9 February 2017

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2499
Sydney South NSW 1235

Dear Mr Pierce

"ERC0206" ***Contestability of Energy Services and "ERC0218" Contestability of Energy Services – Demand Response and Network Support Consultation Paper***

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Australian Energy Market Commission (AEMC) regarding its Consultation Paper on the following two rule change requests:

1. *Contestability of energy services* submitted by the Council of Australian Energy Governments (COAG) Energy Council; and
2. *Contestability of energy services – demand response and network support* submitted by the Australian Energy Council (AEC),

The attached submission is provided by Energy Queensland that operates a portfolio of businesses providing energy services across Queensland, including:

- Distribution network service providers (DNSPs), Energex and Ergon Energy; and
- A regional service delivery retailer, Ergon Energy Retail (EEQ), limited in its scope of operations by jurisdictional legislation.

Should you require additional information or wish to discuss any aspect of Energy Queensland's submission, please do not hesitate to contact either myself on (07) 3851 6416 or Trudy Fraser on (07) 3851 6787.

Yours sincerely

Jenny Doyle
General Manager Regulation and Pricing
Telephone: (07) 3851 6416
Email: jenny.doyle@energyq.com.au

Energy Queensland

Contestability of energy services and Contestability of energy services – demand response and network support Consultation Paper

Energy Queensland Limited

9 February 2017

Contact details

Energy Queensland Limited
Jenny Doyle
Phone: +61 (7) 3851 6146
Email: jenny.doyle@energyq.com.au

PO Box 1090, Townsville QLD 4810
Level 6, 420 Flinders Street, Townsville QLD 4810
www.energyq.com.au

Energy Queensland Limited ABN 96 612 535 583

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1 Introduction

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Australian Energy Market Commission (AEMC) regarding its Consultation Paper on the following two rule change requests:

1. *Contestability of energy services* submitted by the Council of Australian Energy Governments (COAG) Energy Council; and
2. *Contestability of energy services* – demand response and network support submitted by the Australian Energy Council (AEC),

This submission is provided by Energy Queensland, on behalf of its related entities Energex Limited (Energex), Ergon Energy Corporation Limited (Ergon Energy) and Ergon Energy Queensland Limited (EEQ)). Energy Queensland is a recently established Queensland Government Owned Corporation that operates a portfolio of businesses providing energy services across Queensland, including:

- Distribution network service providers (DNSPs), Energex and Ergon Energy; and
- A regional service delivery retailer, EEQ, limited in its scope of operations by jurisdictional legislation.

Energy Queensland's vision is to "be at the core of how Queenslanders choose to use electricity" and it is focused on working across its portfolio of activities to deliver customers:

- Lower, more predictable, power bills while maintaining a safe and reliable supply;
- A great customer service experience;
- Greater control over their energy consumption; and
- Access to the next wave of energy linked innovative technologies and renewables.

Energy Queensland supports a framework that does not prevent efficient investments and competition for new technologies in the energy sector. We also consider, similar to the sentiments expressed by the AEMC in its Consultation Paper, that developing a common understanding of the issues first will allow a more focused analysis of the issues and will result in a more efficient rule making process.

Furthermore, any amendments to the regulatory framework need to be carefully considered to ensure they do not create any unintended outcomes. Energy Queensland's comments in relation to specific issues discussed in the Consultation Paper, and our detailed responses to the questions raised therein are included in sections 2 and 3 of this submission.

As members of the Energy Networks Australia (ENA), the peak national body for Australia's energy networks, Ergon Energy and Energex have also contributed to and are supportive of the issues raised in the ENA's submission.

Energy Queensland is available to discuss this submission or provide further detail regarding the issues raised, should the AEMC require.

2 Specific Comments

2.1 Service classification

Energy Queensland's recognises that there may be significant complexities in determining what are contestable services and those which are not. Similar to the COAG's Energy Council sentiments expressed in their rule change proposal, Energy Queensland supports the principles that services should only be regulated where competitive market forces cannot efficiently deliver those same services. The AEMC needs to recognise that in trying to achieve effective competition, over-regulation or an incorrect definition of energy services may stifle innovation which will be detrimental for customers. The AEMC should therefore focus on the definition of what constitutes regulated services. By default we support the general principles that services that don't fall under the ambit of requiring regulation should be unclassified and therefore open to competition.

