

Contestability of energy services

Submissions invited on new rule change requests

The Australian Energy Market Commission (AEMC) has commenced consultation on rule change requests from the Council of Australian Governments (COAG) Energy Council and the Australian Energy Council (AEC). The requests seek to promote the contestable provision of a range of energy services.

Context

Technology, and the increased choices it offers consumers, is changing the energy sector. In particular, technologies such as battery storage – which are able to provide multiple services – make it more difficult to draw the line between what is economically regulated and what is provided by contestable markets.

The AEMC has been proactive in identifying these challenges, making changes to the regulatory arrangements to support these changes, and highlighting the need for additional reforms. A year ago, our report on the integration of energy storage highlighted the need to review the National Electricity Rules (NER) and regulatory arrangements so that they do not prevent efficient investment and competition in storage services.

The rule change requests

COAG Energy Council's request seeks to promote the development of competitive markets for new technologies that are capable of providing services in both contestable and regulated markets. To achieve this goal, COAG Energy Council proposes to change the provisions and processes within Chapter 6 of the NER that relate to the classification of distribution services.

The AEC's request also relates to the contestability of a range of services that can be provided by new technologies and seeks changes to the framework for classification of distribution services. But it goes a step further and seeks to restrict distribution network businesses' ability to earn a regulated rate of return on assets that provide network support, demand response or are located on the customer's side of the meter. The AEC also proposes that the threshold for the regulatory investment test be reduced so that it applies more extensively to distribution businesses' decisions.

Our approach to assessing the rule change requests

The questions raised by technological change, which are reflected in the rule change requests are complex, varied, and span significant sections of the economic regulatory framework for the regulation of distribution businesses.

With that in mind, the AEMC is taking a comprehensive approach to assessing the rule change requests. The starting point is this consultation paper, which seeks to provide a clear overview of the existing arrangements. It asks stakeholders to comment on how these arrangements affect their ability to use new technologies to provide services. This will help us identify the key issues in the current regulatory arrangements. The next stage will be extensive stakeholder engagement during 2017 to assess potential solutions and how they can be implemented. Table one below provides an indicative project timeline for this engagement.

Submissions on the consultation paper are due by 9 February 2017.

Table 1 Indicative project timeline

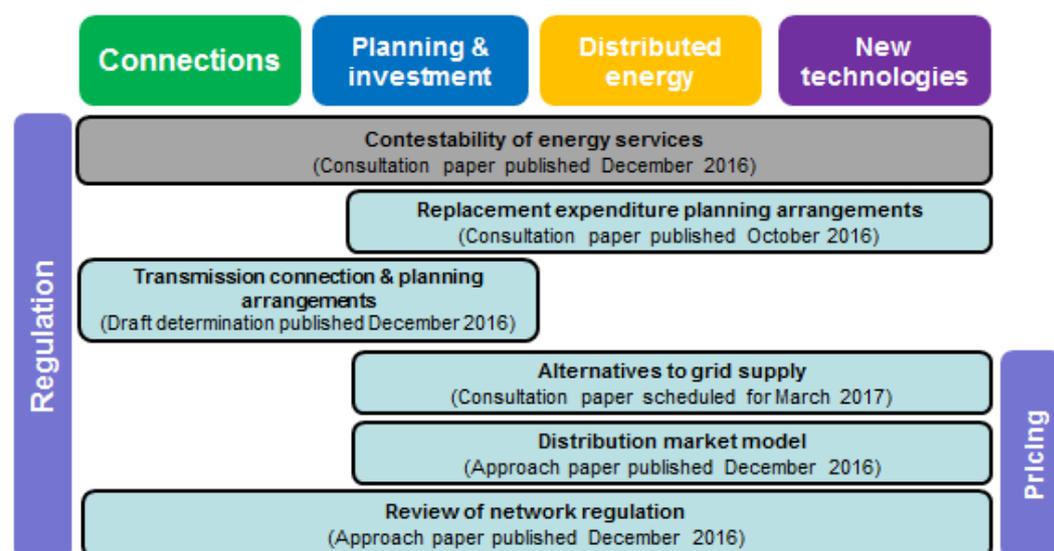
Milestone	Date
Rule change request received from COAG Energy Council	2 September 2016
Rule change request received from AEC	20 October 2016
Consultation paper published	15 December 2016
Public forum on the consultation paper	25 January 2017
Deadline for submissions to the consultation paper	9 February 2017
Stakeholder workshops	March – June 2017
Options paper/draft determination published	1 September 2017

The issues raised in the rule change requests are closely related and the Commission may choose to formally consolidate the two requests at a future date. The Commission has not done so at this time because there may be benefit in progressing the issues related to distribution service classification that are the primary focus of the COAG Energy Council rule change request on an earlier time frame to the issues raised on the AEC request. Given the complexity and breadth of the issues raised in the requests, the Commission has extended the time for making draft determinations. The Commission may choose to publish an options paper regarding one or both of the rule change requests. If this occurs the draft determination(s) will be extended further.

Wider work program

The rule change requests also interact with a number of other rule changes and reviews that the AEMC is currently undertaking. Figure 1 below displays these projects and their crossovers. To the extent possible, we will assess and consult on these various projects in a coordinated manner. We encourage stakeholders to engage with us on this and other projects, to help us develop a framework that will continue to meet the long-term interests of consumers.

Figure 1 AEMC related rule changes and reviews



For information contact:

AEMC Director, **Ed Chan** (02) 8296 7839
 AEMC Senior Adviser, **Ben Davis** (02) 8296 7851

Media: Communication Director, Prudence Anderson 0404 821 935 or (02) 8296 7817

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