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AusNet Services Submission

Discussion Paper – Strategic Priorities for Energy Market Development

This submission provides AusNet Services brief comments on the draft strategic priorities outlined in the Discussion Paper - Strategic Priorities for Energy Market Development released by the AEMC in September 2015, which invited comments from stakeholders. AusNet Services commends the AEMC on their proposed strategic priorities that have been identified for further work over the next two years, and the focus evident on the longer term industry change. This is a comprehensive list that considers a number of key challenges facing the industry.

1 Introduction

AusNet Services considers that it is more critical than ever before to establish a strong and credible strategic oversight of the industry as it faces unprecedented change and a period of considerable uncertainty. There is a need to develop future arrangements cognisant of this change and recommend arrangements that would facilitate and/or support it. In this environment it is important to provide a stronger focus and clearer responsibility for the development of a longer term vision and strategy for the development of the energy sector.

Without clear direction there is potential for inefficient outcomes to emerge in the longer term or to inhibit some of the benefits possible with new technology and innovation. The AEMC Strategic Priorities provide an important opportunity for the AEMC to set longer term directions and initiate key work areas that will allow the industry to better understand and be prepared for the future challenges.

2 Overall comment

AusNet Services agrees that the three priority areas identified remain key for strategic consideration.

The focus on customers is important and we agree that they will play a central and more determinative role in the future of the electricity market, and should be enabled to do so. It is appropriate that more consideration be given to them to ensure they can interact most effectively with the energy market and achieve the best possible value and service for their energy needs.

The gas market is an area which requires further consideration and development to achieve the maturity of the electricity sector. It is appropriate that this be considered further in light of the unique circumstances facing this sector. Although AusNet Services owns and operates a gas distribution business, the issues raised in the Strategic Priorities are not directly related to this function, and apart from supporting the initiative AusNet Services has no substantial comments to make on the specific initiatives that are proposed.

The electricity industry is undergoing a period of immense change and uncertainty, and we consider the initiatives proposed for the market and network priorities are necessary to prepare for potentially very significant and disruptive change. While it is not possible to be prescriptive about the nature of these changes, and in some cases even the direction that may be taken, it is clear that early consideration and policy development will be advantageous and place the industry in the best position to meet future challenges as they emerge.

3 Specific Comments

AusNet Services generally agrees with the priority areas identified in the paper, in particular where there has been emphasis placed on setting longer term strategic direction. There has previously been a tendency for industry reviews to have had a shorter term focus. While these issues were important and needed to be considered to provide a sound basis for the future we consider that it is now important to start developing a longer term perspective in the context of the potential longer term industry changes.

Therefore we acknowledge and strongly support the specific areas where the Discussion Paper identifies the need for longer term consideration, including the role of networks, the future changes that may be necessary in network regulation and the potential for changes in the boundaries between regulated and non-regulated activities.

3.1 Customer priority

Consumers are taking an increasing role in becoming more involved in their energy supplies, and have unprecedented opportunities for doing this, facilitated by new technology and information. This will be achieved through customer behaviour and the choices they make. However it is a challenging task to ensure that all customers have the opportunity and knowledge to allow them to achieve the best outcomes.

It is also important to note that there is a significant diversity of customer interest in active engagement and involvement with their energy supply. While consumers ultimately require a cost effective and reliable service, the extent to which they will wish to directly engage to achieve this will differ greatly. This diversity needs to be considered in developing approaches to provide more flexibility and transparency for customers since there will come a point where the cost and inconvenience in doing this will not reap the benefits due to a lack of participation from consumers.

There are two areas of particular relevance to networks in the AEMC's discussion of the consumer priority. These are:

- Cost reflective pricing; and
- Participation in regulatory determinations.

There are clear benefits from greater customer participation both in terms of responding to cost reflective prices and in providing input into network plans and regulatory determinations.

In both these areas, it is also important to acknowledge practical limitations. There is considerable diversity across the customer base of their willingness or interest to engage or spend time to manage their electricity bill.

