



Review of the electricity network economic regulatory framework

The AEMC has published its approach paper for the annual monitoring and reporting on the effectiveness of the economic regulatory framework for electricity networks.

Purpose of the approach paper

The purpose of the approach paper is to set out how the AEMC intends to conduct the task, the proposed information sources and preliminary view on the priority areas for focus in the 2017 report.

The main question developed to help with the analysis 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?

2017 report

A holistic approach will be adopted in preparing the annual monitoring report so that it examines the economic regulatory framework for electricity networks as a whole.

For each year, the AEMC intends to identify emerging themes or potential challenges that may be faced by the regulatory framework in the near to medium term. The themes and challenges will be informed by monitoring indicators and market developments as well as consultation with key stakeholders.

For the 2017 report, the three preliminary priorities will be:

- 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 in relation to which the AEMC published an approach paper on 1 December 2016)

These priorities were selected on the basis of consultation conducted to date as well as feedback received during consultations on other AEMC reviews or rule change requests.

Background

The production and consumption of electricity in Australia has changed significantly in recent years. Traditionally, the role of transmission and distribution networks was to transport electricity in one direction from large centralised power stations to consumers. Changes in technologies, consumer preferences and innovative business models and financing arrangements have meant that consumers are increasingly generating their own electricity. As a result, networks now have an important role in facilitating two-way flows of energy to and from consumers and integrating a range of new decentralised energy resources. This trend is likely to continue in the coming years with the uptake of new technologies such as battery storage.

In light of these changes, the COAG Energy Council directed officials to conduct a stress test of the economic regulatory framework for electricity network businesses to assess its ability to deliver the NEO under possible future scenarios.

The stress test was completed in 2015 and identified two scenarios that could present potential risks:

- **New consumer choices driving an evolution.** This scenario sees strong growth in new innovative alternative services such as off-grid and smart technologies. Such services are primarily provided by third party service providers.
- **Energy generation move from centralised to localised.** This scenario sees strong growth in decentralised distribution supported by reliable storage displacing the traditional centralised supply model. Under this scenario, a significant proportion of customers could go 'off-grid'

The most critical risk identified by officials was the potential for an increased uptake of decentralised electricity supply options to lead to asset under-utilisation and/or stranding if network businesses do not take appropriate action to respond to these changes. Under the current structure of the economic regulatory framework, this scenario could lead to material increases in the price of electricity services for customers that remain connected to the grid.

While no major weaknesses in the current regulatory framework were identified, officials considered it important to monitor and assess early signs of the above scenarios eventuating and the regulatory framework not appropriately managing the issues.

In August 2016, the COAG Energy Council tasked the AEMC to monitor developments in the electricity market, including the increased uptake of decentralised energy, and provide advice on whether the economic regulatory framework for electricity transmission and distribution networks is sufficiently robust and flexible to continue to achieve the national electricity objective (NEO) in light of these developments.

The AEMC is required to publish its findings on 1 July annually. The first annual monitoring report will be due on 1 July 2017.

The standing Terms of Reference for this review can be found on the AEMC website.

Next steps

Stakeholders are invited to make submissions in response to the approach paper. Submissions must be provided to the AEMC by 2 February 2017.

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