



INFORMATION

AUSTRALIAN ENERGY MARKET COMMISSION LEVEL 6, 201 ELIZABETH STREET SYDNEY NSW 2000
T: 02 8296 7800 E: AEMC@AEMC.GOV.AU W: WWW.AEMC.GOV.AU

2019 Economic regulatory framework review

AEMC commences third review of economic regulatory framework for electricity networks

The AEMC has published an Approach Paper setting out the scope and focus areas for the 2019 Economic regulatory framework review. Stakeholders who wish to provide feedback may do so by 14 February 2019.

Purpose of the review

The annual review of the economic regulatory framework for electricity networks is part of the AEMC's work to support the continual evolution of the energy sector. In light of the significant growth in decentralised energy resources, the COAG Energy Council directed the AEMC to annually examine and report on whether the economic regulatory framework is robust, flexible and continues to support the efficient operation of the energy market in the long term interest of consumers. This is done by monitoring changes and developments in the national electricity market (NEM) and where necessary, recommend changes to the economic regulatory framework to the COAG Energy Council.

The AEMC may also use the annual review to conduct economic analysis and modelling that officials and other review bodies task it to do. For example, the 2018 Review completed the first stage of one of the recommendations from the *Independent Review into the Future Security of the National Electricity Market* (the Finkel Review) to conduct financial modelling to test whether distribution network service providers (NSPs) have a preference for capital investments (capex) in network assets over operational expenditure (opex) or demand-side measures and if so, consider alternative models.

Scope of the 2019 Review

In the 2019 Review, the AEMC will focus on the following areas:

- **Continuing to implement the Finkel recommendation on network incentives.** In the 2019 Review, the Commission will commence consultation on alternative approaches to NSP expenditure assessment and remuneration - as recommended by the Finkel Review. This follows on from the Commission's finding in the 2018 Review that incentives are not aligned and, in certain circumstances, a strong capex bias exists.
- **Monitoring of key trends and market developments.** As requested in the standing terms of reference for this review, the Commission will continue to monitor key trends in grid usage as well as development and uptake of new technology and new business models.
- **Providing advice on regulatory sandboxes.** As requested by the COAG Energy Council Senior Committee of Officials, the Commission will provide advice on a framework for co-ordination of proof-of-concept trials and the need for formal regulatory sandbox arrangements to support innovative projects.

Review timing and consultation

The AEMC will be seeking stakeholders' views through workshops in March 2019. The workshops will focus on alternative approaches to NSP expenditure assessment and remuneration. Details on the workshops will be made available on our website closer to the events.

The final report for the 2019 Review is expected to be published by July 2019.

The AEMC's program of work supporting electricity sector evolution

Australia's energy system is evolving, driven by rapidly maturing technologies that are providing increasing options for consumers and by changes in government policy. A move to a lower emissions energy system has seen a change in generation mix, with many renewable generators such as wind and solar farms connecting to the grid while older coal and gas generators are retiring. At the same time, there has been a significant uptake of distributed energy resources (DER) such as rooftop solar photovoltaic (PV) systems, battery storage and 'smart' energy systems.

For networks the changes have been no less significant. Electricity is no longer transported 'one-way' and the grid is now required to deliver secure, reliable and affordable energy supplies while managing multi-directional flows to and from consumers.

The network regulatory framework is designed to be flexible enough to manage such changes through the rules and the rule change processes. The Commission supports the energy market's evolution by regularly testing whether the network regulatory framework could be updated to better support the long term interests of consumers. The Commission provides advice to governments and considers and assesses rule change requests.

The table below provides a snapshot of some fundamental changes delivered by key parts of the Commission's work program that are relevant to this network review:

| Main areas of focus | Keeping the energy system secure and reliable | Facilitating the adoption of new technologies and business models | Promoting efficient investment to keep the cost of transition as low as possible | Protecting customers | |
|-----------------------|--|---|--|---|--|
| Transmission networks | Review: Coordination of generation and transmission investment | | | N/A | |
| | Review: System security market frameworks | Rule: Transmission connection & planning arrangements | | | |
| | Review: Reliability frameworks | Rule: Five minute settlement | | | |
| | Rule: Generator technical performance standards | | | | |
| | Review: Frequency control frameworks | | | | |
| | Rule request: Enhancement to the RERT | | | | |
| | Review: Frequency operating standard | | | | |
| Distribution networks | Annual review of the electricity network economic regulatory frameworks | | | Rule: Advance notice of price changes | |
| | Rule: Register of distributed energy resources | Review: Distribution market model | | Rule: Notification of end of fixed benefit | |
| | Open energy networks project* | | | Rule: Preventing discounts on inflated energy rates | |
| | | Distributed energy integration program* | | Rule: Metering installation timeframes | |
| Embedded networks | Updating the regulatory frameworks for embedded networks | | | | |
| Isolated networks | Review of the regulatory frameworks for stand-alone power systems | | | | |

Note: *AEMC involvement

For information contact:

AEMC Director, **Ed Chan** 02 8296 7839

AEMC Senior Specialist Consultant, **John Mackay** 02 8296 7821

Media: Communication Director, Prudence Anderson 0404 821 935 or (02) 8296 7817

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