



15 May 2024

Gavin Fox
General Manager
Australian Energy Regulator
GPO Box 3131
Canberra, ACT, 2601

Dear Mr Fox

CitiPower, Powercor and United Energy's response to the AER's preliminary Framework and Approach position paper

CitiPower, Powercor and United Energy welcome the opportunity to provide comments on the Australian Energy Regulator's (AER's) preliminary position paper for the Framework and Approach that will apply for the 2026–2031 regulatory control period.

Broadly, we are supportive of the preliminary positions put forward by the AER, which ensure that the services we provide to customers are appropriate for a rapidly changing energy system. We remain concerned, however, that the AER's approach to non-mandatory essential system services (ESS) limits our ability to support customers through the future system-strength challenges forecast by the Australian Energy Market Operator (AEMO).¹

Control mechanisms, incentive schemes and depreciation

We support the positions put forward by the AER in relation to:

- control mechanisms, which includes retaining the current control mechanisms with the potential to include a tax component to the alternative control service (ACS) price cap mechanism formula
- incentive schemes, which includes the option for distribution businesses to propose new incentive schemes
- the depreciation approach to establish the opening RAB for the 2031–36 regulatory period, which includes retaining forecast depreciation as the basis for establishing the opening RAB.

We look forward to further engagement in relation to the inclusion of a tax component in the ACS price cap mechanism formula during the determination process.

Data and advice to customers

We support the AER's preliminary positions to include:

- the provision of basic or automated data to customers under a standard control classification, ensuring that all customers share in the benefits of data provision while cost recovery is assured.
- the provision of more complex data requests and associated advice to customers under an alternative control classification, with costs to be recovered from the requesting customers. This will ensure that distributors can work with customers and stakeholders to fulfil bespoke data requests under a consistent framework, and customers and stakeholders can be supported with advice on data interpretation.

We note that the classification of these services will be particularly important over the coming regulatory period due to growing reliance on data to aid the energy transition, as well as the anticipated growth in data requests

¹ AEMO, *2022 System Strength Report*, December 2022, p. 5 and p. 63.

from customers. We will have regard to the findings of the AER's network visibility project when developing proposed expenditure related to the provision of data during the upcoming determination process.²

Essential system services

We support the AER's preliminary position to provide mandatory ESS as a standard control service. This includes services provided to AEMO under an obligation, such as the Emergency Backstop Mechanism and activities related to interruption or curtailment of embedded generating units.

However, we do not support the AER's preliminary position to not change the regulatory treatment of non-mandatory ESS.

In coming years, AEMO is forecasting that there could be shortfalls in system strength services from 2026–2027 onwards in Victoria.³ Responding to these shortfalls will be best achieved through a coordinated, system-wide response.

The inclusion of non-mandatory ESS provision as a standard control or negotiated service would allow AEMO to contract with distribution businesses where we are able to provide services cheaper than alternative providers. This would result in lower costs for customers due to a reduction in AEMO's costs to manage system security.

While we acknowledge the AER's preliminary position reflects the role of the current ring-fencing waiver, the waiver is limited to specific forms of Reliability and Energy Reserve Trader (RERT) services and has an impending expiry date of April 2025. This approach does not provide long-term certainty in relation to the ability of distribution businesses to provide system security services.

We continue to be open to engaging further with the AER and stakeholders on the design of non-mandatory ESS provision services.

Other changes to service classification

We support the AER's preliminary positions to include standard control services that allow us to:

- dynamically manage import and export limits
- rectify simple customer faults
- enable distribution businesses to provide stand-alone power systems (SAPS).

These services stand to deliver significant value to customers.

If you have any questions regarding this submission or would like to discuss its content, please contact Tim McNamara at [REDACTED]

Yours sincerely,

[REDACTED]

Jeff Anderson
Head of Regulatory Strategy
CitiPower, Powercor and United Energy

² Energy Security Board, *Benefits of increased network visibility consultation paper*, July 2023.

³ AEMO, *2022 System Strength Report*, December 2022, p. 5 and p. 63.