As a consequence it is important to ensure that policy change and rules development in this area does not burden customers and require their involvement regardless of whether this is practical. In engagement activity undertaken by AusNet Services, it is common to hear that customers don't want to spend a lot of time thinking about their electricity supply, and there is an expectation that the important things will be looked after for them by energy companies and government.

Consideration should be given to whether Rules place additional expectations on customers to devote time to matters that they may not wish to. Some flexibility of approach will be necessary to ensure that those customers that wish to engage are able to, but which does not result in significant time and costs for those that do not.

Similarly we consider that it is important to ensure that market development and changes designed to increase the level of customer engagement and involvement in energy markets be considered carefully to ensure that they will achieve the desired benefits, given the relative interests of customers in becoming actively involved. This is particularly the case where changes require significant costs or disruption to the sector, which may be out of proportion to the benefits that might accrue to a very small number of customers.

As identified by AEMC it is also important to ensure vulnerable customers are protected, and to understand the ability of these customers to respond to the changing energy market. This will be particularly important in achieving acceptance of some of the desired changes for customers generally to be more involved in competitive markets and to be exposed to prices that reflect costs.

3.2 Markets and Networks Priority

As a network business AusNet Services is most interested in section 5 dealing with Markets and Network Priorities, particularly sections 5.2 and 5.3 which sets out the proposed priority areas for the future. The three areas identified are as follows:

- Technology and new business models
How does regulation need to evolve to permit innovation in new products and services to the benefit of consumers, without eroding the customer outcomes that regulation intends?
- Network evolution
What will be the effect of technology on network investment and operation over the medium term? Will current regulation be appropriate for the business model evolution that may be required? and
- Wholesale markets
How can policies in other portfolios be integrated with energy markets?

Specifically on network evolution the Discussion Paper proposes the following areas of activity:

- the boundary between competitive and regulated aspects of network operation needs to shift (eg, metering);
- the network businesses should be permitted to expand into other services (or prevented from doing so); and
- the current risk-sharing mechanisms for network investment are appropriate; and further changes are required in the medium-term to assist network evolution.

AusNet Services agrees that these issues are very important for consideration. We are particularly supportive because there is a strong emphasis evident in these initiatives for

longer term strategic consideration. These key strategic initiatives need to be developed in the context of the possible industry of the future rather than confined to the shorter term changes that are already progressing. There is a need to provide greater understanding of the possible future direction of the energy sector to establish a basis for developing the longer term strategies that may be required to deal with the future changes.

We consider that the future will provide higher levels of uncertainty, and may require significant development and change to existing market structures and frameworks to ensure that robust and effective market and regulatory frameworks will be in place. The above areas seem to address the required areas and take an appropriate long term perspective.

4 Conclusion

AusNet Services commend the AEMC for the Discussion Paper – Strategic Priorities for Energy Market Development and considers that it identifies appropriate priorities for examination over the next two years. We support the need for considering these issues in the context of the changes that are likely to occur in the longer term, to allow the sector to be prepared for these challenges.

We also believe that this paper represents a positive step in the development of the AEMC's role in taking a stronger strategic role in energy market development. While the report from the Panel that reviewed the Governance Arrangements in the NEM is still in draft form it identified the need for the AEMC to take a stronger policy and strategic role than is implicit in the current arrangements. It includes the potential for the AEMC to initiate its own rule changes to facilitate the development of changes to respond to the strategic direction set for the industry. We are supportive of this proposal, and the merits of the approach are evident in this paper.

AusNet Services would be pleased to elaborate any of the points made in this response. Please contact me on 03 9695 6622 or email katie.yates@ausnetservices.com.au to discuss this submission further.

Sincerely,

A handwritten signature in blue ink, appearing to read 'K Yates', is written over a light blue horizontal line.

Katie Yates
(Acting) Manager Regulatory Frameworks
AusNet Services