

31 October 2017

Mr John Pierce
Chair
Australian Energy Market Commission
PO BOX A2449
SYDNEY SOUTH NSW 1235

Dear Mr Pierce,

Draft rules determination: Contestability of energy services

Simply Energy welcomes the opportunity to provide a submission on the Australian Energy Market Commission's (the Commission) draft rule determination on the contestability of energy services.

Simply Energy is of the view that if the National Energy Market is to continue to evolve in meeting the interests of energy consumers, innovation must be promoted across the entire energy market value chain. For this reason, we support the underlying policy intent of the proposed rule changes. We consider the draft rule changes are a proportionate means of furthering competition in an evolving market, while still providing Distribution Network Service Providers (DNSPs) with access to new technologies that will be at the forefront of facilitating greater network efficiency.

Rationale for our support

In recent years there has been substantial residential and commercial uptake of solar photovoltaic systems, as well as battery storage systems. There has also been increasing interest in electric vehicles, which is changing the way Australians use electricity and engage in the energy market. That said, the move towards a more consumer-centric de-centralised service model will only be facilitated if a robust and competitive market for energy services is promoted.

To this end, the Commission has made several rules changes to ensure market participants are provided with a more level playing field. One of the major changes to this end has been the introduction of ring-fencing arrangements, which provide for functional and legal separation of contestable and regulated services undertaken by DNSPs.

From our perspective, the proposed rule changes will further the policy intent of the ring-fencing arrangements by promoting the development an open and contestable market for behind the meter energy services. From a market efficiency perspective the proposed rule changes will also balance the need to provide network businesses with access to new technologies without distorting competition in the wider energy services market.

We are strongly of the view that DNSPs should be restricted from using their incumbent monopoly position to adversely affect the emerging energy services market by using regulated revenue to install and operate behind the meter services. As it stands, the current regulatory framework is focused on ensuring economically efficient network expenditure without regard for the wider implications of limiting competition in contestable markets. In view of this, the proposed changes will assist in providing a clear delineation between regulated and contestable business activities. This will, in turn, assist in preventing cross-subsidisation and will promote greater levels of competition.

We also support the rule changes that will provide the Australian Energy Regulator (AER) with greater scope to respond to technological changes in classifying distribution services. This will ensure the AER has the flexibility and discretion to determine service classifications that reflect market conditions at any given point in time. We consider the requirement for AER to publish service classification guidelines will also provide market participants greater clarity around the distribution service classification process.

Exemption framework

We acknowledge that the exemption framework may be necessary in certain circumstances to ensure network efficiency and safety, particularly in rural and remote areas. However, we are mindful that the exemption framework should not be exploited and the AER should only provide exemptions in exceptional circumstances.

Simply Energy would like to emphasise that the exemption framework should not turn into a vehicle for circumventing the overarching policy intent of the proposed rule changes. To this end, we are comforted to see a requirement in the draft rule changes that requires the AER to have regard to the likely impacts on the development of competition in the market for related energy services in which the DNSP intends to invest under the exemption application.

Next steps

Simply Energy views the evolution of the market as an incremental process. For this reason, we would also support further consideration being given to lowering the threshold limit for the Regulatory Investment Test for Distribution Projects. Lowering this limit will assist in promoting non-network solutions and place energy retailers in a stronger position to pass-on resultant cost efficiencies to end-use customers.

Overall we are supportive of the Commission's focus on promoting open market outcomes as means of meeting the long-term needs of energy consumers.

I trust the above feedback on your draft report provides you some helpful context and direction. If you would like to contact me about Simply Energy's submission please feel free to do so on (03) 8807 1171 or by email at James.Barton@simplyenergy.com.au.

Yours sincerely



James Barton
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Simply Energy