

23 February 2022

NSW Department of Planning, Industry and Environment
Enabling the Transformation of the Energy Sector
Promoting innovation for NSW energy customers

By email: energy.consumerpolicy@dpie.nsw.gov.au

Dear Sir/Madam,

Promoting innovation for NSW energy customers.

The Australian Energy Council (AEC) welcomes the consultation opportunity in the NSW Department of Planning, Industry and Environment's program *Enabling the Transformation of the Energy Sector; Promoting innovation for NSW energy customers*.

The AEC is the industry body representing 22 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

Many of the issues raised in the paper are technical or operational and will be responded to by AEC members directly. This submission focuses on the consumer and market impacts of the issues raised.

As a general rule, the AEC encourages the NSW Government to utilize the highly robust Australian Energy Market Commission rule change process where it seeks to make changes to the rules retailers and other parties operate under. Jurisdiction derogations from the national framework increase costs, and where there is no specific geographic rationale for such a change, are inefficient and will likely result in unintended consequences. This is particularly relevant for issues recently considered, or currently under consideration by the AEMC. The NSW Government should not seek to derogate simply because some stakeholders do not like a decision or approach that the AEMC has deemed to be in the best interests of consumers, and in line with the National Electricity Objective and the National Energy Retail Objective.

That said, the AEC welcomes consideration of issues that are NSW specific, and encourages the NSW Government to seek to streamline complementary regulations not within DPIE's direct remit, such as regulations imposed by the NSW Fair Trading regarding metering safety plans. Where possible, simplifying obligations such as this will enable more customers to benefit from the energy transition, and promote innovation for NSW energy consumers.

Issue 8: DER in NSW

Are the suggested guiding principles appropriate and adequate to guide government strategy for enabling high levels of active DER in New South Wales?

The paper suggests several guiding principles for the coordinated integration of DER in New South Wales. The AEC believes that guiding principles are often critical to industry investment confidence and have frequently been overlooked when jurisdictions and regulators hop about with

initiatives on short term consumer outcomes such as unsustainable feed in tariffs¹, or blocking the introduction of tariff reforms.² In each of these cases unfair tariffs were locked in, and the wrong signals sent for new investment. In the case of Victoria most of the cost of smart meters is still wasted. Both highlight that the control of costs to consumers and their realisation of benefits cannot be directly controlled by the state.³

In assessing the guiding principles, the AEC offers the following views.

1. **Market Mechanisms.** Whilst markets always require technology, the functional specifications for market mechanisms come before the technical specification. Ignoring market mechanisms and leaping to technology installation solutions such as mandated smart meter rollouts has a propensity to “lock in” the current metering specification and means always confronting “step change” instead of market evolution as more enabling specs are required are available and economic. If there is not a market for the things that smart meters can theoretically facilitate that is an issue that requires consideration, but installing more smart meters does not in of itself create such a market; it just imposes costs.⁴
2. **National Alignment:** The existing national governance framework is part of an intergovernmental agreement, one of the primary objectives of which was enhancing national consistency between regulatory frameworks to reduce costs and improve the operation of the energy and resources sector. The COAG Energy Council is the national body of energy ministers with responsibility for key reforms in the energy sector. One of its key objectives is “to ensure network tariff reform is seen by stakeholders as a key priority for ministers to support the efficient utilisation of the network by consumers, enable the efficient integration of new technologies and lower future network costs”.⁵ Working within and not outside the parameters of that governance framework helps ensure that objective is met. Proposals to ignore or vary the AEMC and AER determinations on SAPS for example diminishes investor confidence. Jurisdictions should propose changes to enhance the national framework rather than continue ad hoc divergence and duplication.
3. **A systems view:** As implied this involves focus on the whole system, with the intention of preventing sub-optimising parts of it. Whilst the consultation paper broadly is consistent with this it is limited to NSW. In the AEC’s view systems should arguably be considered in the national framework. The AEC is also concerned that a missing principle in support of a systems view in NSW is the promotion of competition in upstream and downstream markets. The objective of such a principle is to promote entry on equal terms from multiple providers, and so promote competitive rivalry for services that can be provided from demand side response and DER generation. As a practical measure the government could add this into its guiding principles, as there is a propensity in the consultation paper towards a view that the control of costs to consumers and their realisation of benefits can be directly

¹ Queensland Solar Feed-In Tariffs and the Merit-Order Effect: Economic Benefit, or Regressive Taxation and Wealth Transfers? Nelson, T, Simshauser, P, Nelson, J, 2012, p.5 <https://research-repository.griffith.edu.au/bitstream/handle/10072/375527/NelsonPUB3095.pdf?sequence=1>

² Victoria goes slow on introduction of tariff reform, Wood, T, 2016. <https://grattan.edu.au/news/victoria-goes-slow-on-electricity-tariff-reform/>

