

08 February 2016

Mr Richard Owens
Senior Director
Australian Energy Market Commission



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Dear Mr Owens

Contestability of energy services rule change proposals

SA Power Networks, CitiPower and Powercor welcome the opportunity to comment on the Australian Energy Market Commission's (AEMC) consultation paper. Our submission responds to rule changes proposed by policy makers through the Council of Australian Governments (COAG) Energy Council and by retailers and generators through the Australian Energy Council (AEC).

The proposals seek to prohibit electricity distributors (DNSPs) investing and / or co-investing in Distributed Energy Resources, DER (e.g. battery storage, local generators, smart devices), fearing this could undermine competition. However, there may be cases where investments by DNSPs are most efficient options and in consumers' long term interests.

We do not support the proposals and caution against misconceiving the issues presented by this latest wave of technologies, in DER. DER do not present sufficiently unique issues to require an overhaul of how the regulatory framework guides decisions on which services to economically regulate. The proposals ignore existing features of the regulatory framework and would undermine it. Further, the proposals make no attempt to set out the market failures that are of such significance as to warrant significant framework change. As our submission discusses:

- there is no unique feature or contestability issue presented by new technologies that is not already present in many other inputs used to deliver network services, and no reason to treat these technologies differently;
- the existing framework already ensures only monopoly services will be economically regulated;
- to promote efficient service delivery, regulation shouldn't pre-emptively 'pick winners'. DNSPs must maintain discretion to respond to changing conditions and choose which inputs are most efficient in providing and operating the electricity network—there are a myriad of input technologies, ways of combining these, and ways of involving third parties in these decisions;
- the existing framework is non-discriminatory and incentivises efficient input selection, ensuring there are no barriers to DNSPs considering inputs involving third parties. The framework also ensures there are no barriers to third parties (operating in unregulated markets) from partnering with DNSPs to share new technologies to optimise across potential uses—as inputs to network services and for selling energy into wholesale markets;
- allowing service reclassifications during a regulatory control period would significantly undermine the regulatory compact and alter DNSPs' risk profile; and
- a truncated RIT-D will significantly increase administrative cost without generating customer benefits.

Our submission comments on other specific aspects of the rule change proposals and the questions raised in the AEMC's consultation paper. We would be happy to discuss further any aspect of our submission.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Richard Sibly".

Richard Sibly
A/Head of Regulation
SA Power Networks

A handwritten signature in blue ink, appearing to read "Brent Cleeve".

Brent Cleeve
Head of Regulation
CitiPower and Powercor

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