



Ms Victoria Mollard
Director
Australian Energy Markets Commission
PO Box A2449
Sydney South NSW 1235

Online: www.aemc.gov.au

12th January 2017

Dear Ms Mollard,

Re: Distribution Market Model Approach Paper

The Northern Alliance for Greenhouse Action (NAGA) is pleased to take this opportunity to submit a response to the Distribution Market Model approach paper.

NAGA is a network of nine northern Melbourne metropolitan councils working to achieve significant emissions abatement and energy cost savings by delivering effective programs and leveraging local government, community and business action. Our council members include the cities of Melbourne, Banyule, Darebin, Hume, Manningham, Whittlesea, Yarra, Moreland, Moreland Energy Foundation Limited, and Nillumbik Shire Council. NAGA formed in 2002 to share information, coordinate emission reduction activities and cooperate on research and develop innovative projects.

Victorian councils are already proactively engaging with distribution networks in areas of mutual interest, however this is taking place in an ad-hoc manner outside of the current regulatory framework. Some examples of this include:

- Sharing data between sectors to deliver improved forecasting, harmonise land use and network planning and improve reporting and communication capabilities (e.g. [NAGA's Future Energy Planning](#) project)
- Working collaboratively on initiatives that cut peak demand, reduce emissions, and save householders and business' money (e.g. United Energy's Summer Savers program, Jemena and Hume Council's EnergySmart neighbourhoods)
- Fast tracking the roll out of sustainable public lighting across the State (e.g. 72 of 79 councils have completed bulk change-over of street lights. Victoria currently boast the world's second largest public lighting energy efficiency program)
- Facilitating trials and assisting scaling up the deployment of new technologies and distributed energy generation (e.g. AusNet Services' mini-grid trial in Mooroolbark)

Under the current market model and regulatory framework, there is a lack of clear financial drivers for network businesses to pursue activities within these areas (and engage with customers in general) in any substantive way. This situation is counter to the findings within the Network Transformation Roadmap: Key Concept Report (produced by the Electricity Network Association (ENA) and CSIRO) which clearly identifies the requirement for a "Balanced Scorecard of Consumer Outcomes" to ultimately deliver power system security in a zero net emissions future.

NAGA urges the AEMC to consider the following in response the questions posed in the Approach Paper:

Do stakeholders support this project scope? Is there anything that has not been flagged for consideration that should be? Is there anything that should be excluded from the project scope?

Recognition of the trajectory of climate change and renewable energy policies

The paper inquires as to whether changes to the regulatory framework, distribution system operation and market design more broadly are needed to enable the evolution to proceed in a manner consistent with the National Electricity Objective (NEO). Although outside the remit of the AEMC, we believe and have previously expressed the view that the NEO is no longer appropriate to the current and future Australian energy market. The NEO currently does not recognise the interests of the community at large and confines consumer interests mainly to economic interest. The interpretation of ‘efficient investment’ has resulted in unbalanced rule-making and a market bias that supports centralised infrastructure rather than demand management or other non-network solutions. We encourage the AEMC to interpret the NEO more broadly than it currently does.

Importantly, we recommend that the proposed AEMC assessment framework recognise the inevitability of a decarbonised electricity supply. Although federal and state climate and renewable energy policies are outside the control of the AEMC, there is bipartisan agreement that Australia increases its emissions reductions ambition over time. Australia is now a signatory to the Paris Agreement, which locks Australia into ratcheting its Nationally Determined Contributions over time. As such, the AEMC should factor into its design an acknowledgement that any future market model needs to work with, not against, efforts to decarbonise. If not, then it will be constantly challenged by parties seeking to work outside or against the rule framework to achieve emissions reductions.

The current Australian Energy Market Agreement has as one of its objectives to “address greenhouse emissions from the energy sector, in light of the concerns about climate change and the need for a stable long-term framework for investment in energy supplies.” The AEMC itself notes the integration of energy and emission reduction policy as a key requirement to maintain and enhance an efficient, safe, secure and reliable energy system¹. However, policy-makers, rule makers and regulators to date have largely ignored the non-legally binding AEMA.

