



2020 Electricity network economic regulatory framework review

The Australian Energy Market Commission (AEMC) has published the final report for the 2020 Electricity network economic regulatory framework review (2020 Review).

The annual electricity network economic regulatory framework review

The Commission has a standing terms of reference from the Ministerial Forum of Energy Ministers (formerly COAG Energy Council) to monitor market developments on an annual basis and to consider whether the economic regulatory framework for electricity networks is sufficiently robust and flexible to continue to support the long term interests of consumers in a future environment of increased decentralised energy supply. The current review is the Commission's fourth such annual review under a standing terms of reference.

Emerging issues identified in the 2020 Review

In this year's report, the Commission outlines its priority reform considerations for distribution and transmission network regulation over the next 18 months, and how this fits with the Energy Security Board (ESB) *Post 2025 Market Design* for the national electricity market review. In particular, this year's report explores the implications of some major developments highlighted by this consultation:

- the evolving role of distribution networks
- the implementation of the Integrated System Plan (ISP) for transmission networks
- innovative approaches to consumer engagement.

Distribution

Stakeholders have raised a wide range of issues relating to the current regulatory frameworks for distribution networks in the context of sector transformation. Some of the issues raised include considering the role of distribution-connected batteries, the role that DER, stand-alone power systems and microgrids are to play in networks' fulfilment of obligations and provision of services to consumers, as well as how distribution network service providers (DNSPs) should manage extreme climate risks.

While these issues could potentially be addressed through discrete rule change projects, they are also interrelated. Attending to these issues individually will not address stakeholders' desire for a coordinated and strategic approach to network transformation, and clarity on the role of DNSPs in a more decentralised electricity system.

There is a clear need for a holistic consideration of the regulatory framework for the distribution network, including clarifying the role of DNSPs in the changing electricity sector, and to ensure an appropriate regulatory framework is in place to support network transformation. The Commission will prioritise this work over the next 18 months.

Transmission

The way transmission planning is undertaken is changing and significant investment in transmission infrastructure is proposed over the coming years. Significant transmission investment has been proposed over the next few years. Actionable projects under the 2020 ISP are expected to cost over \$11 billion from 2022 to 2026.

Stakeholder feedback provided to this review indicate that the current regulatory framework, which was designed for 'business as usual' or recurring investment projects, may not be suitable for new actionable ISP projects. A timely question is whether the existing economic regulatory framework remains fit-for-purpose when these large, discrete,

non-recurrent transmission investments are required, such as the large transmission projects identified in the ISP.

The Commission will work closely with the Australian Energy Regulator (AER) to understand whether any changes are required to the economic regulatory framework for transmission networks. We are closely monitoring this transition to identify any tensions in the current framework.

Consumer engagement

Network businesses have made significant improvements to the way in which they engage with consumers in recent years. Previous consumer engagement reforms have been a success, although there is scope for further improvements and to embed this cultural change into 'business-as-usual' operations.

In the final report, the Commission considers new reforms to further promote consumer engagement. Leveraging process-based incentives could give consumers a greater say in the development of regulatory proposals and outcomes that ultimately impact their energy service provision — while providing a 'way around' the inherent resource imbalance between consumers and the network businesses.

Specifically, increased regulatory flexibility could allow the AER to adopt consumer 'negotiated settlements' with networks and, possibly taking these agreements into account, expedite and/or streamline its regulatory determination processes. But such changes raise fundamental questions about the intent and framing of network regulation and require careful consideration. These policy issues can be progressed by the AER, Energy Consumers Australia (ECA) and Energy Networks Australia (ENA) as part of the 'New Reg' project.

The Commission's reform priorities

The issues identified in this year's review have differing levels of urgency. Some actions require significant stakeholder consultation, while others require further investigation or continued monitoring. The Commission is cognisant of the number of reform processes that stakeholders are being asked to engage in the next 18 months, notably the Energy Security Board's 2025 reform process.

The Commission will also commence internal work to clarify the role of distribution networks in the changing electricity sector, and to ensure an appropriate regulatory framework is in place to support network transformation. The Commission will continue to engage with stakeholders to monitor emerging issues and consider future priorities, especially in relation to DER integration, implementation of the ISP and consumer engagement.

Table 1 below provides a high level summary of the Commission's regulatory reform priorities in the near future.

Table 1: Commission's priorities

PRIORITY	YEAR
<ul style="list-style-type: none"> Consider DER integration rule change requests. Consider DER Initial minimum technical rule change request. Progress DER integration activities identified under the ESB <i>Post-2025 market design</i> project. 	2020
<ul style="list-style-type: none"> Consult with stakeholders on potential changes required to the regulatory framework to support distribution networks' efficient integration of DER — including issues such as community batteries, ringfencing, clarification of role for distribution networks and implications on economic regulation of networks. In conjunction with the AER, consider whether changes are needed to the transmission investment framework in the context of implementing the ISP. 	2021
<ul style="list-style-type: none"> Progress rule change requests identified in the consultation on changes required to the regulatory framework. Continue to monitor developments in consumer engagement, consider rule change requests if proposed by the AER/ECA/ENA. 	2022 and beyond

Extensive stakeholder consultation

On 4 June 2020 the AEMC published an approach paper to explain the Commission's approach and seek stakeholders' feedback on the issues the AEMC proposed to consider as part of the 2020 Review. The Commission received 14 written submissions.

For this year's review, the Commission also engaged an expert consultant, farrierswier, to conduct a series of independent interviews with key stakeholders to explore priorities for network regulation reform and better understand stakeholder views. Farrierswier conducted 17 interviews with a wide range of organisations, including consumer groups, network businesses, retailers, market bodies and governments.

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1 October 2020