19 September 2024

Mr. James King
Senior Advisor
Australian Energy Markets Commission
https://www.aemc.gov.au/contact-us/lodge-submission

Dear James,

Improving the cost recovery arrangements for non-network options

CitiPower, Powercor and United Energy (networks) welcome the opportunity to provide feedback on the Australian Energy Markets Commission (AEMC) consultation paper Improving the cost recovery arrangements for non-network options. The networks appreciate the time AEMC staff have spent with us discussing the issues involved in the proposed Rule change.

As discussed with AEMC staff, the issues identified in the consultation paper have not been huge for our networks. This is not to say that the issues will not emerge, but rather the market for providers of non-network support payments for our networks have been thin. The agreements that we have had in place are relatively small, so not material consequence to our revenues.

We do hope in the future this will change. We have invested in an end-to-end marketplace for local flexibility, Piclo Flex, which is intended to make it easier for non-network service providers to make offers to us for non-network alternatives. Piclo Flex is in its infancy, but we have been experimenting with constraints solutions down to individual circuit levels.

To create greater market liquidity in non-network solutions, we continue to refine what we offer to non-network service providers. The terms of agreements today are short, and don't provide some non-network service providers with the certainty they need to invest. Constraints are often transitory, or can be unpredictable, which presents challenges for network planners. The service target performance incentive scheme (STPIS) has presented challenges. It is a high-powered scheme which, if we are relying on a non-network provider, must be able to pass that risk through to them. They are rarely sufficiently capitalised to manage a risk of the magnitude of the STPIS.

If the market for non-network solutions grew for distributors, the efficiency benefits sharing scheme (EBSS) could create impediments. If any non-network payments are not included in the revealed cost year, or accepted as a step change, a regulated network will be reluctant to consider it because it will be penalised under the EBSS. Given cash is critical to regulated networks, there will be reluctance to pursue the non-network option unless there is an ex-ante allowance.

The following section provides a brief response to each of the questions raised in the consultation paper.

Question 1: Is initial revenue uncertainty a barrier to acceptance of non-network projects?

This has not been an issue for our networks but as mentioned above, this is more a reflection perhaps of the very limited number and small scale of non-network options that have available to us.

Question 2: Is on-going revenue uncertainty a material barrier to non-network projects?

This is a complex issue. The transitory nature of constraints across our distribution network can make longer term agreements challenging as does the nature of the regulatory cycle. However as before, the limited number of non-network options available to the networks at this stage as meant the issue is not material.

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Question 3: Issues with the timing of cost recovery from the AER

Under the demand management incentive scheme (DMIS) under which the networks operate, there is a 2-year lag between receiving the non-network service and receiving the revenue allowance from the Australian Energy Regulator (AER). We would be supportive of any changes to arrangements that would more closely align when costs are incurred, and when revenue is received.

Question 4: Does the TransGrid proposal solve the issues?

The TransGrid proposal would certainly not hinder the market for non-network solutions. It is important though to recognise there are many issues that can impact the market for non-network alternatives including STPIS liability, uncertainty on delivery of non-network solutions when called upon, land access, market liquidity and the need for longer term agreements.

Question 5: Benefits and costs of proposed TransGrid solutions?

We have no comment on this issue currently.

Question 6: Do similar issues exist in the distribution framework?

Yes, but currently on a smaller scale for our networks. Any reform that can provide greater certainty to the network and the non-network service provider must increase confidence in the market and allow it to grow. We should not however expect that regulatory reform alone is the only issue impacting non-network solution markets.

Question 7: Should the cost recovery framework be the same for augmentation and system security?

From a purely distribution perspective we don't see why the cost recovery framework for augmentation and system security would be different.

Question 8: Implications for the Victorian transmission arrangements?

The main difference that we can identify is that the Australian Energy Market Operator or VicGrid are not subject to regulatory oversight. Any agreements entered by these businesses Victorian distributors are obliged to pass through in network tariffs. Our understanding in other jurisdictions is the AER has oversight of transmission arrangements.

If you have any questions, please contact me on 0409 805 058, bcleeve@powercor.com.au.

Sincerely,

Brent Cleeve
Head of Regulatory Policy & Compliance
CitiPower, Powercor and United Energy