



21 April 2017

Mr Chris Pattas
General Manager Networks
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3000

Email: AERinquiry@aer.gov.au

Dear Mr Pattas

RE: AER PRELIMINARY FRAMEWORK AND APPROACH FOR NSW DNSPs

Origin Energy (Origin) appreciates the opportunity to provide input to the Australian Energy Regulator's (AER) preliminary framework and approach for the regulation of NSW distribution network service providers (DNSPs) for the regulatory control period commencing 1 July 2019.

Origin considers that one of the most important processes in the regulatory framework is the correct classification of services. We support the approach taken by the AER to seek to provide consistency across jurisdictions in how distribution services might be classified and the service descriptions that better align with the services being provided.

As noted by the AER, the AEMC is currently assessing a Rule change proposal from the Council of Australian Governments Energy Council and the Australian Energy Council on the contestability of energy services. Origin believes that this Rule change is a vital piece of work in providing market participants with greater clarity around the key definition of a distribution service. For this reason, we consider that, where the timing is practicable, the AER should incorporate the findings of this Rule change assessment into its classification of service decision for NSW and other jurisdictions.

Origin's comments in response to specific definitions and service classifications identified in the preliminary positions paper are set out below.

Common Distribution Service

The AER has revised the name of 'network services' to 'common distribution services' to avoid confusion with the defined term in chapter 10 of the Rules. We support this decision. However, we still believe there is a lack of clarity regarding what is and is not covered by the activity of a common distribution service.

The Rules define a distribution service as a service provided by means of, or in connection with, a distribution system, with a distribution system being a distribution network, together with the connection assets associated with the distribution network.

The distribution system is therefore made up of two components; the network assets and the connection assets. The network assets are the apparatus, equipment, plant and buildings used to convey, and control the conveyance of, electricity to customers. The connection assets are the agreed point of supply established between a network business and the customer.

As part of its regulatory proposal, a network business must propose capital expenditure to meet the expected demand, quality, reliability or security of supply of distribution services. Typically, these services include planning, designing, constructing and maintaining the distribution system. Capital expenditure is either system or non-system. System capital is expenditure on the actual distribution

system itself. Non-system expenditure is not part of the distribution system but necessary to support the delivery of direct control services, and specifically standard control services.

However, the term 'in connection with a distribution system' implies that a service does not itself need to utilise assets that fall within a distribution system and related connection assets, but can be provided by any assets or other means provided that the service is being provided 'in connection with' a distribution system.

The AER has previously defined a standard control service as 'services that are central to electricity supply and therefore relied on by most (if not all) customers such as building and maintaining the shared distribution network.'¹ Furthermore, the AER has also previously adopted the view that when a distribution network (or any other third party) installs an electrical asset within a customer's premises it considers that this will result in the customers' wiring becoming an embedded network, which the AER suggests is also a special type of distribution system.²

We believe a definition of 'in connection with' suggests that the activity is in conjunction but not necessarily as part of. We believe that behind the meter is not part of the distribution system as it is beyond the agreed point of supply.

Nevertheless, we believe the AER must provide an unambiguous definition of common distribution service to remove any doubt on what services do and do not fall within the full suite of common distribution services.

Type 5 and 6 Metering Services

The AER notes that from 1 December 2017, metering services across the National Electricity Market will become contestable. Therefore residential customers will have a greater opportunity to change their metering provider and their meter type.

As part of its previous determination, the AER classified type 5 and 6 metering equipment as an alternative control service to promote customer choice and remove any classification barriers limiting contestable provision of these meters.

Origin strongly supports the decision to remove barriers limiting contestability of metering services. However, as part of the AER's previous decision, it adopted an approach where the residual cost of this metering equipment would be recovered through an unavoidable annual metering charge that applied to all customers until the metering asset base was fully depreciated.

We also note that at the time the previous decision was made, the AER was under a very tight timeframe to make its decision. These time constraints are no longer present. Given the structure and quantum of metering charges will have a material impact on the level of competition in metering services we consider that the framework and approach process offers the AER and stakeholder an opportunity to reconsider what is the best mechanism to address the issue of stranded metering assets and how this needs to be reflected in the classification of these assets. This will ensure the AER provides the conditions necessary to promote competition.

Network Tariff Change Request

Origin considers that there is minimal impact to a network in the event that a mass market customer switches between network tariffs. Networks already offer different mandatory and opt-in tariffs as well as tariff assignment criteria in their annual Pricing Proposals that set out the mandatory criteria for any switch. We do not understand why a network would need to conduct tariff load analysis and impose a fee for the assignment of a mass market customer to a tariff when this is already largely an automated and business as usual activity.

¹ AER, Framework and Approach for Energex and Ergon Energy 2015–2020, p. 10.

² AEMC, Integration of Storage: Regulatory Implications, Draft Report, October 2015, p. 37.

For these reasons we seek clarity from the AER on the circumstances a network would need to perform such analysis for a tariff change event and what incremental costs would be incurred by the customer and or retailer.

Distributor arranged outage for purposes of replacing metering

Origin is concerned that this proposed fee will create an unintended consequence of dissuading customers to upgrade their meters either directly, or through the installation of energy storage devices such as batteries and solar. For example, there are a significant number of multi dwelling premises in NSW that share a single fuse. In the event one premise is seeking to upgrade their metering capability, it will be necessary for the network to interrupt supply to all premises associated with the shared fuse. As a result, the fee for a planned interruption to multiple premises will likely be borne by the single customer seeking to upgrade their meter. This fee could be prohibitive and create a financial impediment for customers changing their meter.

For these reasons we believe there needs to be a greater understanding of the potential impact of this proposed fee. In this regard we would welcome a discussion with both the AER and the networks to better understand what is being proposed.

NMI extinction fee

We believe the NMI extinction fee is a business as usual activity that is or should be covered under the activity of common distribution services. Specifically, including and excluding NMIs in market systems are a business as usual activity that support the shared use of the distribution network.

Correction of metering and market billing data

Origin is concerned that under this proposed fee customers, retailers or metering providers may ultimately be paying for legacy errors or errors that are not attributable to actions on their part. We believe there needs to be a clear definition of the specific types of corrections this service covers. Nevertheless, it is not entirely clear to Origin why this activity is not covered as a common distribution service, especially if any error could be attributable to historic information or network actions. As with other issues raised we would welcome a discussion with both the AER and the networks to better understand what is being proposed

Closing

Origin considers that one of the most important processes in the regulatory framework is the correct classification of services. It is essential that the AER ensures that services are correctly classified and that the most appropriate regulatory oversight is applied to these services. This in turn will promote competition and innovation in services capable of supporting market based outcomes and ensure the efficient delivery of services where more applied regulatory oversight is necessary.

We also support the AER's approach to seek to provide consistency across jurisdictions in how distribution services might be classified. In this regard we encourage the AER to integrate as far as practicable the outcomes of the current Rule change review on the contestability of energy services.

We would welcome the opportunity to discuss our view further with the AER. If you have any questions regarding this submission please contact Sean Greenup in the first instance on (07) 3867 0620.

Yours sincerely



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