

3 November 2017



Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2499
Sydney South NSW 1235

Dear Mr Pierce

ERC0206 Contestability of Energy Services Draft Rule Determination and Proposed Savings and Transitional Rule

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Australian Energy Market Commission (AEMC) regarding its Contestability of Energy Services Draft Rule Determination and Proposed Savings and Transitional Rule Consultation Paper.

The attached submission is provided by Energy Queensland that operates a portfolio of businesses providing energy services across Queensland, including:

- Distribution network service providers (DNSPs), Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy Network);
- A regional service delivery retailer, Ergon Energy Queensland Limited (Ergon Energy Retail), limited in its scope of operations by jurisdictional legislation; and
- Affiliated contestable businesses, Metering Dynamics, Energy Impact and Ergon Energy Telecommunications.

Should you require additional information or wish to discuss any aspect of Energy Queensland's submission, please do not hesitate to contact either myself on (07) 3851 6416 or Trudy Fraser on (07) 3851 6787.

Yours sincerely


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Encl: Energy Queensland submission

Energy Queensland Submission on the Contestability of Energy Services

Draft Determination and Proposed Savings and Transitional Rule

Energy Queensland Limited
3 November 2017



About Energy Queensland

Energy Queensland is a Queensland Government Owned Corporation that operates a portfolio of businesses providing energy services across Queensland, including:

- Distribution network service providers (DNSPs), Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy Network);
- A regional service delivery retailer, Ergon Energy Queensland Limited (Ergon Energy Retail), limited in its scope of operations by jurisdictional legislation; and
- Affiliated contestable businesses, Metering Dynamics, Energy Impacts and Ergon Energy Telecommunications.

Energy Queensland's purpose is to "safely deliver secure, affordable and sustainable energy solutions with our communities and customers" and is focussed on working across its portfolio of activities to deliver customers lower, more predictable power bills while maintaining a safe and reliable supply and a great customer service experience.

Our distribution businesses, Energex and Ergon Energy Network, cover 1.7 million km² and supply 37,208 GWh of energy to 2.1 million homes and businesses. Ergon Energy Retail sells electricity to 740,000 customers.

The Energy Queensland Group also includes new energy services businesses which will provide customers with greater choice and control over their energy needs and access to the next wave of innovative technologies and renewables. The energy services businesses are key to ensuring that Energy Queensland is able to meet and adapt to changes and developments in the rapidly evolving energy market.

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1 Introduction

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Australian Energy Market Commission (AEMC) on its:

- Draft Rule Determination and supporting Draft Rule; and
- Consultation Paper on the Proposed Savings and Transitional Rule,

related to the contestability of energy services.

Energy Queensland is encouraged by the Draft Rule in that it will provide regulatory certainty and clarity regarding the proposed approach to service classification. The proposed requirement to develop a Service Classification Guideline and an Asset Exemption Guideline is timely and a positive development, which will expect will lead to more efficient regulatory outcomes.

Although we are generally supportive of the AEMC's Draft Determination, we still question whether this level of regulatory intervention is required given that DNSPs are already constrained through existing mechanisms, such as ring-fencing and cost allocation obligations. Also, we consider it important to recognise that the Shared Asset Guideline benefits customers by sharing the benefits where DNSPs provide unregulated services. This will reduce the amount that DNSPs can recover from electricity consumers to account for the unregulated revenues DNSPs receive.

Energy Queensland echoes the views expressed by the Energy Networks Association and the CSIRO in their *Electricity Network Transformation Roadmap: Final Report*¹ that certain basic architectural principles should be implemented prior to the commencement of the Rule Change to create and support the co-optimisation of network and third party providers of distributed energy resources. This will ensure that market players, including third parties, can operate in a market and have regulatory certainty in relation to the parameters (including compliance with relevant technical standards and protocols) within which they operate. It will also ensure that third parties and DNSPs have visibility and are able to better communicate to ensure overall system security.

Notwithstanding this indirect level of support, Energy Queensland considers that the AEMC in developing the Final Rule needs to ensure that in order to achieve competition objectives at the behest of consumers, it needs to be balanced, technology neutral and not exclude participants explicitly from participating in a rapidly changing market. Finally, Energy Queensland supports a framework that promotes customer benefits, in exchange for services that help optimise the system which therefore will provide benefits to all customers.

Our submission focusses on key aspects of the Draft Determination which we consider will have direct implications on some of our portfolio of businesses. Energy Queensland is available to discuss this submission with the AEMC if required.

¹ Released April 2017, at page 80.

