Network perspectives - Behind the meter restrictions

Irina Umback
Principal Economic Advisor
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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