

21 July 2017



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

Dear Mr Pierce

“ERC0215” National Electricity Amendment (Alternatives to grid-supplied network services) Rule Change Consultation Paper

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Australian Energy Market Commission (AEMC) regarding its Consultation Paper on the *Alternatives to grid-supplied network services* rule change request submitted by Western Power.

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 and Ergon Energy Network;
- A regional service delivery retailer, 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

A handwritten signature in black ink, appearing to read "Jenny Doyle", written in a cursive style.

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Encl: Energy Queensland submission

Energy Queensland

National Electricity Amendment Rule 2017 Alternatives to grid-supplied network services Consultation Paper

Energy Queensland Limited
21 July 2017



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1 Introduction

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Australian Energy Market Commission (AEMC) regarding its Consultation Paper on *National Electricity Amendment Rule 2017 – Alternatives to grid-supplied network services* (Consultation Paper).

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 Impact 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 focused 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.

Energy Queensland's 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 a new energy services business 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 business is key to ensuring that Energy Queensland is able to meet and adapt to changes and developments in the rapidly evolving energy market.

Energy Queensland supports a framework that assesses rule changes from a holistic perspective and provides the best outcomes for consumers. Fundamental to any proposal for a rule change, is a demonstration that the expenditure to implement this rule change will provide a net benefit to all consumers and the market more generally. Any amendments to the regulatory framework need to be carefully balanced to ensure they do not create any unintended outcomes and costs. In response to the AEMC's invitation to provide comments on the Consultation Paper, Energy Queensland has focussed on addressing a number of key issues rather than responding to each of the questions included in the Consultation Paper.

This submission is provided by Energy Queensland, on behalf of its related entities Energex, Ergon Energy Network and Ergon Energy Retail.

Energy Queensland is available to discuss this submission or provide further detail regarding the issues raised, should the AEMC require.

2 Key Messages

Overall, Energy Queensland supports the policy intent of the rule change submitted by Western Power. We believe the rule change request highlights the need for consideration of whether or not there is value in regulating stand-alone power systems (SPS) and microgrids under a national framework. This rule change request also encourages thought on the effectiveness of competition to the extent competition is not effective whether distributors should lead the transition to providing alternative supply arrangements such as SPSs off-grid or embedded microgrids. Given the breadth of issues, number of impacted stakeholders and concurrent related consultations being undertaken, Energy Queensland considers it critical to ensure that the AEMC should approach this rule change in a robust and fully considered manner. Any proposed regulatory arrangements should be sufficiently flexible and adaptable to enable the innovative delivery of services through microgrids and SPSs as an alternative to network augmentation/replacement.

While we are cognisant and appreciative of the benefits of a national approach to regulation, Energy Queensland is of the fundamental view that regulation should only exist to the extent that there is a demonstrated failure in the current framework and the cost of regulation does not outweigh the benefits sought to be achieved.

2.1 Concurrent related consultations

As previously stated, Energy Queensland is particularly interested in concurrent and related consultations that may help influence the AEMC's position and facilitate more detailed and broader discussions. Of particular interest is the Council of Australian Governments (COAG) Energy Council consultation on the *Regulatory Implications of Stand-alone Energy Systems in the Electricity Market*¹. This Consultation was focussed on determining the appropriate regulatory framework for SPSs and microgrids. The COAG Energy Council is yet to release their response in light of submissions received. However, it is critical to ensure that any recommendations and insights presented therein feed into the analysis being undertaken here.

Additionally, as the AEMC is aware, the *Contestability of Energy Services*² rule changes consultation raised significant and related issues. We agree with sentiments expressed by the

¹

<http://www.coagenergycouncil.gov.au/sites/prod.energycouncil/files/publications/documents/Stand-Alone%20Energy%20Systems%20Consultation%20Paper%20-%20August%202016.pdf>

² <http://www.aemc.gov.au/Rule-Changes/Contestability-of-energy-services>

AEMC in relation to that rule change and consider that similarly in the case of this rule change, a common understanding of all the issues and impacted stakeholders must be developed to allow a more focussed analysis and efficient rule making process. In particular, the AEMC must determine a clear policy driver of this rule change and related issues. That is, is the rule change centred on lowering prices through greater competition, offering customers greater choices in type of service delivery model, ensuring that consumers are afforded necessary customer protections, or a combination of these? The determination and articulation of the key policy driver/s will ensure that additional regulation in this area does not create inefficient outcomes for consumers or restrict technology innovation and development. Fundamentally, regulatory oversight should only occur where there is a market failure, rather than when an emerging market is developing.