2 Table of detailed comments

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<p>prohibits a DNSP from including in its regulatory proposal and regulatory asset base, capital expenditure for assets that are located behind a retail customer's connection point (a 'restricted asset'), <u>except</u> in certain limited circumstances:</p> <ul style="list-style-type: none">• where the expenditure is for existing assets and refurbishments of existing assets;• where the Australian Energy Regulator (AER) has provided an exemption from the prohibition);or• it's a network device	<p>Despite the AEMC stating that they are not creating a blanket prohibition on networks businesses using these new technologies and energy management services to provide regulated distribution services by virtue of procuring these services from ring-fenced affiliates, our concern is that a framework is being developed that will restrict DNSPs being active in this emerging space.</p> <p>The value of DNSPs being active in this space is evident from Energex's Demand Management Program which is the largest load control program in Australia. The program provides incentives to households that connect electric hot water systems, pool pumps and PeakSmart air-conditioners to the Energex load control system. The program is supported by manufacturers, retailers, installers and builders. It has provided benefits to customers (through reductions in their electricity bill or through direct incentive payments) and to Energex, by providing an alternative solution to expanding our electricity infrastructure through managing demand on the network. The load under control through these programs is included in the demand forecast for the network.</p> <p>Energy Queensland believes that the coordination of a decentralised and integrated electricity system involving large numbers of distributed energy resources will not just happen. Certain basic architectural principles must be implemented to create an optimal market. Distributors are currently well placed to coordinate demand response as they have access to near real time network data and network connectivity information. Increasingly, third parties will be able to provide aggregated demand response. However, the transactions and information sharing will still need to be coordinated by a distributor to ensure network security and reliability. It is widely believed that a secure and reliable network is the foundation for enabling all parties to realise the benefits. The working relationship (Rules, Protocols, Standards etc.) between the distributor and other market participants are not yet developed. Introducing the rule change without these structures in place presents a significant risk.</p> <p>Under the Draft Determination, networks are not given service delivery discretion (to invest in assets behind the meter) and thereby are restricted from offering innovative solutions to individual customers or collective groups of customers as part of broader distribution services. In our view, the Draft</p>

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Determination is a move towards asset based regulation rather than service based regulation which is inconsistent with the broader regulatory framework. Energy Queensland supports a service based approach that ensures the delivery of the most efficient service regardless of what the solutions is. The rules should be designed to encourage efficient, market-based outcomes that deliver the most cost-effective services.

Energy Queensland recommends the AEMC expands the exception framework to also exclude a fourth type of exemption class – legacy network control programs/arrangements. Energy Queensland considers that projects should continue to be offered to customers that provide distribution services and have capital expenditure and business approval. Alternatively, the AEMC may consider a transitional period that allows networks to continue delivering the service whilst a compliant control solution is implemented.

Energy Queensland is concerned that, Energex's PeakSmart air-conditioning program which uses demand response enabled devices (DREDS) would not be able to be offered to any new customers, therefore, limiting any growth opportunities under the current proposal. Our view is that these DREDS and relays are load control devices and allow DNSPs to reduce demand on the network at peak periods and by doing so avoids the need for more expensive investment in network augmentation and addresses reliability and network security issues.

Amended definition of network device to Apparatus or equipment that:

- (a) enables a Local Network Service Provider to monitor, operate or control the network for the purposes of providing network services, which may include switching devices, measurement equipment and control equipment;
- (b) is located at or adjacent to a metering installation at the connection point of a retail customer; and
- (c) does not have the capability to generate electricity.

At a high-level the proposed amended definition of network device has 3 elements. Critically, also, the definition hinges upon the location of the device relative to the metering installation at the connection point. In Energy Queensland's view the physical location of the device should not be limited to being at or adjacent to the metering installation at the connection point. In our view this should not be a key factor, rather the focus, should be on the services it delivers to customers.

Energy Queensland is also concerned regarding the proposed limitation placed on a network device in not being capable of generating electricity. In our view, storage is equally a load, similar to pool pumps, hot water systems and air-conditioning units that can provide "negawatt" (avoided demand) support, address power quality issues and may prevent system outages by capping their load during peak demand or low volt events. As the residential storage market matures, it is conceivable that batteries become the most material load control lever to deliver affordable, secure and reliable network services. Where networks are not able to access the potential in these markets, given that the rule change is advocating a market led opex-based approach, it is unlikely that the network investment (made on behalf of all customers) can, in practice, be co-optimised with the private

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investment by individual customers.

Similarly, the proposed definition of network device should still allow for a device that is capable of generating electricity to be connected, as the customer has the choice (like they do with all DER – including controllable loads) to connect to the network device, or via a market provided solution.

