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Ms Lily Mitchell

Project Leader

Australian Energy Market Commission

Submitted online: www.aemc.com.au

19 July 2017

Dear Ms Mitchell,

National Electricity Amendment (Alternatives to grid-supplied network services) Rule 2017, Consultation Paper, June 2017

AGL Energy (**AGL**) welcomes the opportunity to respond to the Australian Energy Market Commission's National Electricity Amendment (Alternatives to grid-supplied network services) Rule 2017, Consultation Paper, June 2017 (**Consultation Paper**).

AGL is one of Australia's leading integrated energy companies and largest ASX listed owner, operator and developer of renewable generation. Our diverse power generation portfolio includes base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources. AGL is also a significant retailer of energy, providing energy solutions to over 3.7 million customers throughout eastern Australia.

In addition, AGL is continually innovating our suite of distributed energy services and solutions for customers of all sizes (residential, business and networks). These 'beyond the meter' energy solutions involve new and emerging technologies such as energy storage, electric vehicles, solar PV systems, digital meters, and home energy management services delivered through digital applications.

AGL opposes the rule change request from Western Power¹ (**the Proposal**) which proposes to amend the definition of "distribution service" in the National Electricity Rules (**NER**). We consider that the Western Power Proposal does not accord with the long-term interests of consumers, consistent with the National Electricity Objective.² We believe that the regulatory framework governing stand-alone energy systems should ensure free and informed customer choice and competitive mechanisms to maintain price and service discipline. We have also observed a range of particular concerns in relation to the Proposal which will be discussed in our submission.

¹ Western Power, Rule change request *Removing barriers to efficient network investment*, September 2016.

² Section 7 of the *National Electricity Law*: The objective of this Law is to promote efficient investment in, and efficient operation and use of, electricity services for the long-term interests of consumers of electricity with respect to—
(a) price, quality, safety, reliability and security of supply of electricity; and (b) the reliability, safety and security of the national electricity system.



Preferred regulatory approach

AGL is supportive of enabling customers to transition to stand-alone power systems in circumstances where customers stand to benefit from cost efficiencies. Nevertheless, we are firmly of the view that any regulatory framework governing stand-alone power systems must ensure free and informed customer choice and competitive mechanisms to maintain price and service discipline. The Proposal does not deliver upon these fundamental principles and should be dismissed accordingly.

A national framework underpinned by guiding principles

AGL observes that the Proposal seeks to alter the NER, in anticipation of Western Power being governed by the NER in the near future. We do not agree with Western Power's purported justification for the Proposal that the rule change request is equally applicable to many network businesses already operating in the National Electricity Market. On the contrary, we regard the provision of stand-alone power systems to rural communities as being in the exception.

There may be benefits for the provision of microgrids and standalone systems in rural communities. Nevertheless, in order to ensure price and service outcomes for consumers, national reform should be consistent with a broader framework of objectives. We note the Council of Australian Governments (COAG) Energy Council's work program being progressed by the Energy Market Transformation Team,³ which has included substantial consideration and consultation on stand-alone energy systems. AGL made a submission in the context of that work in October 2016 (**Stand-alone energy systems Submission**).⁴ As we elaborated in that submission, the following guiding principles should apply in the design of that framework:

- **Access to energy:** Ensuring the basis on which customers will have access to energy from the stand-alone system is made clear, including arrangements for life support customers and dispute resolution;
- **Choice:** Promoting free and informed customer choice, including ensuring sufficient information disclosure. Not constraining informed customer choice even where that results in a departure from the service levels and the full suite of protections that would apply when electricity is taken from the interconnected system;
- **Flexibility:** Ensuring the regulatory framework is flexible enough to accommodate the emergence of new deployment and ownership models for stand-alone systems; and
- **Competition:** Ensuring the existence of some mechanism to maintain price and service discipline on stand-alone system providers and operators. To the extent feasible, this discipline should be driven by competition. As stand-alone energy systems are capable of competitive operation and provision, monopoly rights of network businesses should not extend to such systems.

AGL believes that incorporating these guiding principles into the regulatory framework will ensure that it ultimately serves the National Electricity Objective. Having regard to the application of these principles, the

³ COAG Energy Council, Energy Market Transformation, Available at <http://www.coagenergycouncil.gov.au/council-priorities/energy-market-transformation>

⁴ AGL, Submission in response to the Energy Market Transformation Team's Stand-alone energy systems in the Electricity Market: consultation on regulatory implications, August 2016 (4 October 2016), Available at <http://aglblog.com.au/2016/10/frameworks-for-stand-alone-energy-systems-micro-grids/>.



preferred regulatory approach would be to subject the provision of stand-alone power systems to competitive market delivery through an open and transparent tender process. The regulatory approach implemented should also ensure the effective operation of competitive retail markets.

Coordination of subject related rule changes

AGL refers to the Commission's ongoing consideration of the rule change request from the COAG Energy Council in relation to the contestability of energy services (**Contestability Rule Change Proposal**). We made a submission in response to the Commission's consultation in February 2017 (**Contestability Submission**).⁵ Our understanding is that the Commission has extended the time for making a draft determination to 1 September 2017, given the complexity of the issues raised in the rule change request. AGL firmly supports the Contestability Rule Change Proposal. We regard this reform as foundational to the continued growth of Distributed Energy Resources (**DER**) and fundamental to the provision of services in the context of stand-alone power systems.