Energy Queensland strongly considers that in order to achieve the best outcome for customers, all issues in this Consultation Paper and related issues raised in other consultations are merged and considered collectively rather than in isolation. We welcome the AEMC's willingness and proactive approach in considering submissions resulting from other related consultations³ as outlined in the Consultation Paper. Notwithstanding, Energy Queensland strongly suggests the issue of whether regulation is in fact required or the type of regulation that may be required needs to be explored further. In this regard, it is critical to not stifle an emerging market with over-regulation or inappropriate regulation, particularly where there may be demonstrated benefits to customers.

2.2 Competition

Energy Queensland recognises there may be significant complexities in determining what are contestable energy services or regulated distribution services and those which are not. Similar to the COAGs' Energy Council attitudes expressed in their rule change proposal on *Contestability of Energy Services*, Energy Queensland supports the principles that services should only be regulated where competitive market forces cannot efficiently deliver those same services. The AEMC must recognise that in trying to achieve effective competition, over-regulation or an incorrect definition of distribution services may stifle innovation which will be detrimental for customers and service delivery providers rather than traditional distributors or retailers.

The AEMC has already noted in this Consultation Paper that many jurisdictions have "postage stamp" pricing policies. Most regional Queensland customers are supplied by Ergon Energy Retail and pay regulated retail prices as part of the Queensland Government's uniform tariff policy (UTP). In accordance with the UTP the Queensland Government pays Ergon Energy Retail a subsidy so that regional customers pay the same price for their electricity as consumers in south east

³ Refer to pages 35-37

Queensland. As the regulated retail price is below the cost of supply in regional Queensland there is little retail competition.

We believe that this highlights the importance of Government policy positions and the need to carefully factor their energy policy direction when contemplating whether off-grid services should be regulated or not. Similarly, the National Electricity Objective is tantamount in ensuring that off-grid services and their potential classification by the Australian Energy Regulator (AER) are considered during this process.

2.3 Varied forms of off-grid solutions

Energy Queensland suggests that when considering whether or not to regulate off-grid or embedded microgrid solutions, the AEMC remains cognisant that off-grid solutions can take several and varied forms including:

- A SPS that is fully isolated (i.e. not in close proximity to) from the interconnected national electricity system (national grid);
- A SPS that supplies a single edge-of-grid customer where the supply arrangement is deemed to be more efficient than maintenance of an ongoing connection to the national grid;
- A microgrid, which is fully isolated from the national grid;
- A microgrid, which while capable of operation in islanded mode, retains a connection to the national grid (embedded microgrid);
- In the case of a microgrid for which there is also a connection to the national grid, whether the microgrid will only import from the network or whether it will also export, e.g. become a collective generator based on the aggregate generation of the microgrid community.

These forms may require different levels of regulatory oversight, if any, and it is important to ensure that the long term interests of customers are balanced when determining the appropriate level of regulation. Whilst considering the varied forms of off-grid solutions, it is also critical to understand that in providing a technical solution, different forms of regulation could also apply based on the service being provided. For example, a combination of regulated and unregulated assets may be used to provide a solution. In addition, the customer may have access to regulated retail prices or not. Each of the solutions will have benefits and risks and it is therefore important to consider the varied technical solutions that may be provided the drivers of the solution, that is, customer protections, customer needs, market capabilities, funding models, investment drivers and locations.

Coupled with the various forms of off-grid solutions, there needs to be consideration of the overall system as the sum of its parts and what each component party delivers, for example DNSP, customer and microgrid operator delivers to the system. Finally, respective parties' obligations including the obligation to provide reliable and safe connection and supply of electricity must be factored into the analysis.