Energy Queensland strongly supports the AEMC's view that assets that are used to provide multiple services with different classifications may be used by a DNSP provided they do so in accordance with their cost allocation methodology, shared assets guideline and distribution Ring-Fencing Guidelines. We consider that assets that are able to provide multiple services and value streams across the energy sector; should not warrant consideration of either a blanket prohibition on DNSPs in entering this market or a requirement to sourcing this service from the contestable market (that is, third parties or a ring-fenced entity).

Energy Queensland does not consider there are significant issues with the current distribution service classification process. Specifically, the service classification process, under the Framework and Approach (F&A), which we identify as the first step in the process to determine efficient prices for electricity distribution services, facilitates and assists DNSPs' in preparation of their regulatory proposals. In fact, due to the strong interrelationship between the service classification process and the Distribution Determination Energy Queensland considers that any decision to allow for the possibility of a service reclassification within a regulatory control period will result in significant impacts for DNSPs. As such, we strongly recommend that the policy positions presented by the COAG Energy Council and the AEC are carefully considered in terms of the likely benefits versus the consequential impacts for DNSPs, including additional costs that will ultimately be borne by customers.

While it is appropriate for services that clearly exhibit natural monopoly characteristics to be economically regulated, this should not be on the only consideration when determining an appropriate service classification. It is important to take into account all of the form of regulation factors and other classification criteria in forming the relevant service classification. Energy Queensland would support a requirement on the Australian Energy Regulator (AER) to publish a service classification guideline. We consider that there is merit in outlining the following:

- what service classification is and why it is important;
- the National Electricity Rules (NER) service classification framework;
- the types of evidence the AER is likely to rely on when assessing the four factors underpinning the classification of distribution services;
- the types of evidence the AER is likely to rely on when assessing the six factors underpinning the classification of a direct control service as either standard control or alternative control;
- other relevant factors the AER may consider in making its classification decisions;
- standardised distribution service groups (e.g. network services, connection services and metering services);
- the level of detail to be provided in the F&A service classification table; and
- the framework for within period service reclassification (if introduced as part of this rule change) and the types of evidence the AER may consider in assessing a service reclassification proposal.

Despite our support for the classification guideline, the guideline should not pre-empt a particular classification for a service or service group, rather, service classification should be considered as part of each DNSP's F&A process. Also, Energy Queensland considers that the guideline should not be binding.

2.2 Regulatory arrangements

The underlying philosophy of the framework is to allow DNSPs to determine which projects/programmes are required to deliver distribution services, therefore retaining ownership of the service delivery choice. Energy Queensland considers that the framework is built to ensure that DNSPs are incentivised to provide direct control services efficiently and operate impartially as to whether they use capital or operating expenditure, network or non-network, a variety to technologies, etc. As such, we see no major issues with the current regulatory framework. Furthermore, we do not support a framework that imposes restrictions on who can own assets based on the service provided by the assets. For example, both Ergon Energy and Energex own embedded generators which are consistently used as network support to provide distribution services. Ownership of these assets is already contemplated under the regulatory framework, and

is appropriately accounted for, so long as the DNSPs do so in accordance with their cost allocation methodology, shared asset guideline and distribution ring-fencing guideline.

The proposal by the AEC to reduce the threshold of the Regulatory Investment Test for Distribution (RIT-D), from $5million to $50,000 is not supported. Energy Queensland understands that in applying the RIT-D process to-date that it has failed to yield a viable alternative that provides a credible technical and economical solution for augmentation projects. On this basis, any extension of the RIT-D process to distribution projects valued at as little as $50,000 will be contrary to the National Electricity Objective (NEO) in that it will result in an increased regulatory burden that is unlikely to reveal any benefits to market stakeholders and consumers of electricity. Energy Queensland considers there are alternative approaches that better encourage and engage with the market such as Ergon Energy's network incentive map and optimal incremental pricing methodology. Similarly, Energex whilst publishing extensive information on a range of network limitations and proposed investments in its DAPR each year, has also facilitated additional engagement opportunities with non-network providers through the identification (and publication on it's website) of "target areas" for demand management, in relation to identified longer term network limitations. These are discussed in more detail in response to question (8) in Section 3 below.