³ Realising the Benefits of Smart Meters, 2015, Victorian Auditor General, John Doyle, <https://www.audit.vic.gov.au/sites/default/files/20150916-Smart-Meters.pdf>

⁴ Realising the Benefits of Smart Meters, 2015, Victorian Auditor General, John Doyle, <https://www.audit.vic.gov.au/sites/default/files/20150916-Smart-Meters.pdf>

⁵ Victoria goes slow on introduction of tariff reform, Wood, T, 2016. <https://grattan.edu.au/news/victoria-goes-slow-on-electricity-tariff-reform/>

controlled by the state. The AEC believes that services that can be provided by competitive markets should be and that the further entrenching of monopolistic supply via the proposed DNSP-led SAPS service delivery model allows DNSP's to acquire and exploit a high level of influence over prices, output or sales in the SAPS market that is not in the long term interests of consumers. In contrast, the AEMC SAPS decision sought to avoid entrenching monopolistic supply whilst still providing customers with retailer choice and guarantees they would not be disadvantaged where a distributor determined that it would be more cost-effective to supply them on a stand-alone basis.⁶

8c. How can the government support greater demand side participation and flexibility for customers and market participants?

The fundamental distribution network cost driver identified in the Oakley Greenwood report *Pricing for the Integration of Distributed Energy Resources*⁷ was the ability to connect Distributed Energy Resources to the grid and have unconstrained ability to export electricity in parts of the existing network was becoming more difficult. Pricing structures that value demand side participation can allow market-based approaches to shape the economically efficient integration of demand side participation.

To date, retailer experience generally is that residential demand side participation is marginal on energy value alone, so retailers need more value pools for demand side participation business models to be sustainable beyond the benefits of customer engagement. There is an information asymmetry problem in that retailers do not have access to the relevant network information that would give insights into the actual network value, and that even if that challenge were overcome the adaption of retailer product, processes and systems to meet the bespoke needs of 15 different distribution networks remains a barrier.

Retailers nonetheless believe that there is a real opportunity for consumers in greater demand side participation if it can be simply facilitated. One thing the government could do is to require distribution networks to stop wasteful demand side participation engagement with customers directly themselves as part of a strategy to "get closer to the customer" and to broaden the value pool via retailers with the clear publication of the network value that allowed the customer to take advantage of that combined value pool.

Issue 14 – Stand Alone Power Stations (SAPS)

The AEMC SAPS consultations and determinations reflects the general principle that generation should be competitive wherever possible and not provided by a monopoly business such as a distributor. The AEMC concludes that the required generation for SAPS is best provided by third party providers, called "SAPS resource providers". As noted in the discussion on guiding principles above, national consistency remains important, and small grievances shouldn't mean a whole validated national determination is turned aside.

The SAPS model is also about the delivery of energy through an alternative to the distribution network where it is economical to do so. The question the AEMC turned to nationally was how to retain the services and essential protections provided with delivered energy to those consumers. SAPS was not about providing business development opportunities to monopolistic distribution networks nor was it a redesign of the whole energy delivery model.

⁶ Review of stand-alone power systems, AEMC, Priority 2 Final report. 2019 .

<https://www.aemc.gov.au/sites/default/files/2019-10/AEMC%20SAPS%20priority%202%20final%20report%2031%20October%202019.pdf>

⁷ Pricing for the Integration of Distributed Energy Resources, Hoch, June 2020 <http://oakleygreenwood.com.au/pricing-for-the-integration-of-distributed-energy-resources>

The DNSP-led SAPS service delivery model looks very much in practice like the embedded networks model that the AEMC and Victorian Government have been trying to reform as they are inefficient, expensive and do not provide the necessary price protection through competition nor service protections.

The service delivery model.

The single SAPS customer with the “right to choose” between a distributor only SAPS or a Retailer service model (effectively electing a right to no choice) is contrary to the AEMC model designed to ensure that customer protections requirements were preserved. These are obligations that should not be skipped (assuming that is what is being proposed), and if not is it really an efficient model for each network to invest in all the protection requirements currently provided by retailers? SAPS is a complicated model but dividing it into two customer classes at a single customer level does not make it less complicated and creates a loss of scale in customer administration.

Settlement Pricing

The AEMC retailer service model includes an administered settlement price. The AEC is concerned that a time variant settlement price for NSW creates a layer of complexity that the AEMC has did not pursue on balance. Given that current arrangements see an administered settlement price of around \$300, and no modelling suggests that this is unreasonable, we oppose this as an unnecessary divergence from the AEMC determination. As noted earlier, the adaption of retailer product, processes and systems to meet the bespoke needs of NSW distribution networks is a costly prospect.

Any questions about this submission should be addressed to David Markham by email to david.markham@energycouncil.com.au or by telephone on (03) 9205 3107.

Yours sincerely,

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