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5 July 2017

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South, NSW 1235

Dear Mr Pierce

RE: AEMC Draft Report – Distribution Market Model

Essential Energy welcomes the opportunity to respond to the AEMC's draft paper outlining proposed changes to the Distribution Market Model Draft Report.

Essential Energy is aware of the increased uptake of generation on the distribution network. The CSIRO's Future Electricity Transformation Roadmap indicates that up to 45 per cent of Australia's electricity supply could be provided by millions of distributed, privately owned generators by 2050. It is important to recognise that the NEM was designed to meet the needs of traditional centralised, transmission-connected generation sources and not the complexities associated with new emerging technologies, including distributed generation. Essential Energy recognises the importance of ensuring policies and procedures remain relevant to the NEM as we transition to the network of the future, as this is essential in achieving the best outcomes for customers. Hence it is imperative that as we make this transition, we appropriately adjust investment signals to provide the most cost-effective outcome for all NEM customers.

Currently Essential Energy has a total known renewable capacity installed of 1.24GW with a total renewable capacity under assessment of 4.2GW. To put this into perspective, Essential Energy's network wide system peak demand is 2.3GW for winter 2016. Currently investment signals are not based on supply and demand conditions across our network, and do not incentivise or dis-incentivise the consumption or production of electricity in a way that helps reduce the costs of providing network services.

Essential Energy acknowledges that there is merit in exploring the deletion of clause 6.1.4(a) of the National Electricity Rules (NER) with potential adoption of cost reflective pricing whereby all customers pay their fair share of Distribution Use Of Service (DUOS) charges for the usage of network services. Under the existing provisions within the NER, a DNSP is unable to apply a cost reflective tariff to generation in a similar manner to that of a Transmission Network Service Provider. Thus, we believe that a cost reflective feed-in tariff structure should be considered, enabling a mechanism for equitably balancing prices across all network users.

It is our opinion that the industry could consider an amendment to 6.1.4 (a) to address the issue of inefficient network pricing and provide more equitable outcomes for consumers. Essential Energy is experiencing a substantial uptake of renewables and expects continued growth into the future. On broader view, the NEM is going through a period of significant transformation which is changing the cost drivers for networks. To drive prudent investment in the long-term interests of customers in the NEM, policies and procedures need to adapt to market changes for a network of the future, as outlined in the Energy Network Transformation Roadmap. We believe a solution is cost reflective price signalling to guide this transitional phase towards the fairest and most equitable outcomes for all

customers of the NEM. We accept that such changes will need to be carefully managed to ensure customer acceptance and awareness before the rollout of any such change. Essential Energy embraces the opportunity to guide this transformation and ensure the best value for its network users.

A summary of our feedback regarding the Draft Distribution Market Model are contained in the following points:

- We believe that the current Rules which prevent DNSPs from equitably sharing use of system charges is driving suboptimal investment and deployment of embedded generation across the NEM. We would suggest that the current approach is unlikely to deliver network services that best serve the long-term interests of customers. As such, it is our view that the current provisions do not align with the National Electricity Objective to promote efficient investment in the operation and use of electricity services. Without the adoption of alternative measures, customers without embedded generation will continue to subsidise additional network augmentation because of new embedded generation.
- The current framework of DUOS cost recovery does not correctly incentivise the integration of embedded generation resources which provide real value at no extra cost to customers. "It is important to minimise inequitable outcomes or unintended cost transfers that might arise due to less cost reflective pricing structures, distorted incentives, or, customer vulnerability" as highlighted in the joint CSIRO and ENA Electricity Network Transformation Roadmap – Final Report, published in April 2017. As such, it is paramount to correctly incentivise the efficient deployment of energy resources.

If you or your officers have any questions in relation to this submission please contact Natalie Lindsay, Manager Network Regulation, on 02 6589 8419 or alternatively via email at natalie.lindsay@essentialenergy.com.au.

Yours sincerely



Gary Humphreys
Executive General Manager Regulation and Innovation