Adopting a more prescriptive approach to regulation, especially where a framework would prevent DNSPs from procuring services in the most prudent and efficient manner is not supported. The focus should be on the outcomes created for customers. As such, we support a framework that allows the market to develop but not at the expense of customers and service providers alike.

3 Table of detailed comments

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Question 1	
a) Is there a problem with the current process for distribution service classification? For example: i. does the current determination by determination approach reduce clarity over likely service classification decisions? ii. does the timing of the framework and approach (F&A) process (in advance of each distribution determination) inhibit stakeholder engagement on service classification decisions?	Generally, Energy Queensland sees no issues with the current process for distribution service classification. <u>Determination by determination approach</u> Energy Queensland strongly supports the current determination by determination approach to service classification, given the different jurisdictional legislation, policies and licence conditions that apply to distributors across the National Electricity Market. In particular, we consider that jurisdiction specific issues have dominated service classification debates, rather than AER's application of the service classification framework. For example, the AER's classification of connection services differs from jurisdiction to jurisdiction because of the jurisdictional policy differences. Retaining the determination by determination service classification approach enables interested stakeholders to make more informed decisions on issues that are significant to them. Over the past ten years, the electricity industry and regulatory framework have undergone substantial transformation. In that time, the proportion of services that are reclassified between regulatory control periods has been relatively low. Energy Queensland considers that in the absence of the current determination by determination approach the following outcomes would not have been achieved: • re-classification of Types 5 & 6 metering as an Alternative Control Service (ACS) (i.e. unbundled from network tariffs), thereby facilitating a smooth transition to compliance with the metering contestability rule change, scheduled to commence later this year; • the introduction of numerous user-specific services (e.g. witness testing, assessment of parallel generation applications, and protection and power quality assessments) following the increased uptake of embedded generation ensured a user-pays approach consistent with the NEO; • the development of competition led to the reclassification of the line lifting component of high load escorts to 'unclassified' in 2015-20, thereby removing administration costs associated with regulatory oversight (Ergon Energy only).

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	<u>Timing of the F&A process</u> Energy Queensland does not believe the timing of the F&A process inhibits stakeholder engagement on service classification decisions. Stakeholders were actively involved in each stage of the 2015-20 regulatory determination process for Queensland DNSPs, including the F&A. In fact, ten of the 11 stakeholder submissions[1] received on the AER's F&A Preliminary Positions Paper provided comments on service classification issues. Moreover, changes to the National Electricity Rules (NER) in 2012 have increased the focus on consumer engagement and its integration in DNSPs' business-as-usual operations. These changes are still in their infancy, and over time, Energy Queensland anticipates that customer engagement will continue to evolve and improve. In the lead up to the next formal F&A process, Ergon Energy and Energex intend to engage with their stakeholders on F&A matters, including service classification. This will help: • educate stakeholders on the F&A process; • facilitate their later involvement in the formal process; and • inform their decisions to request the amendment/replacement of the current F&A. Energy Queensland strongly supports retaining the timing of the F&A process, fittingly in advance of the each distribution determination. Service classification is one of the key decisions that the AER makes in the distribution determination process, and has implications on a range of other constituent decisions that the AER is required to make, including decisions on: • Building blocks • Forecast capital expenditure • Forecast operating expenditure • Regulated asset base • Depreciation There are significant benefits for all stakeholders in having the service classification debate settled early in the process. Changes in service classification are generally onerous for distributors, often requiring distributors to prepare and provide substantial back-casted financial and non-financial information in their regulatory proposals, in addition to undertaking system and process changes. Given the substantial costs involved, it is preferable that the service

