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UNITED ENERGY

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Mr Richard Owens
Senior Director - Transmission and Distribution Networks
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Mr Owens

RE: Consultation Paper – Contestability of energy services – Reference ERC0206

1. Introduction and context

We welcome the opportunity to comment on the Australian Energy Market Commission's (AEMC) Consultation Paper on the draft rule changes proposed by the COAG Energy Council and the Australian Energy Council (AEC) relating to contestability of energy services.

United Energy distributes electricity to approximately 665,000 customers across east and south-east Melbourne and the Mornington Peninsula over an area of 1,472 square kilometres. We therefore have a strong interest in the current transformation of the electricity market which is being driven by increasing competition from alternative service providers, the emergence of new electricity services and technology and customers' changing needs and expectations.

2. Issues raised in the proposed rule changes

The key issues raised in the proposed rule changes are:

- The AEC proposes that that distributors should not be able to invest in assets that provide demand response or network support solutions or invest in assets that are located on the customer's side of the meter. The AEC considers that distributors should be required to procure these from third parties or ring-fenced affiliates; and
- The COAG Energy Council proposes that changes are required to the classification of distribution services under Chapter 6 of the National Electricity Rules (Rules) to promote competitive markets for new technologies that can deliver services to both the contestable and regulated markets. In particular, the COAG Energy Council proposes that:
  - The AER should publish a distribution service classification guideline;
  - The AER should have the ability to reclassify services within a regulatory control period; and
  - Services provided by technologies that can provide value in both regulated and contestable markets should be "unclassified".

Our views on the proposed rule changes are set out below.

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2.1. AEC Rule Change - Limiting distributors' discretion in the delivery of distribution services

We do not support the AEC's proposed rule change and strongly urge the AEMC to ensure that any changes to the regulatory framework do not:

- Constrain or distort how we deliver distribution services to our customers. We should be able to use whichever assets and technologies minimise the efficient long-term cost to our customers; and
- Dictate the location of the assets used to provide distribution services – in particular, whether they are behind or in front of the meter. We should be able to locate our assets so as to provide a safe, reliable and secure service which minimises the efficient long-term cost to our customers.

We are committed to maintaining our critical role in the delivery of safe, reliable and affordable electricity services in accordance with the needs and preferences of our customers well into the future. We recognise that in order to continue to meet our customers' preferences in the changing market we too need to explore how new technologies, approaches and market circumstances can assist us to deliver services to our customers more efficiently. This involves exploring whether new technologies such as storage, demand management or any other non-network solution offer the most efficient investment option compared to more conventional solutions such as poles and wires. We are already investing in these new technologies to provide standard control distribution services where they provide the most efficient solution. Our customers benefit from this through lower network prices.

The current economic regulatory framework in Chapter 6 of the Rules is concerned with the efficiency and prudence of the costs we incur to provide distribution services and does not seek to determine (a) what assets we use to deliver distribution services or (b) where these assets are located. The Rules therefore provide sufficient flexibility to allow us respond to changes in the market by empowering us to determine what investment options will provide the most efficient solutions to network constraints.

The Rules also provide strong financial incentives for us to choose the most efficient investment solution possible, whether this is a capital or operating solution, new or conventional technology or an insourced or outsourced solution, by financially rewarding us for adopting investment solutions that minimises the cost of service delivery.

Introducing additional regulations that would restrict us from investing in certain contestable services would not promote the long-term interests of consumers. Rather, they would introduce risk that the economic benefits to be realised from the ongoing transformation of the energy sector could become constrained by unwarranted distortionary intervention in the operations of the network.

We support the Energy Networks Australia's submission on this proposed Rule change, including the position that where the goals of promoting competition and efficient delivery of regulated network services conflict, primacy should be given to outcomes that lower cost for customers. This is consistent with the current philosophy under-pinning both the National Electricity Law and the National Electricity Rules.

2.2. COAG Energy Council Rule Change - Changes to the service classification

The service classification is a critical element of the economic regulatory framework because it determines which services will be economically regulated and in what form. It also forms the basis for how the AER's Ring-Fencing Guidelines, Cost Allocation Guidelines and Shared Asset Guidelines will apply.

To date, the AER has determined the service classification for each distribution business in its final distribution determination.

In the context of the significant and ongoing market changes, it is timely to review whether improvements could be made to the process and basis for classifying services. Our views on the key issues raised in the COAG Energy Council proposed rule are set out below.

*(a)	AER distribution service classification guideline*

In order to clarify what are distribution services and the bias on which distribution services will be classified as either standard control, alternative control or negotiated services, we are happy with work with the AER to develop a distribution service classification guideline.

*(b)	Changes to services classification within a regulatory control period*

We support being able to propose changes to the AER's service classification within the regulatory period for alternative control or negotiated services only. For instance, we consider that we should be able to propose new alternative control or negotiated services throughout the period. This is important to allow us to respond to the changes in the market and the preferences and needs of our customers.

We consider the cost associated with offering additional alternative control or negotiated services within the period would be low and largely administrative.

We do not support within regulatory period changes to services classified as standard control services. This may require changes to our total revenue requirement as well as other aspects of the AER's Final Determination which would not be practicable. It would also undermine the revenue and investment certainty provided by the duration of the regulatory control period.

*(c)	Contestable services to be classified as "unclassified services"*

We do not agree that that services provided by technologies that can provide multiple service streams - in both regulated and contestable markets - should not be classified.

As discussed in section 2.1 above, we consider that we should be able to adopt the most efficient investment solution possible including new or conventional technology to provide standard control distribution services.

If we only use a portion of these assets to deliver standard control distribution services, then we will only allocate the portion of the asset used to deliver these services into our regulatory asset base and will apply the AER's ring-fencing and cost allocation requirements.

3. Closing

Please do not hesitate to contact Stephanie McDougall on (03) 8846 9538 or stephanie.mcdougall@ue.com.au if you would like to discuss any of the matters raised in this submission.

Yours sincerely

Andrew Schille
General Manager Regulation and Corporate Affairs