Mr John Pierce
Australian Energy Market Commission
Level 6, 201 Elizabeth Street
Sydney NSW 2000
Lodged via www.aemc.gov.au

Tuesday, 4 July 2017

Dear Mr Pierce,

RE: Distribution Market Model Draft Report (ref SEA0004)

ENGIE appreciates the opportunity to comment on the Australian Energy Market Commission (AEMC) Distribution Market Model Draft Report (Draft Report). ENGIE supports the AEMC in carrying out this important work to ensure that as distributed energy resources develop and evolve, they are appropriately incorporated into the regulatory and competitive frameworks of the energy industry.

ENGIE supports the principle that as the electricity industry transitions to a more distributed resource model, providing effective competitive frameworks for the installation and operation of these new resources is more likely to deliver efficient outcomes than an approach base on regulation or standards. That is not to say that there is no place for regulation or standards; on the contrary, ENGIE recognises that not all situations are amenable to market mechanisms and in these circumstances, regulation and standards provide an important safety net.

The challenge will be ensuring that market mechanisms are allowed to flourish where they are able to do so. If regulations and standards are applied unnecessarily, they will become barriers to innovation and competition, and will prevent market mechanisms from being effective.

ENGIE provided additional general points in its submission to the previous AEMC Approach Paper, and will not repeat those points in this submission, other than to encourage the AEMC to continue to promote competitive frameworks for distributed energy resources where feasible.

The remainder of this submission contains ENGIE responses to the six specific questions posed by the AEMO in their draft report.

1. Do stakeholders consider that there are any other barriers to the development and implementation of cost-reflective network tariffs? How material are these barriers? Are there other means for them to be addressed?

The Draft Report notes that in order for cost-reflective network tariffs to be effective in influencing customer behaviour, retailers would need to precisely allocate these costs to the relevant customers through their retail offerings. This would be a complex and potentially costly task for retailers, and is likely to be in conflict with customer preferences for easy to understand, competitive offerings from retailers.

We are already seeing evidence of some retailers responding to this complexity by employing a fixed discount marketing approach which leaves the base cost somewhat opaque. One of the reasons that retailers adopt this approach is the fact that the network tariff that is applied to any given customer could be one of over 30 different network tariff structures, depending on the customer category[1]. It can therefore be difficult for the retailer to provide a simple answer when asked to reveal the base cost for a given customer.

The retailers are therefore in somewhat of a dilemma. On the one hand, consumers are demanding (quite reasonably) more transparent and competitive offerings from their retailers, which they would like to be able to compare with offerings made to others. On the other hand, network tariff reform is moving in the direction of more cost reflective pricing which would require quite complex and tailored offerings for individual consumers, making it more difficult for them to compare.

ENGIE is supportive of the principles of cost reflective pricing, but at the same time, recognises that there are a number of practical issues to be overcome if this is to be achieved. If retailers are to be the entities required to pass on the appropriate cost reflective price signal to end use consumers, then perhaps they should be required by regulation to simply pass through the relevant cost reflective network tariff applicable to each customer. Although this will involve costs for retailers, provided it is consistently applied to all retailers, there should be no competitive detriment.

2. Do stakeholders consider that there are any 'missing markets' or 'missing prices' beyond those that will be implemented through cost-reflective network tariffs? If so, what are these?

Cost reflective tariffs might be suitable for signalling some of the network requirements of a distribution network business, but this would require that the network requirement can be anticipated in advance and reflected into a network tariff. For example, the network business might be aware that under summer peak conditions, it would value a distributed energy resource response from a certain geographic cluster of customers.

In this case, a targeted network tariff for summer peak conditions could be applied to that customer group. However, even this is a fairly blunt instrument as it would apply the summer peak tariff for the entire summer peak period, when in fact it might only be relevant when the actual ambient temperature is very high.

[1] For example, see the current AusNet Services annual pricing proposal 2017 at https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/pricing-proposals-tariffs/ausnet-services-annual-pricing-proposal-2017

Any distributed energy resource response that needs to be able to respond in a dynamic, near real time manner will require new market frameworks over and above what can be applied through cost reflective network tariffs. It is likely to require flexible and dynamic control systems that are either able to respond to remote signals from the purchaser of the distributed energy resource response, or that are able to monitor certain critical parameters and respond as required.

Cost reflective network tariffs, even if they are perfectly reflected in the retail offering (a heroic assumption) are unlikely to trigger a dynamic response from distributed energy resource.

3. Do stakeholders consider that an open access regime will continue to be appropriate in an environment of increasing uptake of distributed energy resources and more constraints on distribution networks? If not, what principles or considerations should be taken into account in determining whether a different access regime is more appropriate?