[1] Excluding DNSP submissions

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	classification is conducted far in advance of a distribution determination. In this regard, Energy Queensland supports retaining the current arrangements in the NER that require the AER to publish the F&A decision six months before the DNSPs submit their regulatory proposal, and the AER to maintain the service classification as determined in the F&A unless unforeseen circumstances justify a departure.
b) Would a distribution service classification guideline increase clarity regarding distribution service classification?	The COAG Energy Council has proposed that the NER be amended to require the AER to develop and maintain a Service Classification Guideline. This guideline would set out the AER's standard approach to applying the service classification framework (primarily Rule 6.2 of the NER). The rule change request did not provide details on what would be contained in such a guideline. While Energy Queensland believes the determination by determination services classification process and timeframes are appropriate, the development of an AER service classification guideline would certainly increase clarity over the process. In particular, Energy Queensland sees merit in having a guideline which sets out: • what service classification is and why it is important; • the NER service classification framework; • how the AER weighs up form of regulation factors and the other factors underpinning the classification of distribution services and the types of evidence that will be considered by the AER. For example, in assessing the barriers to entry in a market, the AER may consider market share held by the DNSP (and what market share would be a barrier, e.g. 2/3 of market), set up costs for a new entrant, and legislative and regulatory barriers, etc.; • how the AER weighs up the factors underpinning the classification of a direct control service as either standard control or alternative control, and the types of evidence that will be considered by the AER. For example, in assessing the potential for the development of competition the AER may consider the rural/remote nature of the network; • other relevant factors the AER may consider in making its classification decisions (e.g. cost reflectivity, transparency, and rule change requests and market reforms in progress); • standardised distribution service groups (e.g. network services, connection services and metering services); • the level of detail to be provided in the F&A service classification table; and • the framework for within period service reclassification (if introduced as part of this rule change) and the types of evidence the AER may consider in assessing a service reclassification proposal. However, importantly, the guideline should not pre-empt a particular classification for a service or service group for the reasons described above. Service classification should be considered as part of each DNSP's F&A process.

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c) To what extent does service classification being locked in over the regulatory control period create a lag in appropriate reclassification of services?	Energy Queensland acknowledges that locking in service classification over a regulatory period definitely creates a lag in the reclassification of services. For example, the lag prevented Ergon Energy being more responsive to embedded generation issues which arose in the 2010-15 regulatory control period (e.g. we weren't able to charge individual users for protection and power quality assessments and removal of network constraints, leading to cross subsidisation by all network users). However, it is unclear to Energy Queensland that the benefits of services reclassification within a regulatory period outweigh the costs. There is merit in "locking in" service classification as this creates certainty which is necessary due to the administrative burden of planning regulatory submissions which are centred on the service classification. The time, effort, resources and planning required to develop a regulatory submission are significant and this cannot be overlooked while reconciling the positives/negatives associated with service reclassification within a regulatory control period. As previously noted, service classification decisions have flow on effects on other AER decisions. Indeed, in some instances, changes in services classification will have the effect of almost remaking a distribution determination.
d) What other changes to the economic regulatory framework may be required to allow clear and properly informed decisions on reclassification of services within a regulatory control period?	Other changes likely to be required include: • It would need to be made clear in what circumstances a service reclassification can occur so as to avoid frivolous requests. Additionally who can request a service reclassification, the relevant timeframe to take effect (e.g. needs to tie in with Pricing Proposal process so DNSPs do not need to re-submit the Pricing Proposal mid-year), the consultation process, and a positive obligation on the AER to provide reasons for its decision; • Consideration of whether a service reclassification could be recovered as a pass-through event; • Clause 6.2.3 of the NER would need to change – a classification forms part of a distribution determination and operates for the regulatory control period for which the distribution determination is made; • If reclassification is allowed, the AEMC would need to introduce a new 'revocation or substitution of distribution determination for service reclassification' rule, similar to clause 6.13 of the NER. In addition to the classification of services, the following constituent decisions of the distribution determination (clause 6.12.1 of the NER) may change (to the extent necessary): o building block proposal; o capital expenditure forecast; o operating expenditure forecast; o the Regulatory Asset Base; o corporate income tax; o depreciation schedules; o Efficiency benefits sharing scheme (EBSS) and capital expenditure sharing scheme (CESS); o control mechanisms; o Tariff structure statement – changes arising from a service reclassification should be done as part of the

