Mr John Pierce

Chairman

Australian Energy Market Commission

Lodged online

3 July 2017

Dear Mr Pierce,

Re: Distribution Market Model Draft Report

We thank the Commission for the opportunity to provide a submission on the Distribution Market Model Draft Report. We believe that distributed energy resources will play an expanded role in the electricity system and that the Distribution Market Model Market Review comes at an important time of their development.

While noting that a number of enablers for the future distribution market are currently well progressed (including processes for moving towards cost reflective tariffs and access to information through metering), we believe that the outstanding issues surrounding cost recovery and the limitations of connection charges must urgently be addressed. We support the Commission's proposal that the deletion of clause 6.1.4 of the NER be further explored.

Under the Current National Energy Rules distribution companies are prohibited from charging for the exporting of energy from customer generating facilities into the distribution system:

> 6.1.4 Prohibition of DUOS charges for the export of energy
> 1. (a) A Distribution Network Service Provider must not charge a Distribution Network User distribution use of system charges for the export of electricity generated by the user into the distribution network.

2. (b) This does not, however, preclude charges for the provision of connection services.

With SACOSS support, St Vincent de Paul believes this rule creates a significant barrier to both appropriate pricing for the use of the distribution network, resulting in increased cross subsidies within customer classes. We also believe it undermines a smooth transition to the new transforming energy market, including distributed energy, micro and mini grids.

Cost reflective pricing and impacts of 6.1.4

St Vincent de Paul has consistently argued that the current rule prohibits the pricing for export of energy (this could include a reward or a charge). As such, where generation supports the efficient operation of the network or deferral of investment, a reward should be made available. Conversely, in a situation whereby generation is placing a greater burden on a network system (and therefore costs) than customer demand, the network business is only left with the option to pass on the additional costs onto consumers through increases to fixed or variable DUOS charges.

Such pricing has two possible outcomes. Firstly, if costs are allocated to the variable charge component, it incentivises generation to avoid the costs and as such, other 'non-generation' customers would ultimately and disproportionality pay these costs.

Secondly, if the network businesses allocate the costs to the fixed or standing charge, while the non-generating customer would also see these costs, their overall energy prices are lower and as such this method would disproportionally impact on non-generating customers.

New technologies and services

We believe that the current inability for network businesses to price exports on energy through the network system will also limit the uptake of other technology such as batteries, EVs and other energy management tools.

St Vincent de Paul has previously explained that under the current rules for example, if the network businesses were to introduce a demand tariff it would only apply to the household's "maximum demand". If that household were a household and maximum demand is 2 kW <u>BUT</u> the maximum export though solar is 3kW, the use of 1 kW worth of network is not being recovered. This then has to be recovered in other pricing designs (either in fixed or variable demand charges).

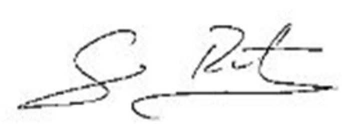
This also limits the opportunities for other services to come and act as a balancing mechanism (such as batteries) to store the additional 1 kW exported (reducing allocation of this cost to other parts of the tariff and or participants). It also disincentivises energy management systems that will ensure that the households use the exports in a way that balance this with the maximum demand.

In both the cases there could be a much more efficient outcome for all participants through charging on exports. This would ensure equity within the customer base as one consumer is not being cross subsidised by another, and as importantly, provide the pricing framework that releases new technologies and services that support consumer decisions and choices in the emerging energy market.

In addition to removal of 6.1.4 of the NER, it is necessary to ensure that the TSS process applies to exports. Specifically, the cost reflective pricing principles need to apply to export as well as consumption. This is to ensure that network businesses are required to charge for exports, rather than have it at their discretion in the interests of promoting equity in using the network system.

We thank you for consideration of our comments. If you have any questions, please contact Mr Gavin Dufty, Manager Policy and Research, St Vincent de Paul via gavind@svdp-org.au or Ms Jo De Silva, Senior Policy Officer, SACOSS via jo@sacoss.org.au.

Yours Sincerely,



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