2019 ECONOMIC REGULATORY FRAMEWORK REVIEW

PUBLIC WORKSHOP: NETWORKS INCENTIVES

6 MARCH 2019
MELBOURNE

AEMC

WELCOME AND INTRODUCTION

CHARLES POPPLE
AEMC COMMISSIONER

AEMC

AEMC PRESENTATION

- ECONOMIC REGULATORY FRAMEWORK REVIEW
- FINDINGS FROM OUR 2018 REVIEW

ED CHAN
DIRECTOR

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ANNUAL ECONOMIC REGULATORY FRAMEWORK REVIEW

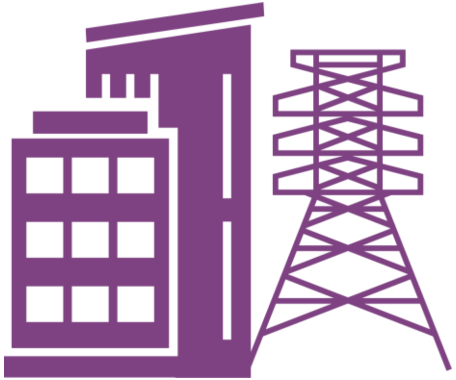
MONITORING IMPACTS OF DISTRIBUTED ENERGY RESOURCES

What is it for?

- Monitor the impact of distributed energy on electricity networks and the regulatory framework
- Broad terms of reference provides flexibility to consider a range of issues
- Part of a broader distributed energy related program – for significant medium to longer-term trends and issues

What is our approach to the review?

- A regular and ongoing platform to monitor changes and developments in the national electricity market
- Working with all stakeholders of the energy sector to identify and understand risks and opportunities for reform
- If there is a need for reform …
    - Recommend changes to the COAG Energy Council
- Progress recommendations tasked by officials and other review bodies



The economic regulatory framework needs to deliver the best outcomes for consumers

What are we focusing on this year?

- Continue consultation on network incentives – following on the findings from our 2018 Review
- Monitoring of key trends and market developments
- Providing advice to COAG Energy Council on regulatory sandboxes

2018 REVIEW

SUMMARY OF OUR FINDINGS

Efficient integration of DER

- The need to efficiently integrate DER
  - Networks role will need to evolve and the operation of the grid will become more complex
  - A dynamic approach is better than static approach or augmentation
- A key first step – better understanding of the network
  - What is the impact of higher penetration of DER on the network?
  - Many distributors know very little about their networks beyond their zone substations

Financial incentives for networks are not aligned

- The framework does not create systematic expenditure bias
- The incentives a network business faces changes with the circumstances
- In a future where networks may have many more options for a given set of network problems
  - A potential for bias may lead to a sub-optimal outcome for consumers
- The separate assessment and remuneration of opex and capex (and associated incentive schemes) is one major cause
  - Incremental change may not be able to solve the problem

The framework should provide incentives for the most efficient solution, regardless of whether it is opex or capex based

Our other findings

- Network pricing reforms need to continue
  - Cost reflective pricing can support sector transformation and lower long term prices
- It is not just about incentives
  - Consumer engagement
  - Supporting innovation – regulatory sandboxes
  - Potential reforms such as output or performance based regulation

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DISCUSSION PANEL 1

PERSPECTIVES ON ENERGY SECTOR TRANSFORMATION

PANELLISTS:
Brendon Crown – Redback Technology
Claire Richards – Enel X
Campbell Hutchinson – Simply Energy
Greg Abramowitz – AGL

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DISCUSSION PANEL 2

DISTRIBUTED ENERGY RESOURCES AND NETWORK REGULATION

PANELLISTS:
John Mackay – AEMC
Kevin Fincham – AER
Garth Crawford – ENA

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ALTERNATIVE MODELS

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More fully addressing biases requires alternative models

- For DER investments:

  "Energy Networks Australia members have consistently observed that the current transmission regulatory framework provides no positive financial incentive for TNSPs to pursue and procure non-network solutions… this lack of positive incentive creates an imbalance of incentives as between non-network solutions and network solutions which do not face these practical hurdles."

  Energy Networks Australia, Demand management incentive scheme and demand management innovation allowance rule change request, submission to the AEMC February 2019.

Options for addressing biases (some not mutually exclusive)

- Do nothing – the cost of changes may outweigh the benefits
- Small tweaks around the edges (e.g. transmission DMIS)
- Fast and slow money
- Totex benchmarking / output regulation
  - Potential first step towards reducing complexity by combining assessments and assessment criteria
- Criteria for assessment of potential solutions:
  - Gains exceed costs
  - Implementable with Manageable risks

Fast and slow money – what are they?

- Fast money is received in the same period that it is spent, or expected to be spent
  - currently covers operating expenditure and tax
- Slow money is money received over a number of (current and) future regulatory periods, covering expenditure in the current regulatory period.
  - currently covers capital expenditure

- Subjecting all expenditure to the same treatment removes bias
  - Set proportions as part of the regulatory determination
  - A dollar of opex gets funded on exactly the same basis as a dollar of capex – some of it goes into the RAB.

Fast and slow money are regulatory constructs

Totex

- Beating revealed costs and benchmarks is hard:
  - Doing more as capex makes opex look better
  - Where capex projects are “approved” (e.g. contingent projects), some risks transfer from equity to consumers, making capex potentially more attractive to equity.
- Applying the same form of cost assessment to opex and capex largely eliminates this bias
- Totex benchmarking addresses this bias by assessing all expenditure in the same way.

Some discussion points

- How significant is the bias issue
  - Are there different views among different stakeholder groups?

- If these models are to be implemented …

- What would the implementation issues be?
  - Fast and slow money
  - Totex benchmarking:
    - The Commission's Total Factor Productivity (TFP) rule change process took over three years.

DISCUSSION PANEL 2

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LUNCH

DISCUSSION PANEL 3

CONSUMERS PERSPECTIVES

PANELLISTS:
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David Havyatt – ECA
Dean Lombard - Renew

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CLOSING REMARKS

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