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	revocation and substitution process (i.e. should not fall under the framework set out in clause 6.18.1B. Avoids duplicated consultation); and ○ Connection Policy; • Revocation or substitution clause would probably need to override parts of clause 6.12.3 of the NER (e.g. form of control cannot change from Framework and Approach paper); • Amendment of the Cost Allocation Methodology (CAM) and seek subsequent AER approval; and • Reclassification of services may include introduction of new services, not just reclassification of services already contained in the current service classification table.
e) What would be the costs and benefits of allowing reclassification of services within a regulatory control period?	Likely costs may include: • Administration costs: ○ re-opening a distribution determination requires AER and DNSP resources which are already limited; and ○ impacts on the Pricing Proposal process and re-education of staff; • increased complexity; • Consultation costs associated with providing feedback on the service reclassification proposal, and communicating new arrangements with customers and other stakeholders); • Possible system (billing), financial (e.g. Chart of Accounts, CAM) and pricing (e.g. quoting tool) changes for DNSPs, retailers and other third parties; • Uncertainty for businesses/investors in terms of revenue; and • Possible customer confusion. Likely benefits may include: • Keep pace with changes in the broader electricity industry and actively respond through relevant regulatory changes; • Facilitate earlier development of a competitive market (e.g. moving from Standard Control Service (SCS) to ACS); • Earlier access to consumer benefits. For example, moving from SCS to another classification may lead to better cost reflectivity, lower prices, more choice and more innovation.
Question 2	
a) Does the definition of distribution services provide clear guidance regarding which services are distribution	Energy Queensland agrees that the definition of distribution services is ambiguous and that there is uncertainty regarding its application.

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services and which are not?	
b) What types of changes could be made to clarify the term?	Energy Queensland has no comments.
c) What would be the pros and cons of changing the definition of distribution services?	Energy Queensland has no comments.
Question 3	
a) Do the form of regulation factors provide clear guidance to the AER in determining whether distribution services should be classified as direct control services, negotiated services or be left unclassified?	Neither the National Electricity Law (NEL) or NER provide any guidance as to the way in which the form of regulation factors should be applied when classifying distribution services between direct control services and negotiated services, or not classifying them (i.e. unclassified). In particular, it is not clearly stated that the presence of market power in the provision of a service means that the service should be classified as a direct control service as opposed to a negotiated service. Rather: • The NER simply require the AER to "have regard to" the form of regulation factors in classifying services; and • The form of regulation factors list a series of market characteristics but do not explicitly say that the presence of particular market characteristics means that a service should be classified as either direct control or a negotiated service. Further, neither the NEL nor NER provide any guidance as to the way in which the form of regulation factors should be weighted between each other and the other classification criteria set out in clause 6.2.1(c)(2) to (4) of the NER. It is also unclear whether the AER must have regard to each and every factor. Of the seven factors set out in section 2F of the NEL, the AER only referred to three in its F&A for Ergon Energy and Energex for the 2015-20 regulatory control period. These were: • (a) barriers to entry; • (d) market power; and • (g) information availability. Despite the lack of clear guidance in the NER, Energy Queensland considers that rather than adopting a prescriptive solution, a guideline would serve the purpose of articulating the application of the form of regulation factors that the AER considers when determining service classification. In the past, Ergon Energy has relied upon the Expert Panel on Energy Access Pricing's (Expert Panel) April 2006 "Report to the Ministerial Council on Energy" to form views on the way in which the form of regulation factors should

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	be considered.
b) Should the requirement to not change service classification unless a new classification is clearly more appropriate be removed?	No. It is important for the AER to undertake a detailed cost-benefit analysis and provide justification for any reclassification; given the impact service classification has on cost recovery. The benefits must outweigh the costs.
Question 4	
a) Are the NER clear regarding classifying direct control services as standard or alternative control services?	The NER do not provide clear guidance on the way in which the criteria set out in clause 6.2.2(c) of the NER should be applied in classifying direct control services. In particular, the NER do not indicate which service classification should be adopted once the service has been assessed against the criteria. Energy Queensland considers that rather than adopting a prescriptive solution, a guideline would meet the purpose of defining principles and considerations in terms of classifying direct control services. Often DNSPs are required to therefore rely on their own interpretations as to when a service should be classified as an SCS or ACS.
b) Do the NER provide effective guidance to the AER in classifying direct control services into standard and alternative control services?	Energy Queensland refers you to our response to question 4(a) above.
c) Should the requirement to not change service classification unless a new classification is clearly more appropriate be removed?	Energy Queensland refers you to our response to question 3(b) above.
Question 5	
a) Is an objective for service classification in the NER necessary? For example, COAG Energy Council considers the NER should be more explicit in providing that only services which exhibit natural monopoly characteristics should be economically regulated.	Energy Queensland does not believe there is a need for a service classification objective.