ENGIE agrees that the growth in distributed energy resources raises a number of questions regarding the arrangements for access to the distribution network. As noted in the draft report, it is conceivable that a number of distributed energy resource sources could be installed on a particular distribution network to the point where they were not all able to export electricity to the grid to provide network or wholesale services at the same time.

One thought for managing this issue would be to recognise that in the immediate term, when the amount of distributed energy resource service exceeds a certain limit, there may need to be a constraint placed on the amount of export into the grid from the group of customers. A new mechanism would need to be introduced to achieve this.

In the medium to longer term, the distribution network business would be required to forecast the expected distributed energy resource service requirements into the future, and plan the local network so that it can accommodate these needs. This would be similar to the more traditional planning function that network service providers do to maintain customer reliability standards, but would also include ‘reliability standards’ aimed at ensuring ‘reliable’ support for distributed energy resource services.

In other words, the network service provider’s function would expand; in addition to ensuring network capability to reliably meet customer demand, it would also be required to deliver adequate network capability to meet the needs of current and planned distributed energy resources.

ENGIE suggests that at least for the short to medium term, the current open access regime should maintained and then reviewed at a point in the future where the industry has had more experience with distributed energy resources.

4. Is there support for the Commission's proposal that the deletion of clause 6.1.4 of the NER be explored?

Currently, distributed energy resource owners must pay a charge to connect to the distribution network. Clause 6.1.4 of the NER prohibits a distribution network service provider from charging a distribution network user (such as an owner of a distributed energy resource) distribution use of system charges for the export of electricity by that user to the distribution network.

The AEMC has noted that the growth in distributed energy resources is introducing new costs (and benefits) onto distribution networks, and that these costs and benefits typically vary depending on the location of the distributed energy resource within the distribution network, the amount of distributed energy resource service provided and the time of day / year that the distributed energy resource is provided. The AEMC further notes that the variable costs and/or benefits that distributed energy resources imposes on distribution networks is no longer well suited to a single connection charge regime.

The AEMC have flagged a possible option of deleting the current national electricity rule clause 6.1.4, thereby removing the restriction currently preventing network service providers from charging distribution network uses a use of system charge.

ENGIE is supportive of consideration of this proposal, but suggests that if clause 6.1.4 is to be removed, then there would need to be careful consideration given to the mechanism through which distribution network service providers would be able to impose new charges onto distribution network users, and what principles would need to be applied to the various types of distribution network users.

ENGIE also notes that if truly cost reflective pricing was effectively implemented, then the need to impose use of system charges onto distributed energy resources would diminish. ENGIE's preference would be that cost reflective pricing was effectively implemented, and that use of system charges were therefore less important.

This issue will need to be carefully considered within the context of increasing consumer electricity charges, retail bill complexity and retail competition.

5. Are there any other aspects of the development of Australian standards that are relevant and should be considered?

ENGIE broadly agrees with the AEMC's overview of the impact of Australian standards on the development and utilisation of distributed energy resources within the national electricity market. Whilst it is clearly important that Australian standards impose minimum safety and technical requirements, unnecessarily high technical requirements would increase the cost of distributed energy resources and may limit consumers' willingness to invest in such services.

The most appropriate balance would be that the Australian standard is set to the minimum level that ensures distributed energy resources are safe to both the user and the network, and that they meet the minimum level of technical capability. Where there are discretionary technical capabilities that might be of value to a distributed energy resource owner and/or a network, these should ideally remain discretionary, and subject to commercial drivers, rather than imposed through a standard.

To the extent that these discretionary services need to meet a technical requirement, this would be better defined by the purchaser of the service, which would most often be the local network operator.

6. Do stakeholders see value in the AEMC (or other party) reviewing the technical requirements that DNSPs apply to the connection of distributed energy resources?

As the growth in distributed energy resources across Australia has occurred relatively quickly, it has become increasingly apparent that there are a number of issues and inconsistencies with existing arrangements for connection of distributed energy resource to distribution networks. Evidence for this has been uncovered in the assessment by The Customer Advocate on the solar PV connection framework in Queensland[2], the AEMC's Integration of Storage report and the AEMC's System Security Market Frameworks Review.

ENGIE broadly supports a review of the technical requirements that distribution network service providers apply to the connection of distributed energy resources.

ENGIE trusts that the comments provided in this response are of assistance to the AEMC in its deliberations. Should you wish to discuss any aspects of this submission, please do not hesitate to contact me on, telephone, 03 9617 8331.

Yours sincerely,

Chris Deague
Wholesale Regulations Manager

[2] The Customer Advocate, Assessment of the solar PV connection framework in Queensland, February 2016.