Promoting collaboration as a principle

In addition to the project being guided by the principle of ‘promoting competition’, a new market model should also incentivise and support collaboration. The design of local energy solutions requires collaboration between parties that have traditionally not worked in close partnership, such as local governments and electricity networks. Distributed energy resources require participation and collaboration from diverse stakeholders in order to ensure that overall system security and reliability is maintained. The energy sector could learn a lot from the water sector, where multi-stakeholder partnerships is more common, and upstream and downstream impacts and benefits are more holistically considered.

Are there any other elements of a DNSP's role or current responsibilities that should be considered?

Under Victoria's planning system local councils and the State Government develop planning schemes to control land use and development. Currently, electricity network planning and land-use planning currently occur in isolation, meaning long term, viable and sustainable options for integrating demand and supply side opportunities are lost, resulting in inefficient investment and higher prices for consumers.

Whilst both land use planning schemes and the national energy market objectives intend to serve the long term interest of the community, they cannot do so whilst operating in isolation. Despite the implications land use planning has for local energy use and demand patterns, existing regulatory requirements do not require either sector to synchronise their respective planning processes.

The current consumer engagement processes for network planning, such as the Regulated Investment Test (RIT-D), are overwhelmingly complex and time consuming for local (and to a lesser extent state) governments to proactively engage with. For example, a number of councils have recently been consulted by their DNSP a few days prior to the RIT-D due date, with the DNSP seeking local government support for substation upgrades. This is an example of this process failure and highlights the need for coordinated and ongoing engagement between the sectors. Future regulatory settings should incentivise proactive and collective cross-sector solutions, particularly with respect to network constraints.

¹ <http://www.aemc.gov.au/getattachment/d253a27d-cc1e-4dc8-9bd3-ed5e629db2a2/AEMC-Year-in-Review-2015-2016.aspx>

NAGA therefore supports the introduction of regulatory and market based approaches to ensure coordinated planning delivers smarter, tailored integrated energy solutions that alleviate costs to consumers. This will also ensure that consumers have equitable access to a range of emerging energy services and are not constrained by outdated traditional market models.

Are there any other issues the Commission should have regard to in considering possible market design options?

At the moment, local governments are incentivised to duplicate electricity network infrastructure through building private wires across property boundaries to share electricity between their own facilities and with neighbours. Most councils have exhausted the potential for large scale solar on their own buildings where they must size systems for self-consumption only. Similarly a number of councils are investing in other technologies such as co-generation and tri-generation, and in other parts of the state, bioenergy and wind.

We consider the electricity network to be an important asset in a low carbon energy future, but the rules need to change to facilitate optimal integration of new energy technologies and efficient utilisation of existing assets. At the moment, the business case only favours behind the meter consumption, with exports only receiving a very small feed in tariff. Councils own many buildings with large roof spaces that have little daytime energy demand despite nearby facilities with poor solar potential having high demand.

In our view, it is critical that a mechanism is developed to incentivise customers to use the existing electricity network, so as to avoid mass duplication of infrastructure through the building of private wires. Such a mechanism would also reduce the likelihood of mass defection from the electricity network as consumers seek to generate and share their own low carbon energy in new ways. This risk should not be underestimated and would likely be the worst social, environmental and economic outcome for all consumers.

NAGA is willing to work with AEMC to support equitable and consistent approaches to an integrated and sustainable distribution model which represent the best value proposition for the community, industry and all levels of Government.

Please contact Rob Law (phone: 03 9385 8514 or email rob@mefl.com.au) if you would like further information, case studies or any clarification regarding the issues raised in this letter.

Yours sincerely



Rob Law

NAGA Project Manager

The views represented in this submission do not necessarily represent the views of all NAGA members individually.