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b) Should the steps of service classification be informed by the same considerations? For example, should all service classification steps be based on market characteristics, rather than on the form of regulation that applies to the service?	As stated above, Energy Queensland does not believe there is a need for a service classification objective. We consider that the form of regulation factors and other classification criteria (and hence the service classification steps) already take into account market characteristics. However, there would be value if a guideline was developed that captured and outlined their application.
c) Within this framework, should new classification(s) be added?	No. Energy Queensland considers it unclear what other service classification would be required. Energy Queensland's preference is to retain direct control services, negotiated and unclassified distribution services. Adding new classification(s) would only increase the complexity of the process. Notwithstanding this view, Energy Queensland would encourage consideration to remove negotiated services. This is because there are no incremental benefits of providing a service on a negotiated basis, compared to providing it as an ACS or unclassified. There is value for customers by applying an unclassified classification. Customers would therefore be encouraged to seek out the most competitive price rather than negotiate and dispute under a negotiating framework.
d) The proponents of the rule change requests consider that service classification is no longer only determining which services are economically regulated and which are not. It is increasingly having significant effects on the application of the distribution ring-fencing, cost allocation and shared asset guidelines. Should the AER expressly be required to have regard to the interaction of service classification with these other forms of regulation?	Energy Queensland agrees with the comment that the service classification has significant impact on the application of ring-fencing, cost allocation and shared asset guidelines, but the AER should not have regard for these matters when determining the appropriate service classification. Service classification should be about ensuring the right level of (economic) regulatory oversight is in place for a particular service (taking into account factors like the potential for the development of competition for that service) and promoting economic efficiency principles (e.g. user pays approach for individually requested services).
e) Are the NER clear as to what can and cannot be classified? If not, what	It is unclear what considerations the AER should take into account when deciding to not classify distribution service. This also links to the ambiguity of the definition of a distribution service. It may therefore be beneficial to revise the

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changes would be required?	NER to incorporate high level principles that are then expanded upon in the guideline.
Question 6	
a) Is there a problem with DNSPs having service delivery discretion in relation to demand response, network support and other inputs derived from assets located 'behind the meter'? If so: i. What is the problem? ii. How material is it? iii. Provide examples of the problem?	Energy Queensland does not see any issues with DNSPs having service delivery discretion for direct control services, even if they are behind the meter. Indeed, DNSPs have a long history of owning and operating devices behind the meter that control customer's hot water, air conditioning, pool pumps, etc. enabling the delivery of significant network benefits in the interests of all network customers. In this regard, Energy Queensland also believes that any changes to the regulatory framework should not impact or restrict the ongoing use or future use of controlled load tariffs, around which our networks have been planned, designed and operated for many years. Energy Queensland believes that in principle DNSPs must be incentivised to seek the least cost option in delivering network services. If the least cost option is investing in inputs behind the meter, DNSPs should not be restricted from pursuing the option. Prohibiting DNSPs from owning and controlling assets located behind the meter will potentially lead to outcomes that are contrary to the long-term interests of all network customers However, we recognise that where the market has evolved and there is sufficient competition and customers are receiving these benefits, then behind the meter services should be open regardless of who delivers the service. Notwithstanding this view, there still needs to be a careful consideration of the potential to increase network risks from behind the meter services. We understand that the AEC rule change request states that technologies used to supply behind the meter services are fairly immature, and as such, market dominance by DNSPs could delay or inhibit cost reductions, technology improvements and business model innovations. Energy Queensland believes that DNSP involvement is paramount, so as to stimulate and promote the development of the markets for behind-the-meter assets. Energex's experience with demand management programs covering PeakSmart air-conditioning, Power Factor Correction & Energy Efficiency incentives provides a compelling example where DNSP involvement stimulated the market and encouraged new entrants. Energy Queensland believes this would not have occurred without the DNSP engaging with industry participants and driving the development and adoption of Australian Standards for Demand Response. Energy Queensland understands that both Ergon Energy and Energex rely on firm and known responses from behind the meter resources. The more immature the market the less likely for procurers and consumers to have confidence in the market. We also understand that the market is generally slow to respond to price signals, and without a DNSPs direct interaction and involvement, the market struggles to stay agile. This may create risks for DNSPs if they are