AGL also refers to the COAG Energy Council's work program being progressed by the Energy Market Transformation Team, noted above.

We believe that a carefully coordinated national approach should be taken in addressing the necessary energy market reforms to address new technologies, innovation and market changes. Accordingly, the Contestability Rule Change Proposal and the Energy Market Transformation Team's ongoing work program should be prioritised. We believe that the Commission should only consider any subject related rule changes (such the provision of stand-alone power systems to rural and remote communities) in the context of these central reform programs.

Specific concerns with the Proposal

Western Power's concerns described in section 2.2 of the Consultation Paper

AGL does not believe that Western Power's concerns, as described in section 2.2 of the Consultation Paper accurately identify the nature of the problems associated with distributor-led transitions from grid supply to off-grid supply in the jurisdictions that are part of the National Electricity Market.

Whilst service delivery to remote communities may require a higher degree of prescription in relation to reliability standards and cost recovery, any redefinition of services should enable the emergence of contestable markets. As we noted in our Contestability Submission, where feasible, contestability and the competitive delivery of services will promote choice and lead to better price and service outcomes for consumers. The greater the proportion of network services and network spending that can be subjected to the rigour of the competitive market, the less work that the regulatory determination process has to do in terms of simulating efficient outcomes and overcoming information asymmetry issues. It is this principle which underpinned the reorganisation of electricity industry following the seminal Hilmer Report.

⁵ AGL, Submission in response to the Australian Energy Market Commission's Contestability of Energy Services – Consultation Paper (9 February 2017), Available at http://aglblog.com.au/wp-content/uploads/2017/03/AGL-submission_contestability-rule-change_Feb2017_Final.pdf.



Barriers to workable competition for off-grid supply system

To the extent that the current regulatory framework does not enable the competitive delivery of stand-alone energy solutions, AGL believes that the regulatory framework imposes barriers to non-network businesses to providing off-grid supply. As noted in our Stand-alone energy systems Submission, the regulatory framework should encourage the competitive provision of stand-alone systems where this would be the most efficient means to provide energy services. Frameworks such as the RIT-D should be leveraged to explore competitive stand-alone system options at fringe-of-grid locations. The AER has recently lodged a rule change request to expand the RIT-D so that it also applies to replacement expenditure decisions, and that the AEMC has recently recommended that network businesses be required to publish 'system limitation reports' to provide better information to the contestable market on emerging system constraints.

AGL observes that there are real tensions that need to be resolved to ensure that network businesses are not dissuaded from procuring a stand-alone system to service edge-of-grid communities where that would be the most economically efficient option, even if that results in a reduction to its regulated asset base. Given that stand-alone energy systems are capable of competitive operation and provision, monopoly rights of network businesses should not extend to the provision of all stand-alone systems within their service territory.

We consider that some form of network connection framework would need to apply in stand-alone systems. This might take the form of a much 'lighter' version of chapters 5 and 5A of the NER and, set out general principles and guidelines applying to network connections.

The appropriateness of distributor-led off-grid supply as a regulated service

AGL does not believe that the issues identified by Western Power, or the barriers notes in relation to third-party participation in stand-alone energy system solutions, justify the conclusion that network businesses should be permitted to provide off-grid supply as a regulated service.

It is important that networks do not seek to become market makers or participants in markets enabled by DER, in a role which conflicts with their status as a provider of regulated monopoly services. Networks operate monopoly infrastructure and are the monopsony purchasers of demand response and other non-network solutions. Network businesses should be required to test the competitive market for the provision of demand response and other non-network solutions before developing their own programs or directly investing in distributed energy technologies and including such expenditure in the regulated asset base. If networks are permitted to circumvent the competitive market, deploying non-network solutions without the involvement of competitive energy service providers the market's capacity to develop innovative products and services that build upon multiple values to address the unique preferences and need of customers will be severely curtailed.

Beyond our concerns with reclassifying distribution services, we also note that network businesses operating under the NER should comply with the Electricity ring-fencing guideline⁶ where they seek to participate in the provision of stand-alone energy system solutions. Moreover, the provision of any stand-alone energy system solutions should not interfere with the effective operation of competitive retail markets.

⁶ Australian Energy Regulator, Electricity ring-fencing guideline 2016, Available at <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/electricity-ring-fencing-guideline-2016>.



The cost benefit analysis of moving to off-grid supply

AGL notes Western Power's description of the costs and benefits of transitioning from grid supply to off-grid supply. Whilst these figures present positively against the costs associated with grid supply, we do not believe that they present an accurate picture of the full cost benefits that could be gained if the provisions of off-grid supply were subjected to the rigour of the contestable market. AGL is confident that the competitive delivery of these services would result in better price and service outcomes for consumers.

Having regard to the preferred regulatory approach to energy market reform and the specific concerns discussed above, AGL does not consider that the Proposal accords with the National Electricity Objective. Accordingly, we would urge the Commission to dismiss the Proposal.

Should you have any questions in relation to this submission, please contact Kurt Winter, Policy Advisor, on 03 8633 7204 or myself on 03 8633 6836. We would also welcome the opportunity to arrange a meeting with you to discuss the Commission's broader energy market reform program.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Stephanie Bashir'.

Stephanie Bashir

Senior Director, Public Policy