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the problem

The AEC... considered that the definitions in the NER, and particularly the definition of distribution service, are vague and imprecise.

COAG Energy Council... considers that current service classification definitions lack sufficient clarity and this leads to the absence of regulatory certainty with respect to the treatment of new technologies.

the proposed solution

The AEC proposed that a new service classification called “energy-related services” or “contestable services” be created.

the AEMC's response

The proposed solutions potentially create an adverse outcome.

...[D]istribution businesses are not able to use regulated revenues to recover the cost of services that are not classified as direct control services.

Accordingly, if a technology was able to be classified as “unclassified” or “contestable”, the service classification framework would prevent a DNSP from using regulated revenue to recover the cost of investing in the asset (capex) as well as the cost of procuring such an asset from the contestable market (opex), even though such an asset may provide the most efficient solution to a network problem. This outcome... has the potential to create adverse incentives for distribution businesses to undertake inefficient poles and wires expenditure instead of procuring non-network solutions using new technologies.

another approach?

Make some direct control services (eg, energy storage) contestable?

- Revenue then recovered via opex, like RIT-D non-network options.