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	forced to procure behind the meter services from immature markets. For example, where DNSPs are forced to procure battery storage as network support. If the battery storage fails[2] as a network support service, then DNSPs are essentially paying twice, once for the behind the meter service and then for the upgrade of the network. DNSPs should not be required to adopt more expensive solutions to placate an under-developed third party market at greater cost and risk to customers. Energy Queensland recommends careful consideration occurs in balancing the costs and benefits in terms of meeting the long term interests of customers.
b) Is the problem unique to demand response, network support and other inputs provided by means of assets 'behind the meter'?	Energy Queensland does not consider that this problem is unique to demand response, network support and other inputs provided by means of assets behind the meter.
Question 7	
a) Does the regulatory framework provide balanced incentives for DNSPs to use the most efficient mix of: i. network or non-network options? ii. capital and operating expenditure? iii. a range of technologies? iv. assets that are positioned behind or in front of the meter? v. providing the services "in-house" or procuring the services	Energy Queensland considers that the regulatory framework provides balanced incentives for DNSPs to provide regulated services as efficiently as possible. The AER caps the revenues that DNSPs can recover for providing regulated services over a given regulatory control period. The revenue caps are based on the AER's determination of forecast efficient or benchmark costs which include capital expenditure, operating expenditure, rate of return, etc. The regulatory framework primarily incentivises DNSPs to deliver services as efficiently as possible in order to outperform regulatory benchmarks. The application of incentive schemes such as the EBSS, and CESS, etc. further complement the regulatory framework in order to balance incentives, specifically between capital and operating expenditure solutions. An important aspect of the regulatory framework is the discretion provided to DNSPs in evaluating the most efficient options in delivering regulated services. DNSPs should not be restricted in terms of the assets they can invest in, or the manner in which they procure required services to provide distribution services.

[2] In a recent residential energy storage system technology trial, Ergon Energy experienced first-hand the implications of an immature market. Of the first eleven energy storage systems that were installed, 8 caused issues for customers that needed someone to attend site and rectify the issue. In the majority of instances a local tradesman could not repair the system.

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from other parties? vi. procuring the services from third parties or related entities?	The regulatory investment test for distribution (RIT-D) also provides an opportunity for third parties to provide services to the DNSP and provide credible solutions including both network/non-network options to address network identified needs. Further, DNSPs are expected to use the most efficient solution irrespective of whether a RIT-D is undertaken. Energex undertakes non-network solutions assessment for all refurbishment projects over $2m in support of meeting the requirements set out in NER Chapter 5 Schedule 5.8 (g). In addition, Ergon Energy and Energex also undertake non-network assessments for augmentation projects that do not meet the threshold for RIT-D, with the objective of implementing the most efficient solution. For assets behind the meter and a range of new technologies there are a number of issues facing DNSPs. One is whether the asset and the service it provides is classified as a distribution service and therefore whether the DNSP can use regulated revenue to reach least-cost investment opportunities that will benefit consumers.
Question 8	
a) Is there a problem with the current planning framework in relation to network support and demand management? If so: i. What is the problem (e.g. the detail or timeliness of relevant information; ii. DNSPs being both the decision-maker of investment decisions and the asset owner)? iii. How material is it? iv. Provide examples?	Energy Queensland does not believe that there is a problem with the current planning framework. The current planning framework already imposes information obligations on both DNSPs which ensure that non-network providers have access to a range of network information. The current RIT-D already requires significant input from DNSPs in terms of its administration and operability. The AEC suggestion to reduce the threshold from $5million to $50,000 is not workable. It will increase the regulatory burden on DNSPs in terms of costs, resources and administration. As such, Energy Queensland does not support the AEC's rule change request to reduce the RIT-D threshold, especially in the event that the AER's rule change request[3] is successful in extending the RIT-D to replacement projects. Also, Energy Queensland notes that the network state is generally not static, therefore information on local constraints is sometimes not readily available to DNSPs themselves, and would be more difficult to provide to external parties.

