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Energy White Paper Taskforce
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Dear Taskforce members,

Energy White Paper – Response to Green Paper

AusNet Services welcomes the opportunity to make a submission in response to the Green Paper. We previously made a submission into the Issues Paper phase of the White Paper development, under our former company name of SP AusNet,

Our earlier submission focussed on the unprecedented change and uncertainty facing the energy sector, particularly the electricity industry, and the value that would be provided by a long term vision for the sector. This is driven by rapidly advancing technologies and increasingly engaged customers empowered to make sophisticated choices in how they source and use energy. Key choice factors are the costs of energy provision and environmental considerations.

In this submission we return to that theme, and provide comment on several other matters discussed in the Green Paper, including tariff reform, the development of a national framework for network reliability, and asset privatisation.

1. Electricity Industry Vision

AusNet Services considers that the White Paper provides the opportunity for the Australian Government to set out a longer term vision for the development of the energy sector, and most specifically the electricity market in Australia. Consideration of policy options to facilitate future arrangements will allow the most desirable future for the energy sector in Australia to emerge in the changing environment.

The future is likely to be characterised by significantly increased diversity and choice for electricity supply and generation options, with customers having sufficient knowledge and information to become extensively involved in arranging their own energy needs. In this respect it could be expected that effective customer markets will develop, with increasing competition supported by extensive information, including that sourced from smart meters.

Technology advances are driving the need for change as well as representing a tremendous opportunity for developing an advanced energy delivery system. Technologies already include solar photovoltaic generation, efficient lighting, electric vehicles and energy management systems. Batteries could be employed to increase the flexibility of networks. Electric vehicles, with significant charging demands could become much more commonplace in the future.

Customers may employ sophisticated energy management systems to optimise their energy needs. Such systems could be “set-and-forget” devices responding to information supplied by a smart meter or through the internet. This may include additional control through remote access capability.

The rapid evolution of networks, underpinned by various technology developments, has significant potential to revolutionise network service provision, and facilitate a significantly enhanced customer service offering and relationship. Technology advances in control and communications within networks will be vital to support matching of supply and demand within networks and ensuring stable power system operation.

The CSIRO led Future Grid Forum reported that

“Australia’s electricity system is now facing complex and unprecedented challenges. These challenges have the power to affect all links in the electricity supply chain and to encourage new market structures, actors, and business models to emerge. The future is likely to look vastly different from today”¹.

The Future Grid Forum explored a number of the issues discussed above and extensively modelled four scenarios to 2050. The intent of this work was described as being “to help inform public discussion and policy settings around the challenges and opportunities Australia will face in managing electricity needs to 2050”.

While changes to industry arrangements in response may take some time to emerge fully it is important that leadership and guidance is provided to ensure that the future development of the industry is as productive as possible. With the potential for changes that result in the electricity industry being very different from today it is necessary to consider whether the current administrative, governance and market structures will continue to be applicable, or whether modifications will be necessary.

We note the considerations of the COAG Energy Council, expressed in the Communique of the council’s 1 May 2014 meeting, which says:

“The COAG Energy Council noted that changes in the production and consumption of electricity in recent years, most notably declining annual consumption (and divergence from peak demand), and an increasing uptake of distributed generation, may have significant implications for the future of the electricity markets and the electricity supply industry” and

“Ministers agreed to task officials to consider scenarios, based on the AEMC case studies, to identify and assess potential challenges to and risks facing Australian electricity networks over the next two decades, and to consider any implications for the statutory and regulatory framework within which the industry operates. This work program is not intended to re-prosecute recent reforms, rather strategically consider the flexibility of the regime to adapt to changing circumstances. The COAG Energy Council will consider officials’ findings, together with recommendations for further work, at its mid-2015 meeting.

This initiative is an initial examination by COAG of whether current arrangements will continue to best serve customers interests into the future.

Having regard to all of these factors AusNet Services considers it is highly desirable to develop and articulate a longer term vision for the electricity sector. This could be used to examine the extent to which changes may be required in the current market, regulatory and governance

¹ CSIRO, December 2013, Change and choice, The Future Grid Forum’s analysis of Australia’s potential electricity pathways to 2050, Page 1

structures to maximise the possibilities for a more efficient and economic industry emerging from the broad range of opportunities that are currently presenting themselves, and are likely to continue to do so at an increasing rate.

2. Asset Privatisation

The Green Paper advises the government's goal of encouraging further privatisation, observing that *"energy services that are contestable, efficient and well-governed reduce business costs that are ultimately paid for by consumers"*²,

It is useful to consider the outcomes that have been achieved by the privatised industry in Victoria. In 2013 the Victorian distribution network businesses commissioned a report by Oakley Greenwood to compare the price impacts of distribution networks in Victoria compared to the other States, and the relative contribution to electricity bills since the privatisation of the industry in Victoria.

