



Chris Pattas
General Manager, Network Regulation
Australian Energy Regulator
By email: AERInquiry@ aer.gov.au

2 December 2016

Dear Mr Pattas,

Re Consultation to amend or replace F&A for NSW, ACT and TAS

AGL notes that the distribution network service providers (**DNSPs**) in New South Wales, the Australian Capital Territory and Tasmania have all requested a review of their respective Framework and Approach (**F&A**) ahead of the next regulatory control period. AGL agrees that a review of the applicable F&A is both necessary and desirable.

Classification of services

Technology evolution and innovations are fundamentally altering the way in which DNSPs can meet their network service obligations, as well as materially expanding the scope of network services that lend themselves to contestable provision. Revisions to the National Electricity Rules (**NER**) and relevant subordinate instruments have or are occurring in order to accommodate this evolution:

- Metering is an obvious example of technological advancement occasioning a need to reconsider the *status quo* of DNSP provision of metering services for small market customers. It is now recognised that contestability in metering is likely to lead to more innovative offerings and better consumer outcomes, and the NER have been updated to reflect this.
- Demand response and load control programs are another example of a network service that has in some jurisdictions been predominantly provided to small customers by DNSPs. The advent of more sophisticated load management solutions and third party service providers keen to develop offerings which assist in managing network needs while also providing high levels of customer satisfaction, mean that these services are also now most appropriately classified as contestable.
- Two rule changes are currently before the Australian Energy Market Commission which aim to promote the contestable provision of a greater range of services that support network operation and, if accepted, would result in amendments to the service classification framework.¹ Determinations on these rule change proposals will be made ahead of the commencement of the next regulatory control period for the DNSPs.
- A revised, nationally consistent electricity distribution ring-fencing guideline has been published which aims to protect competitive neutrality and the consumer interest in the provision of contestable electricity services. Classification of services drives the application of the guideline.

¹ COAG Energy Council, *Contestability of energy services*, rule change proposal; Australian Energy Council, *Contestability of energy services – demand response and network support*, rule change proposal

All of the above indicate a need to update the DNSPs' F&A ahead of the next regulatory control period.

We note that the above developments also mean that other supporting regulatory instruments require review at this time, in particular the Cost Allocation Guideline. Cost allocation and attribution is a fundamental tool for minimising cross-subsidisation between regulated and non-regulated service provision, and promoting the efficient provision of both. DNSPs are currently afforded significant flexibility as to the detailed approaches they are able to propose. It is important that the AER takes this opportunity to review the Cost Allocation Guideline with a view to greater prescription regarding the basis for allocating shared costs.

Operation of incentive schemes

This broadening in the scope for contestable provision of network services also indicates a need to revisit the operation and application of the various DNSP incentive schemes. It is important that these schemes assist in the achievement of overarching policy which seeks to encourage DNSPs to maximise efficient procurement of competitively provided network services.

Form of control

In light of the uncertainty around future rates of network demand and utilisation, the AER should take this opportunity to review the form of control applied to DNSP revenue. DNSPs currently operate under a revenue cap model. However, in the context of falling demand, this model tends toward price increases for customers, often with distributional impacts. The AER should reconsider a price cap model which would better align prudent expenditure and cost minimisation with maintaining network utilisation.

Should you have any questions related to this submission, please contact Eleanor McCracken-Hewson, Policy and Regulatory Manager, New Energy, on 03 9833 7252.

Yours sincerely,



Stephanie Bashir

Head of Policy & Regulation New Energy