[3] http://www.aemc.gov.au/Rule-Changes/Replacement-Expenditure-Planning-Arrangements

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	Finally, Energy Queensland notes that the recent rule change request by the AER (referred to above) that looks to increase the transparency of network replacement decisions by DNSPs may result in DNSPs being required to include in their annual planning reports, information on planned asset retirements and de-ratings and options being considered. In its submission[4] to the rule change process, Ergon Energy suggested that alternative approaches to achieving the AER's policy intent of increased transparency, might include something similar to their network incentive map[5] and optimal incremental pricing methodology[6]. Ergon Energy uses this to engage with the non-network providers in the market. It was specifically developed for augmentation projects and is exploring opportunities to create incentive areas based on any network investment to provide an appropriate demand side solution which can mitigate the need for investment. Similarly, Energex whilst publishing extensive information on a range of network limitations and proposed investments in its distribution annual planning report each year, has also facilitated additional engagement opportunities with non-network providers through the identification (and publication on it's website) of "target areas" for demand management, in relation to identified longer term network limitations.
Question 9	
a) Does the combination of the cost allocation principles in the NER, the AER's cost allocation guideline and the DNSPs' CAM provide for efficient cost allocation in relation to assets that can provide both direct control services and network support or demand response?	Energy Queensland considers that the combination of cost allocation principles in the NER, the AER's cost allocation guideline and a DNSPs' CAM are the appropriate instruments to provide for efficient cost allocation in relation to assets that can provide both direct control services and other services. While Energy Queensland considers these instruments to be sufficient, we also note that the AER's recently published Ring-Fencing Guideline includes additional obligations relating to the allocation and attribution of costs between distribution services and non-distributions services. Energy Queensland's view is that Clause 6.15.2 (3) prohibits costs of other services from being allocated to distribution services. However, to the extent that changes to the NER are required, this requirement can be added to

[4] http://www.aemc.gov.au/getattachment/c4e8dfff-a7bf-48e7-8250-0f98fd8ccc82/Ergon-Energy.aspx

[5] https://www.ergon.com.au/network/manage-your-energy/incentives/search-incentives

[6] https://www.ergon.com.au/network/network-management/demand-management/pricing-network-risk

Consultation Paper Feedback Question	Energy Queensland Comment
	the principles set out in Clause 6.15.2 of the NER.
Question 10	
a) Does the shared asset guideline provide efficient incentives for DNSPs to invest in assets that can provide both direct control services and other services? If not: i. What is the source of the issue? ii. What is the extent of the issue? iii. Provide examples?	In Energy Queensland's view, the Shared Asset Guideline strikes the appropriate balance in incentivising DNSPs to seek additional unregulated revenues from regulated assets, on the basis that network customers ultimately benefit from the sharing of those revenues, subject to meeting the materiality threshold. It is worth reiterating that the shared asset mechanism only becomes relevant when asset costs are initially included in the RAB but the use of the asset in the provision of unregulated services increases over time. At the time of making an investment in the asset, any potential joint use is addressed via the CAM, that is, the shared asset guideline in and of itself is irrelevant when making the investment decision. To the extent that a business has to decide between two assets, one that can only provide regulated services and another that can provide both regulated and unregulated services, then all else being equal, it is in the long term interests of customers that the business invests in the asset that can provide regulated and unregulated services. This is because the costs are shared between customers of regulated services (network customers) and customers of unregulated services, at the cost allocation stage. Overtime, if the unregulated use increases, the shared asset guideline allows network customers to benefit further via sharing of unregulated revenues, and reduced network prices.