



Clean Energy Council submission to the Australian Energy Market Commission's Approach Paper:

Electricity Network Economic Regulatory Framework Review

Executive Summary

The Clean Energy Council (CEC) welcomes the opportunity to provide feedback on the Electricity Network Economic Regulatory Framework Review by the Australian Energy Market Commission (AEMC).

The CEC is the peak body for the clean energy industry in Australia. We represent and work with hundreds of leading businesses operating in solar, wind, hydro, bioenergy, marine and geothermal energy, energy storage and energy efficiency along with more than 4,000 solar installers. We are committed to accelerating the transformation of Australia's energy system to one that is smarter and cleaner.

The CEC broadly supports the approach proposed by the AEMC and in that context we raise the following concerns and suggestions for consideration by the Commission:

- Customers should have the opportunity to gather at least twelve months' data from their smart meter before they are required to make a decision as to whether they will 'opt out' of a demand-based tariff. They should also have access to credible tools to enable comparison of their consumption profile against the various tariff on offer. These decision making tools are not yet available.
- The issue of what distribution businesses can or should be allowed to do under the current regulatory framework is vexed and the subject of ongoing debate. There would be merit in considering this issue in the context of different network operating models. Structural separation of the roles of asset management from system / market platform management could be a more pro-competitive approach.
- The CEC urges AEMC to consider the merits of an incentive and penalty regime for more efficient grid connection.

We would be very happy to discuss these issues in further detail with the AEMC. We look forward to contributing further to this review.

RESPONSE TO ISSUES RAISED IN THE APPROACH PAPER

The CEC welcomes the COAG Energy Council decision to task the AEMC to report annually on network market developments to inform future policy decisions regarding potential changes to the economic regulatory framework. Technology is changing very rapidly and the electricity market regulatory framework struggles to maintain the necessary pace of change required. The AEMC annual report will be able to make a useful contribution by highlighting areas of the regulatory framework that may require more urgent attention.

We support the framing of the review in the context of the question posed, namely:

Does the economic regulatory framework allow and incentivise networks to adapt to the extent necessary to changes in the market, including increased decentralised supply?

The approach of identifying emerging themes or potential challenges that may be faced by the regulatory framework in the near or medium term seems pragmatic and useful. We also support the choice of preliminary priorities for 2017, namely:

- Continued implementation of network pricing reform,
- The ability of networks to utilise increasingly diverse grid supply and network support options, and
- Different network operating models.

Network pricing reform

The CEC supports moves toward more cost-reflective electricity tariffs. We have concerns regarding the way that the transition is proceeding and the engagement with customers (especially residential customers) that will be affected in 2017.

Support for the new electricity distribution pricing arrangements will be strongest if they are implemented in conjunction with new customer engagement strategies and support for the adoption of emerging energy-related technology.

CSIRO¹ has concluded that,

“In all policy making around cost-reflective pricing it will be absolutely critical to distinguish what might promote *uptake* as opposed to effective *usage* of cost-reflective pricing.

Anything that induces the former without also facilitating the latter will carry with it **considerable political, economic and social risks.**”

¹ Stenner, K., Frederiks, E., Hobman, E. V., and Meikle, S. (2015) Australian Consumers' Likely Response to Cost-Reflective Electricity Pricing. CSIRO, Australia.

CEC concurs with this analysis. We therefore strongly urge the following approach toward the introduction of demand-based tariffs:

- It would be a mistake to move too quickly to mandatory reassignment to demand-based tariffs, and that is especially so at residential and small business level. Customers should be offered demand-based tariffs on an opt-out basis long before any moves toward mandatory tariff reassignment.
- Customers should have the opportunity to gather at least twelve months' data from their smart meter before they are required to make a decision as to whether they will 'opt out' of a demand-based tariff. They should also have access to credible tools to enable comparison of their consumption profile against the various tariff on offer. These decision making tools are not yet available.
- On-line tools should be available from trusted (ie government) web sites to enable customers to compare their consumption profile against tariff offers (like the Victorian 'My Power Planner' tool had done prior to it becoming outdated following the introduction of demand-based tariffs).

Our proposal that electricity consumption data should be available to the customer and that online tools from a trusted source should be available to analyse the data against tariff offers is consistent with the 'customer impact' pricing principle approved in November 2014.

Ability of networks to utilise increasingly diverse grid supply and network support options

The issue of network utilisation of new sources of grid supply and network support is vexed and has been the subject of recent debate in the context of the 2016 review of ring-fencing arrangements and the recent rule change proposal by the Australian Energy Council regarding contestability in the grid services market. There would be merit in considering this issue in the context of different network operating models. Structural separation of roles could be a more pro-competitive approach to network regulation and may reduce the need to constantly revisit regulatory issues regarding what distribution businesses can and cannot do and the circumstances in which they can do them.

Different operating models

The AEMC project on the future of the distribution market model is considering changes that would enable distribution network businesses to move from being asset owners and operators to being providers of market platforms, or for other parties to take on this role. CEC supports this approach. While we do not have a firm view on which organisation or company should be responsible for system operation of a distribution network and management of market-based platforms to procure services for efficient system operation, we advocate the following principles:

- The roles of asset ownership, maintenance and connection approval should be separated from the roles of system operation and market management,

- Contracts for system operation and market management should be allocated through a competitive process,
- A transparent performance benchmarking system should be established to enable comparison of the performance of system operators and market managers, and
- Ideally, the scope of the project would be broadened to include consideration of stand-alone networks and storage on the grid.

By separating the role of asset ownership and maintenance from the role of system operation and management of market-based platforms to procure services for efficient system operation, there is potential to resolve many of the conflict-of-interest and anti-competitive issues that continue to bedevil the regulatory framework for electricity distribution networks. We acknowledge that although the concept of structural separation is attractive in principle, there are also a number of practical issues that would need to be considered in the context of developing the proposed new framework, including the following questions:

- Would the proposal lead to duplication of administrative costs and, if so, how significant would the additional costs be?
- Who would be accountable if the decisions of the company responsible for ownership, maintenance and grid connection approval have an adverse impact on the ability of the company responsible for system operation and market management to meet performance standards?
- What are the projected economic costs and benefits of the proposal and would the economic benefits exceed the costs?

On behalf of the solar industry, the CEC also urges AEMC to consider the merits of an incentive and penalty regime for efficient grid connection by distribution businesses.