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Submission on AEMC's *Distribution Market Model, Draft Report, 6 June 2017* ('The Report')

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Disclaimers:

-This submission is made as an individual, and is not meant to reflect the official position of any group, unless otherwise indicated. I hope it is evident that I am not restricted by conflicts of interest in making this submission.

I apologise for any errors or issues arising from the fact that this submission has not been reviewed nor proofread by anyone.

-Any criticism of an NEM participant's behaviour as "inconsistent with the National Electricity Objective ('NEO')" does not imply anything irrational or ethically questionable has occurred. Such a "rational" response is expected whenever the Rules or their enforcement are too weak to keep profits aligned with consumer best interest.

I wish to thank the AEMC for the opportunity to respond to the Report, and I look forward to reading the Final Report in August.

Section 1: Preference of "market-based" approaches whenever feasible.

I agree with the general approach taken by the AEMC to invest in creating stable competitive markets for DER, rather than using a stricter "regulatory instrument" approach (4). The markets for DER and the services they provide should be allowed to develop quickly in this initial phase (Stage 1) where there is little concern over detrimental effects of extreme DER penetration in any locality.

As a bonus, unfettered growth of DER now would help DNSPs identify consumers' "natural configuration preference" in the absence of locational price signals. This minimises transaction costs to customers, compared any other DER configuration. Locational tariffs may be far off in some areas, and there is no need to wait for them to be ready before rolling out widespread DER.

If implementation of locational tariffs proves difficult, another way to address local constraints is the "old fashioned way": for the DNSP to propose investment in augmentation of those parts of the network which face constraints due to DER. This investment would then be weighed against non-network solutions, which could then bring a whole new world of innovation to the table. The investment would also be scrutinised to determine whether it is indeed efficient. I am very interested to see the first of these proposals. Like all network augmentation projects, the costs would be paid by consumers as a whole, given that the project costs are efficient and promote the NEO.

A community with "too much" DER would likely be operating close to self-sufficiency and may have a choice between paying network augmentation charges or finding an alternative way to use its abundance of resources. Rather than paying those costs, communities could themselves take initiatives to reconfigure DER to store more energy locally, distribute surplus energy via non-network means, create a community art project with the otherwise wasted energy, etc.). The choice to go off-grid is especially appealing in remote communities, where the cost of upgrading network infrastructure can be very high.

Section 2: The Optimisation Function

> *"Distributed energy resources and the services they provide therefore create both opportunities and threats - the opportunity of distributed energy resources responding to the right prices and the threat of them responding to the wrong prices." (26)*

I agree with the AEMC's conclusion that an independent Optimisation Function is necessary in order to create a fair market for DER. Anything less would be picking winners. I applaud The AEMC for recognising that market participants are not correctly signalling their costs, and the AEMC's proposal of an independent "Optimiser" sounds like a reasonable solution.

Given that some networks are currently allocating costs based on very poor measures such as (*Individual peak demand * deemed diversity factor*), the construction of the optimisation function will no-doubt be a source of great debate.

The continuous relevance of the Optimisation Function must also be ensured. Customers must be confident that the function will continue to provide fair value for investment in DER. Naturally, the function will need to be updated from time to time, to reflect current cost drivers.

Also on page 26 is the principle that DER Optimisation should consider both positive and negative externalities of its use. I agree that this is important in all price signals related to DER. As DER will be competing directly with traditional wholesale generation, it is important that fossil fuelled generation be subject to the same principle. Anything less would put DER at a disadvantage diminishing its utility in reducing wholesale costs. As the principles on page 26 are general, I see no reason that they should not apply equally to all competitive markets and participants.

Section 3: A market-based approach to Retail Electricity is no longer feasible.

One Retailer's plan offers a $100 gift card as a loyalty bonus after 6 months. Another plan offers a 30% "pay on time discount", but its prices are 30% higher, too. One Retailer told me they "Get me" (or was that my insurance company?). Another Retailer notices how smart its customers are, I like that. Then there's the "easy" choice… sure you end up paying more, but it's okay to admit to them that you have no idea what an electricity retailer is.

Given that customers should soon have access to a single set of cost-reflective Retail Prices, based on the Optimisation Function, there seems to be no place for "retail competition" in the future NEM.

The other traditional Retailer role of "smoothing wholesale prices" will soon be of zero value to consumers as well. This is because consumer access to wholesale price signals via DER effectively adds many small players to the wholesale market, with the capability to both buy and sell in real-time. This will smooth wholesale prices as it lowers average prices to the efficient levels of a fully developed market. Consumers with DER will, in general, and up to a personal risk limit, actually

prefer more volatile prices over smoothed ones, as this allows the DER to yield higher returns for the same services, rewarding DER investment.

The extent to which the AEMC expects retailers to take over service roles such as demand aggregator (potentially involving vertical integration) is not clear from my reading of the Report. I see no future for retailers beyond being meter readers and payment processors. I think the introduction of a single Optimal pricing function makes Retail Electricity a natural monopoly.

Section 4: Stability

Long-term energy market stability is hard to achieve when the government of the day has the power to affect market structures, policy and operation. Governments routinely choose to destroy long-term value when it provides a short-term power boost.

Market structures must be robust to attacks by the short-sighted, self-interested, or simply mis-informed actions of those with power, and especially those desperate to retain power. DER is a long-term investment, thus efficient levels of uptake will only be achieved when decisions are made confidently, with complete information and policy certainty.

Conclusion:

One of the most concerning aspects of the Report is the assumption that Networks will act to reduce their costs, rather than inflate them. Networks will continue dragging their feet and whining about their enormous costs they face, as long as the AER continues to call such behaviour "efficient". While I understand that the AEMC must make rules based on the assumption that they will be enforced by the AER, it would be useful to check that the AER plans to give effect to all of the Rules before assuming that we have a secure energy future.

Please feel free to contact me on 0416 846 350 or herbalisk@gmail.com if you have any issues with this submission. Thank you again.