation may ultimately mean that consumers pay more.

While Australia transitions from a centralised electricity system to a distributed electricity system, a great deal of care is needed to ensure that any proposed rule changes, particularly those proposed or supported by incumbents, is not the result of protectionist activities, but will genuinely deliver the future low carbon and secure electricity system at lowest cost.

Clearly, consumers who generate and store their own electricity have less need to import electricity, which has a significant negative impact on the Retailers. Since we currently fund our networks on import volume (demand), funding for networks to deliver the system of the future is reducing – however, if consumers are to have an active role in supplying electricity (export) and providing services, then they will need to be connected to a network, whether it is the wide area network originally envisaged as a "distribution network" or a Stand-alone Power System. This need for export, the need for some import when generation and storage at the household level is greater than demand (although demand can be managed) and the need to connect distant low carbon generation to demand means that there will always be a critical need for networks, but less need for Retailers. Retailers must therefore look for other business models to ensure continued relevance.

The continuing focus on funding networks via import costs, neglects the very real costs associated with connecting generation to our networks. A better approach to the regulated funding of the networks is needed if Australia is to deliver a secure and sustainable electricity system. Network charging is a difficult



issue to resolve, but explicitly excluding networks from innovative new technical and business approaches will not help investment in the sector.

The recent preliminary report from the Australian Competition and Consumer Commission (ACCC) covering the Retail Electricity Pricing Inquiry (22 September 2017: <https://www.accc.gov.au/publications/accc-retail-electricity-pricing-inquiry-preliminary-report>) clearly states concerns about the monopoly nature of the three largest retailers, who also dominate ownership of conventional generation assets, in many of the areas of the National Electricity Market. Additionally, the same Gentailers have faced a great deal of scrutiny in the media and by the Government on their market operations. The Draft Determination would place behind-the-meter activities securely in the hands of the incumbent Gentailers, already under scrutiny for opaque practices.

Australia's market structure is unusual in that it allows the combination of retail and generation. As the ACCC points out, this impacts on the Wholesale market. The ACCC also indicates that 48 % of the costs can be related to DNSP/TNSP approaches, but states that this is the unintended consequences of regulation. This clearly illustrates the need for clear foresight when developing regulations in a rapidly changing environment. In the same ACCC report, Gentailers can be held accountable for 46 % of the costs levied on consumers.

It is a concern that access to metering data, which is essential information if networks are to be run efficiently, has already been restricted for DNSPs. Metering data helps DNSPs monitor power quality, phase balancing and for predictive asset management approaches. While the DNSP still has responsibility for meters, the data is not accessible. It is the Retailer that has access rights, excluding the DNSPs.

The DNSPs are best placed to manage the stability of the network on a minute-by-minute level and best placed to provide signals (both technical and price) that will ensure that stable and secure networks are delivered at lowest cost. How will a DNSP ensure that rapid demand response, like that required to manage a network, can be quickly delivered through the filter of a Retailer? Currently, Retailers are not obliged to pass through real-time use of network pricing. By excluding DNSPs from a role in behind-the-meter operations, a significant opportunity to develop real-time network management services has been lost.

The AEC raised (Section 1.3.2 of the Draft Determination) a number of points:

- DNSPs are biased towards capital expenditure approaches over operating expenditure approaches
- DNSPs are biased towards in-house approaches over outsourced approaches
- DNSPs are biased towards their own ring-fenced affiliates over third party providers

These are either addressed in existing regulation or could be addressed by "Totex" approaches for the operation of the DNSPs and this has already been proposed.

In summary, existing regulation is likely to be sufficient to provide protection to consumers and this Draft Determination favours one incumbent in the regulated Australian electricity system over another. It seeks to restrict the activities of DNSPs to the advantage of the Retailer/Gentailer, with no definitive evidence that proposed approach detailed in the Draft Determination will lead to delivering the future electricity system at lowest cost to the end consumer.