2.4 Grandfather existing jurisdictional arrangements

Western Power in their rule change request stated that they intend to apply this rule change to existing customers who “do not face the cost of maintaining their network connection and so have no incentive to install an SPS”.⁴

As noted in the Consultation Paper, in Queensland, Ergon Energy Network owns and operates 33 isolated power systems providing electricity to isolated communities which are too remote to connect to the national grid. These power systems are located throughout western Queensland, the Gulf of Carpentaria, Cape York, some Torres Strait Islands, and on Palm and Mornington Islands. The existing economic regulation of these systems is overseen by Queensland’s jurisdictional regulator, the Director General of the Department of Mines and Energy (DEWS). The regulation of these systems has been very effective to date and this allowed for the economic, social and environmental differences associated with these systems to be factored into the development of policy positions relating to tariffs, reliability and other general services standards. The non-economic components such as the retail obligation, connection obligation and customer protections are regulated by the AER. This is because Ergon Energy Network and Ergon Energy Retail are respectively the nominated distributor and retailer under the National Energy Customer Framework in Queensland.

Ergon Energy Network also owns the isolated Mount Isa-Cloncurry network that supplies customers in North West Queensland. This network operates outside of the National Electricity Market. Notwithstanding, the AER has both economic and non-economic oversight of this supply network. Additionally, Ergon Energy Network owns a 220 kV network which is connected to the Mount Isa-Cloncurry network, and is part of the North West Minerals Province which is the subject of an Australian Competition and Consumer Commission Authorisation that makes it an unregulated network for pricing purposes. Therefore it is excluded from regulatory oversight by the AER and the DEWS.

We believe that the existing regulatory arrangements for these systems should be grandfathered and not included in the scope of this rule change as there is no evidence to suggest that there is a failure under this framework.

⁴ Western Power Rule change request, p12.

2.5 Definition of distribution services

Energy Queensland is of the strong view that there needs to be well considered and distinct definitions of what constitutes the various types of SPSs in the market.⁵ This would avoid any inherent ambiguity that would otherwise exist, by allowing industry to have a common understanding of the respective configurations and the essential demarcation of being able to interconnect with the national grid. Furthermore this will facilitate informed and consistent discussion on the economic and broader regulatory treatment of such systems.

2.6 Consumer Protections

In Queensland, the National Energy Customer Framework and the supporting consumer protections have been applied in Queensland to customers in isolated networks with some modifications. Energy Queensland supports this approach. However, thought needs to be given to ensuring a balanced approach in determining what consumer protections are required especially in an emerging market where too much regulatory oversight may cause barriers and therefore less choice for consumers.

In respect of what reliability and standards should apply Energy Queensland considers that best practice would be for SPSs to be required to meet relevant jurisdictional reliability and power quality standards. This is especially important where a customer does not elect to go off-grid.

In the event that customers are moved off-grid by a DNSP, the cost/reliability trade off should match grid connection standards. This is because a customer's needs may change over time, for example, an increase in load requirements. In addition, ownership of the premises may change and accordingly a customer's reliability needs may similarly change. A DNSP is therefore always designing for customers with high reliability requirements as it would be difficult to impose a lesser standard given the unknown nature of future customers' demands. However, if an alternative view is reached by the AEMC, for example, a lower standard, relevant jurisdictional regulations would need to be amended to support alternative connection standards without imposing penalties on DNSPs.

The power quality performance, reliability and ability to service an off-grid customer with a SPS is fundamentally different to that of grid supply and is dictated by the generation, energy storage and power conversion in the SPS. Therefore, any proposed ownership model must consider these technical parameters for both grid supplied and SPS supply arrangements and appropriately incorporate standards that regulate generators in a balanced/flexible approach.

⁵ Refer to section 2.3 of this submission for more discussion on the varied forms of off-grid solutions

Finally, consideration as to customer choice and needs must be catered for while balancing the investment risk of a DNSP or market provider. If, for example, a customer is supplied by an SPS, either regulated or unregulated, and remains on regulated retail tariffs the customer may still have a driver to install their own SPS to reduce their energy costs. In this situation, the energy supply for a site may be duplicated on both the demand side from the customers' direct investment and the network side from DNSPs investment in a SPS. If this were to occur without any co-ordination or consideration, the capital investment for a SPS may be duplicated and the regulated assets pose a stranding risk. However the SPS would be unable to be decommissioned due to the regulated nature of the connection and the requirement to provide a minimum supply standard as the customer needs change.