

31 October 2017

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Dear John,

Draft Determination: Contestability of Energy Services Rule Change Proposal

AusNet Services is pleased to have the opportunity to make this submission in response to the AEMC's draft determination on the rule change proposals by the COAG Energy Council and the Australian Energy Council (AEC). Consistent with our submission into the AEMC's earlier Consultation Paper, we believe new National Electricity Rules (NER) provisions which prescribe how network service inputs should be procured are not warranted, and as they will not facilitate efficient service provision. We recognise that the AEMC's proposed limitation is contained to assets located behind the retail customers' connection point, but in those circumstances unnecessary inflexibility remains a concern.

The regulatory framework incorporates a broad range of mechanisms to facilitate market solutions to emerging network service limitations, many of which were recognised in the AEMC Consultation Paper. The focus of regulatory framework deployment for new technologies should be on the continuing enhancement to the incentives to deliver the most efficient outcomes for customers. In combination with the incentive based framework, the AER's DNSP ring-fencing guideline, still in its transition phase, already provides significant additional guidance in relation to DNSP activities.

The AEMC discusses the potential for DNSP activity behind the meter to foreclose on other participant opportunities in conjunction with retail customers. This concern appears to be hypothetical. Driven by regulatory incentives and the new ring-fencing obligations, DNSP activities are most unlikely to cause concern for market participants seeking to develop new retail customer services. On the contrary, DNSPs have the incentive to work with these parties. There is no evidence of deficiency, and the recently reinforced regulatory arrangements deserve the opportunity to demonstrate effectiveness.

The draft determination acknowledges that, in some circumstances, capital expenditure for 'restricted assets' is the lowest cost option to provide standard control services to customers¹. This would be a basis for the AER to provide exemptions in certain circumstances, which would allow the DNSP to own an asset behind the meter. However, inserting this AER approval step in the midst of the DNSPs service delivery activities would slow up the DNSPs processes, reducing productivity. It would not provide an effective avenue for those circumstances where a behind the meter solution, directly negotiated with the retail customer, would otherwise be the efficient solution for the DNSP.

¹ AEMC, Draft determination, Contestability of energy services, p.60.

We note the convergence of issues in the subject rule change proposal and those associated with the Alternatives to Grid Supplied Network Services rule change proposal submitted by Western Power, which is also currently under consideration. The Western Power proposal highlights circumstances where DNSP ownership of non-traditional 'network' assets would provide the prudent, least cost solution, particularly focusing on edge of grid scenarios. In its draft rule determination for that rule change the AEMC has acknowledged the efficiency benefit that may be derived from these solutions but has recommended that networks not have the ability to own those assets. In our view this constraint would be inconsistent with the network – customer relationship in the regulatory regime. This highlights the potential for unnecessary restrictions to adversely affect the selection of the most cost effective solutions. Our submission on the AEMCs draft determination for the Alternatives to Grid Supplied Network Services rule change will discuss this further.

More broadly, since business models for the use of Distributed Energy Resources (DER) are still rapidly evolving it is not clear that low density areas of the networks will attract new services providers. DNSPs may need to pay a premium to access DER or forego what should be an efficient solution. Implementation impracticality and risk to the DNSPs in meeting service obligations may preclude first best approaches. The interests of customers, in this case efficient network costs and prices, are the primary consideration.

Services Classification

We support the structured approach proposed in the draft rule for the classification of services. This will improve the confidence and certainty in service classification, and should benefit implementation of ring-fencing arrangements.

We note, the AEMC's intention to remove principles from the NER that require the AER to have regard to previous classification of services. In drawing its conclusion to remove these principles the draft determination does not include any analysis of the potential impacts for DNSPs arising from reclassification in relation to past investment. We anticipate that the AER would address such issues in its guideline, which is necessary. Nevertheless, the final determination should ensure a smooth transition between service classification changes.

Transitional Arrangements

The draft determination confirms that the AEMC is not seeking to implement the asset restriction in respect of capital expenditure incurred in the current regulatory control period for any DNSPs. Further, the transitional arrangements provide for extension of this principle for contingent projects that will not be completed in the current regulatory control period.

These are important considerations, and the AEMC's conclusions are supported by AusNet Services. We have 3 contingent projects commencing in the current control period, for the establishment of Rapid Earth Fault Current Limiters (REFCLs) on the network. There is a likelihood that the efficient design in some instances will involve alterations to the electrical system of high voltage industrial customers, i.e. electricity supply equipment which resides behind the meter. Whilst it is unlikely AusNet Services would own equipment installed for the purpose of REFCL operation, this possibility should not be ruled out by this rule change. This is an example of where ownership of assets behind the meter, may be the most cost efficient outcome, and of situations where no harms to competitive end customer services arise.

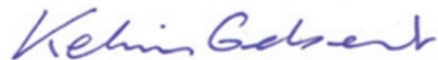
Similar circumstances may arise in the future where DNSPs are required to negotiate with customers for the most efficient network connections. Some new connections or customer initiated upgrades of network assets may be more efficiently provided with the aid of dedicated network assets. It may be more practical and safer to house these dedicated network assets at the customer's site, rather than by the side of the road. Therefore, precluding DNSP ownership

of these assets would potentially prevent customers from having access to the most practical, safe and efficient connections.

Finally, we note that AusNet Services has contributed to and supports the submission of Energy Networks Australia.

We look forward to further engagement with the AEMC in the concluding phase of this review. Please contact Justin Betlehem on 03 9695 6288, if you have any queries regarding this submission.

Yours sincerely,



Kelvin Gebert

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