Finally, we consider that the regulatory arrangements should be designed to take into account the full range of potential market and network solutions. This view is consistent with the AEMC's principles expressed in other consultations that regulatory arrangements should be technology neutral, especially given that technologies are changing rapidly.

requires the AER to have regard to the likely impacts on the development of competition in markets for energy related services when determining whether to grant an exemption

Energy Queensland agrees that there should be a positive obligation on the AER to have regard to the likely impacts on the development (or lack thereof) of competitive markets in determining whether to grant an exemption or not, particularly in remote or regional areas. The AER should not confuse energy independence with energy security, especially in these locations.

Key measures and indicators related to competition should include the locality of the exemption being sought. In these circumstances (such as rural areas) the DNSP may be the only party that has a material and undistorted incentive to offer 'behind the meter' energy services. Similarly, a DNSP may be able to act as a service agent for customers whose assets behind the meter have failed and no local expertise is available. In some cases, the customer may not be exposed to cost reflective tariffs due to jurisdictional arrangements and the area may not be open (or conducive) to retail competition as the customers are too remote to be serviced competitively in a contestable market for energy service providers. In these cases, DNSP's are still incentivised under the existing regulatory framework to employ all means to minimise the total cost of supply to these communities (regardless of whether the assets are owned by the customer or DNSP).

In cases where a DNSP, such as Ergon Energy Network, is restricted from providing these services the proposed arrangements contained in the Draft Determination would create barriers to the DNSP deploying behind the meter energy services solutions. For example, the requirement for an exemption and the need to develop and maintain a separate platform to provide services to 'non-competitive' customers where the investment in the platform cannot be leveraged into larger, more attractive, urban markets to allow economies of scale to be fully realised. This is likely to increase the cost of providing energy services (and therefore diminish competition) in rural and regional areas, where the network component of the benefit is frequently the largest component of 'value-stack'

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	<p>realised by end customers.</p> <p>Another key measure is that there must be some assurances by way of national/international standards in place for energy related services if DNSPs are required to procure these from the market.</p>
<p>requires, if the DNSP wishes to seek an exemption, the DNSP to submit an exemption application along with its regulatory proposal or, in the case of an exemption in respect of a cost pass through or reopening of a distribution determination for capital expenditure, at the same time as making the application for the cost pass through or reopening</p>	<p>Energy Queensland disagrees with this proposal. This solution is problematic due to the rapid pace of innovation and market development in the energy services sector. As a result it is nearly impossible to determine with any certainty what exemptions will be required over the 7 year forecasting horizon on which a revenue proposal is prepared.</p> <p>Notwithstanding this, the determination process is a convenient and administratively logical point to consider these matters. To encourage all DNSP's to innovate in the use of energy services to resolve network constraints it would be preferable for the AER to establish and maintain a series of standard exemptions that can be modified and accessed by all DNSPs. These would mean that issues are considered for (and exemptions open to) networks such that the regulatory environment evolves progressively for all DNSPs with each individual determination - rather than once in five years when each DNSP goes through its own determination.</p> <p>Additionally, individual exemptions could be sought at any time for jurisdictional and/or DNSP specific issues, in a similar manner to the AER's current treatment of retail and network licence exemptions. There is significant value in adopting a flexible approach given the rapid rate of change with technologies.</p>
<p>provides that the DNSP must include in any exemption application, details of (among other things) a description of the asset or class of asset to which the proposed exemption would apply (including location and anticipated cost), details of the standard control services that would be provided by the asset and an assessment by the DNSP of the likely impacts of the exemption on competition in markets for energy related services</p>	<p>Energy Queensland supports the requirement for DNSPs to include content details in their exemption application.</p>
<p>requires the AER to develop and publish guidelines (the Asset Exemption Guidelines), which set out the AER's approach to granting exemptions from the prohibition</p>	<p>Energy Queensland supports this proposal as this will provide certainty and guidance to market. We also refer you to our comments above related to the timing of submitting an exemption application. We also recommend that the AER in developing these Guidelines consider the interaction between</p>

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<p>requires the AER to develop and publish guidelines (the Distribution Service Classification Guidelines by 30 September 2018) that set out the AER's proposed approach to (among other things) determining whether to classify a distribution service as a direct control service and how it distinguishes between distribution services and the operating and capital inputs that are used to provide such services</p>	<p>the Service Target Performance Incentive Scheme for customers who adopt a market-led solution behind the meter.</p> <p>Energy Queensland supports an obligation on the AER developing Distribution Service Classification Guidelines. We agree that this Guideline will improve clarity and transparency and also increase regulatory certainty.</p> <p>Energy Queensland does not believe that there is significant risk in publishing the Final Distribution Service Classification Guideline by 30 September 2018, after the Framework and Approach (F&A) is due to be published in Queensland (provided that the final guideline is not a major departure from the draft). Energy Queensland recognises that the AER can depart from the classification set out in the relevant F&A when making a distribution determination where there is material change in circumstances.</p>