Oakley Greenwood concluded:

*"In terms of their contribution to the total bill of the average Victorian residential electricity user, network-related costs – including the costs of policies that are included in the network portion of the bill - have decreased over the 1995 – 2013 period, from 49.5% to 35.4% of the bill."*³

The Oakley Greenwood report and this observation from it indicate that in practice the outcomes in the privatised sector have been significantly different to those from Government owned businesses. Investor owned business appears to respond more to the incentive based regulatory regime, which has resulted in lower network costs. Strength in governance arrangements and the disciplines of participating in capital markets are factors commonly observed as contributing to a strong business driver for efficiency improvement and responsiveness to efficiency incentives in the regulatory regime.

AusNet Services considers that different ownership structures has resulted in more cumbersome regulatory arrangements. An example is the prospective national reliability framework for distribution networks. The recommendations for this framework would potentially extend a prescriptive deterministic approach to the privately owned sector, where reliability is already driven by the value customers place on reliability, and accountability is supported by a strong incentive based framework. In other cases, it is possible to postulate that some controls within the national regulatory framework have arisen in response to the purported excesses arising in conjunction with state ownership.

AusNet Services concludes that the different ownership structures have placed an additional and unnecessary burden through increased regulatory obligations on the whole of the networks sector. Future regulatory developments should seek to ensure that the principles of competitive neutrality are strengthened to ensure governance disciplines and response to incentives are fully embraced.

² Energy Green Paper, page 27

³ Report "Causes of residential electricity bill changes in Victoria, 1995 to 2013" prepared by Oakley Greenwood for the Victorian electricity distribution businesses, Updated Version February 2014

3. Tariff Reform

The Green Paper advises that a goal for electricity pricing is that “*energy users pay their fair share of the costs of the poles and wires that supply electricity*”. We support this goal.

With major change occurring in electricity sector, including the economics of demand side solutions including distributed generation, it is feasible that cross-subsidisation inherent in pricing arrangements may lead to inefficient energy investment decisions. Where the investment decision does not account for the cost of servicing the existing network this cost would not be mitigated by that investment decision. The Green Paper notes for example, that “*if storage costs continue to fall, some consumers with their own generation may choose to disconnect from the network to avoid network fees*”⁴.

The Green Paper notes that the Australian Energy Markets Commission is currently finalising its determination on amendment to the distribution network pricing arrangements. The draft pricing principles are built on the principle that tariffs must be based on long run marginal cost (LRMC). AusNet Services supports more cost reflective pricing, but believes a broader concept of LRMC than the textbook definition is relevant in the circumstances where forecast energy demand is flat or falling.

AusNet Services has embarked on cost reflective tariff structures. For the current regulatory period we have introduced a critical peak price tariff for customers in the large industrial and commercial class (>160 MWh / Yr). This applies to approximately 2000 customers. For the 2013/14 summer this resulted in an average 13% load reduction for the customer class on the 5 CPP days. Average savings were \$15,000 per customer.

With smart metering established in Victoria flexible pricing structures have also been introduced for small customers. The introduction of a direct LRMC signal in the tariff structure, in the form of a capacity component, is now also practical. To introduce more cost reflective pricing for small customers, in accordance with the proposed amendments to the pricing principles, AusNet Services is exploring how LRMC may be differentiated in the context of our network. The proposed pricing principles provide for LRMC to be calculated relative to customer location in the network. With the nature of network services changing as customers adopt various distributed energy solutions, a capacity component may also become relevant to include the network backup service in the cost allocation.

Increased cost reflectivity in pricing arrangements will lead to non-uniform network pricing. For successful implementation, close engagement by network service providers with both the jurisdictional government and customers, and development of mutual understanding will be critical. The AEMC has provided a base for this in establishing the transparency and consultation requirements for development of the network service provider’s Tariff Structure Statement.

⁴ Green Paper, page 29

In conclusion, AusNet Services believes that consideration of the implications of unprecedented change on the electricity sector requires further exploration and policy direction in the White Paper. We urge the Government to use the White Paper as an opportunity to also include this longer term perspective, and to develop a vision for the future, and which considers the range of future scenarios that may emerge and provides clarity on the likely policy developments to facilitate good future outcomes.

For enquiries regarding this submission, please contact Kelvin Gebert, our Regulatory Frameworks Manager, telephone 03 9695 6603.

Yours Sincerely,



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