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Electricity Network Economic Regulatory Framework 2020  
Review – EPR0085  
Australian Energy Market Commission

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## **Essential Energy's response to the Electricity Network Economic Regulatory Framework 2020 Review Approach Paper**

Essential Energy welcomes the opportunity to provide a submission to the Australian Energy Market Commission (the Commission) on its *Electricity Network Economic Regulatory Framework 2020 Review* approach paper (the approach paper). Energy Networks Australia (ENA) has also made a submission to the approach paper, which Essential Energy supports.

Essential Energy appreciates the Commission's acknowledgement of the need to maintain its focus on the efficient integration of distributed energy resources (DER) into the electricity system, whilst acknowledging that there are new and emerging issues which will require attention. Essential Energy agrees with the issues identified by the Commission and would like to provide feedback on the matters detailed below, which we consider to be fundamental in the development of a 'fit for purpose' economic regulatory framework for the electricity network.

### **Incorporating a need for improved network resilience across the market and regulatory frameworks**

The impact of climate change and the increasing frequency and severity of extreme events on the electricity network and its customers is a key issue as networks seek to deliver a safe, reliable and affordable supply of electricity. Designing a framework that enables network businesses to invest in appropriate assets and technologies to adapt to the changing environmental conditions needs to be considered within the Commission's assessment of the economic regulatory framework, and within the broader discussions around the role of networks in different parts of the market. Essential Energy has been considering the role of distribution networks in enhancing system resilience and reliability for some time. However, we recognise that our ability to do so is limited to a certain degree by the current regulatory framework. There needs to be agreed risk parameters for the impact of climate change to facilitate an appropriate investment making process. For example, the use of fire-resistant assets such as composite poles in high bushfire risk areas is difficult to justify under the current framework as the evaluation criteria does not factor in climate change considerations. At three to four times the cost of a timber pole, composite poles can only be justified in a number of narrow circumstances based on current risk assessment models.

As the Commission will be aware, the communities that Essential Energy serves have experienced a significant amount of damage to homes and businesses and other infrastructure, including large parts of our network from the recent bushfires. The business's response to fires in Rappville, the North Coast, and South Coast and Riverina areas has been quick and effective, but this experience has highlighted the importance of increasing the resilience of the electricity network.

Essential Energy is committed to supporting the communities affected by the bushfire crisis and to restoring reliable power supply as quickly as safety allows. However, there needs to be greater

flexibility in how that power supply is restored in the face of increasingly frequent and severe fire and storm activity. We need to avoid a situation where a line is rebuilt which will be in place for many decades when another technology is available which we already know is capable of delivering a more reliable, resilient supply of electricity at a lower cost.

The current bushfire crisis represents an opportunity to consider network resilience in a practical manner and highlights some of the regulatory barriers to enhancing the resilience of electricity networks in remote and regional areas. While Essential Energy has been trialling the use of technologies such as standalone power systems (SAPS) as a way of reducing the cost-to-serve of edge of grid customers, it has been clear that both political and societal expectations require Essential Energy to be able to deploy appropriate solutions quickly, and at scale, during disaster response— a capability that is impossible to build through limited trials in the absence of a supporting regulatory and market framework.

Without appropriate consideration of the risk parameters that all networks should be using in their planning activities, it will be difficult to do things materially differently. This applies to both reactive measures such as the deployment of SAPS after bushfires, as well as proactive measures to utilise SAPS in P1 bushfire prone areas or how the asset management lifecycle assesses new, more resilient technologies in network planning and design. The economic regulatory framework would ideally facilitate a pragmatic approach to planning for the risk of storm/bushfire activity, taking into account societal impacts and agreeing on what is expected of networks in terms of disaster response.

### ***Better utilisation of distribution level assets and markets***

Essential Energy notes that there is currently much focus on the expansion of the transmission network to facilitate the connection of large-scale generation in order to maintain system reliability. While some transmission investment is undoubtedly required, we note that there should also be consideration of measures that can be introduced to better utilise existing distribution network assets. This approach is likely to be lower cost than the significant investment required to upgrade transmission infrastructure.

The creation of distribution level markets is another important way to enhance the resilience of the energy system. This is because these markets will help unlock the value of customer investments in DER and allows for these resources to be put to their best use. This may include supporting the local network or maintaining wholesale system security and reliability when required. More effective use of local resources located on the distribution network will reduce reliance on large scale generation and transmission investment and has the potential to lower overall system costs while enhancing resilience. These markets will develop with or without regulatory intervention. Coordination of regulatory arrangements is simply required to ensure that overall total system costs are minimised and particularly lower costs to all network users result.

As part of Essential Energy's focus on enhancing the ability of distribution networks to support and leverage DER integration, we have been actively involved in the joint Australian Energy Market Operator (AEMO) and ENA Open Energy Networks Project. ENA published a position paper on this in May 2020. The project identified four potential new market frameworks for the integration of DER into Australia's electricity grid, however the position paper concluded that there is no strong case to adopt any of the frameworks for distribution networks in the near future.

Essential Energy, and all the distribution network business involved, concurred with not picking a preferred framework at this point in time. Rather, we support the implementation of the 'no regrets actions' that have been identified through this project without delay. These include further investment in network visibility and the development of the capabilities required to develop network 'operating envelopes'. These actions will be required regardless of the eventual framework that is chosen and are not dependent on which party will perform a particular function in the future.

The ESB is considering a range of DER integration issues in their 2025 Market Review, a process that the Commission is also engaged on. It is important that process recognises the low level of visibility and functionality in the low voltage network, where most DER is connected, and builds a pragmatic approach to delivering a range of no regrets capability –with the customer in mind. Large investments that add cost without significant overall consumer benefit should be avoided when consumer preferences and technology is changing so quickly. Smaller investments at the distribution level that can add incremental value, but from which there is an easy pivot in case of changes in technology, will

be a more cost effective way to start delivering more effective integration of DER into the broader market. We encourage the AEMC to stay closely involved in this area of the ESB's work as well as the outworkings of the DEIP work program.

***Flexible approach to consumer engagement***

Essential Energy supports the focus in the approach paper on moving towards a more consumer-centric electricity system. We consulted extensively with our customers through all stages of our 2019-24 regulatory proposal process, gaining key insights which helped shape the development of our final proposal. We engaged with stakeholders from an early stage in the process and adapted our approach at each stage to focus on those issues that were of clear importance to consumers, using a variety of techniques to ensure that feedback was clearly captured, understood and translated into a coherent expenditure proposal which aligned with the best interests of our customers. Our consumer engagement approach was highly praised by the Australian Energy Regulator (AER) and several stakeholder groups.

Whilst we support initiatives such as NewReg, which aims to improve consumer engagement on network revenue proposals, we would caution against implementing a rigid process for engagement. Our experience from engaging with consumers has shown that it is important to have a flexible approach. Each network business is different and allowing them to tailor their approach to what works best in their situation will encourage innovative ways of engaging with consumers. Focussing on achieving compliance with a set process may detract from the ultimate goal of enabling meaningful consumer engagement. Another key learning for Essential Energy has been the importance of maintaining ongoing consumer and stakeholder engagement so that it becomes embedded as business as usual and not a one-off exercise to be undertaken as part of the regulatory proposal process. This will ensure that network businesses can continuously adapt in line with customer expectations in a rapidly changing energy environment.

If you have any questions in relation to this submission, please contact me on 0406 534 682 or Natalie Lindsay, Head of Regulatory Affairs on 02 6589 8419 or [natalie.lindsay@essentialenergy.com.au](mailto:natalie.lindsay@essentialenergy.com.au).

Yours sincerely



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