

Your Ref: EPR0050
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2 February 2017

Mr John Pierce
Chair
Australian Energy Market Commission


Dear Mr Pierce

Submission on AEMC's approach paper to the electricity network economic regulatory framework review

Thank you for the opportunity to comment on the AEMC's approach to its new task of annually reporting on the state of the economic regulatory framework for electricity networks, in light of increased decentralised supply of electricity.

Changes in technology and decreases in the cost of that technology mean that the electricity market is evolving from a centralised model to a more decentralised one. Continued technological change could also enable more consumers to generate their own electricity and have more control over how they generate and consume electricity. In this environment, it is beneficial to regularly monitor whether the regulatory framework is delivering on its objective to promote efficient investment in, and efficient operation and use of, electricity services in the long term interests of consumers.

The AER supports the AEMC's proposed approach including:

- Providing a review of the current state of the market
- Providing an overview of recent rule changes and their implementation which are relevant to this topic—such as rule changes on distribution network pricing, metering, demand management and embedded networks
- Identifying key priority areas for future reform in each report
- Using both market indicators and case studies to inform the review

As noted in discussions between staff to date, the AER is pleased to provide the AEMC with data to assist the AEMC to derive its proposed market indicators, and I note this information sharing is already occurring between our two organisations.

I did have one specific comment in relation to the question the AEMC has proposed to guide its overall approach, which is:

Does the economic regulatory framework allow and incentivise networks to adapt to the extent necessary to changes in the market, including increased decentralised supply?

While the question is appropriately focused on whether the framework has 'got the incentives right', I suggest this question should be more explicitly tied back to the national electricity objective, as it is the promotion of that objective which is to be promoted through incentives by the regime. The current drafting of the question does not specify what outcome is seeking to be incentivised in the context of changes in the market.

I also note the question, as currently drafted, is focused solely on the role of networks. I suggest broadening this question out to recognise the role of consumers, retailers, affiliates of electricity networks, and other third party providers in achieving efficient network and non-network solutions. These parties will be able to play a larger role due to changes in the market, and facilitated by our recently published ring fencing guideline which promotes competition in the provision of electricity services.

The AER supports the priority areas the AEMC has identified for the 2017 report, which are:

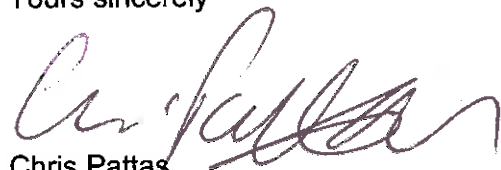
- Continued implementation of network pricing reform
- The ability of networks to utilise increasingly diverse grid supply and network support options, and
- Different network operating models (for example, the distribution market model)

On the first priority area, I note the AER is soon to release its final decisions on the first round of tariff structure statements for most electricity distribution networks. This first round of tariff structure statements has seen at least some changes towards cost reflectivity in network tariffs from each distribution network. However, the AER expects continuing improvements in each subsequent round of statements for distribution networks' proposals to maintain compliance with the distribution pricing principles. In our final decisions, due at the end of February, the AER will be outlining the areas for reform we expect distribution networks to consider for the next round of tariff structure statements.

On the second priority area, the AER is currently developing its new demand management incentive scheme and allowance mechanism. Once finalised, this should provide incentives for networks to deploy efficient demand management and undertake projects that have the potential to reduce long term network costs.

The AER looks forward to continuing to work with the AEMC on this project.

Yours sincerely



Chris Pattas
Ag CEO

Sent by email on 2 February 2017