

Network perspectives - Behind the meter restrictions

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Overview

- Initial sector perspectives
- Primacy of efficient delivery for customers
- Issues for further consideration
- Transition

Draft rule - initial perspectives

- Networks consider the goal must be achieving the most efficient delivery of network services to customers
- This is best achieved through:
 - ‘service-based’ rather than ‘asset-based’ regulation
 - incentives to drive efficient expenditure solutions
 - applying the “necessity principle” before any intervention
- The AEMC contestability proposal as a drafted final rule needs to:
 - be proportionate to a problem to be solved
 - support efficient delivery models
 - adopt streamlined processes

Network perspectives on contestability approach

- Networks fully support the objective of avoiding RAB-based investments where other solutions more efficient
- Expect that a contestable approach (such as requirement to competitively tender) would be the norm e.g. in urban areas
- However, in some limited circumstances, RAB-funded behind the meter assets may be an essential and efficient 'backstop' capacity
 - e.g. in regional and remote areas with low potential competition
- Existing efficiency incentive schemes provide protections

Primacy of efficient delivery of network services to customers

- Networks concerned at the potential for customers to be forced to pay a premium for competition goals – and this outcome appears to be contemplated by AEMC
 - e.g. discussing a case in which the exemption application is not approved by the AER:

*“As with all alterations from a DNSP’s regulatory proposal, it will do so in accordance with the capital and operating expenditure objectives, criteria and factors. **This may include substituting the proposed restricted capital expenditure with increased expenditure allowances. For example, it is possible that the restricted asset capital expenditure may be the lowest cost option to provide the standard control service and without it a higher level of expenditure is required to provide the services.**” (p.60.)*

Issues for further AEMC consideration

- Does the proposed asset exemption process within the regulatory proposal process represent the best approach? Are there less restrictive approaches to be considered?
- The focus has to be on likely consumer outcomes, not theoretical ones
 - Market-based solutions will deliver innovation and efficiency benefits to consumers only if they are underpinned by effective competition
- What lessons are we drawing from other current experiences with introduction of competition in the distribution space?
 - current metering transition process, which may see in circumstances where promised competition has not shown up on the date planned, networks having to provide a ‘backstop’ set of metering services, may contain lessons