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Ms Lily Mitchell
Project Leader
Australian Energy Market Commission

Submitted online: www.aemc.com.au

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Dear Ms Mitchell,

National Electricity Amendment (Alternatives to grid-supplied network services) Rule 2017, Draft Rule Determination, September 2017

AGL Energy (**AGL**) welcomes the opportunity to respond to the Australian Energy Market Commission's (**Commission**) National Electricity Amendment (Alternatives to grid-supplied network services) Rule 2017, Draft Rule Determination, September 2017 (**Draft Determination**).

AGL is one of Australia's leading integrated energy companies and largest ASX listed owner, operator and developer of renewable generation. Our diverse power generation portfolio includes base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources. AGL is also a significant retailer of energy, providing energy solutions to over 3.5 million customers throughout eastern Australia.

In addition, AGL is continually innovating our suite of distributed energy services and solutions for customers of all sizes (residential, business and networks). These 'behind the meter' energy solutions involve new and emerging technologies such as energy storage, electric vehicles, solar PV systems, digital meters, and home energy management services delivered through digital applications.

AGL supports the Commission's decision not to make a draft rule at this time in response to the rule change request by Western Power.

As we elaborated in our submission to the Commission's Consultation Paper¹, AGL supports the Commission's view that whilst it may be desirable to enable off-grid supply, such reform should be enacted through a broader law reform package to ensure appropriate customer protections. AGL also agrees with the Commission that the COAG Energy Council should continue to advance this work through its Energy Market Transformation Project Team and other relevant agencies, including by publishing proposed action items with indicative timeframes.

¹ AGL, Submission in response to the National Electricity Amendment (Alternatives to grid-supplied network services) Rule 2017, Consultation Paper, June 2017, Available at http://aglblog.com.au/wp-content/uploads/2017/07/AGL-submission_National-Electricity-Amendment-Alternatives-to-grid-supplied-network-services-Rule-2017-Consultation-Paper_FINAL.pdf.



As we outlined in our previous submissions to the Commission,² AGL considers that the following guiding principles should apply in the design of a national framework governing stand-alone energy systems:

- **Access to energy:** Ensuring the basis on which customers will have access to energy from the stand-alone system is made clear, including arrangements for life support customers and dispute resolution;
- **Choice:** Promoting free and informed customer choice, including ensuring sufficient information disclosure. Not constraining informed customer choice even where that results in a departure from the service levels and the full suite of protections that would apply when electricity is taken from the interconnected system;
- **Flexibility:** Ensuring the regulatory framework is flexible enough to accommodate the emergence of new deployment and ownership models for stand-alone systems; and
- **Competition:** Ensuring the existence of some mechanism to maintain price and service discipline on stand-alone system providers and operators. To the extent feasible, this discipline should be driven by competition. As stand-alone energy systems are capable of competitive operation and provision, monopoly rights of network businesses should not extend to such systems.

AGL believes that incorporating these guiding principles into the regulatory framework will ensure that it ultimately serves the National Electricity Objective.

Package of suggested changes to support efficient moves to off-grid supply

AGL notes the Commission's proposed reforms to ensure optimal customer outcomes in the move towards enabling off-grid supply, namely:

1. encouraging more location-specific distribution pricing (which may be done together with targeted support for electricity costs of remote customers, if desired by jurisdictions);
2. providing for consumers who move off-grid to reduce distribution costs to receive appropriate protections, including in relation to the price and reliability of electricity supply; and
3. allowing distributors to provide off-grid services as "distribution services" under the NER in certain circumstances and with appropriate restrictions.

Our submission deals with each of these matters in turn.

1. Encourage more location-specific distribution pricing

AGL appreciates the Commission's view, also discussed in its final report of the Distribution Market Model, that locational signals are an important part of full cost-reflective network tariffs (together with temporal signals, i.e. time-of-use pricing). We note the Commission's view that including locational elements in distribution tariffs may help address incentive issues, if retailers pass through the locational elements in

² See AGL, Submission in response to the National Electricity Amendment (Alternatives to grid-supplied network services) Rule 2017, Consultation Paper, June 2017 (July 2017), Available at http://aglblog.com.au/wp-content/uploads/2017/07/AGL-submission_National-Electricity-Amendment-Alternatives-to-grid-supplied-network-services-Rule-2017-Consultation-Paper_FINAL.pdf; AGL, Submission in response to the Energy Market Transformation Team's Stand-alone energy systems in the Electricity Market: consultation on regulatory implications, August 2016 (October 2016), Available at <http://aglblog.com.au/2016/10/frameworks-for-stand-alone-energy-systems-micro-grids/>.

retail tariffs, and that remote customers with location-specific tariffs are likely to choose off-grid supply if it is cheaper than grid supply.

We also note the Commission's view that whilst certain jurisdictions have requirements that make locational signals difficult or ineffective, such as uniform tariff policies and opt-in approaches to new distribution network tariff structures, the objectives of location-specific distribution pricing could be achieved through options such as subsidies to consumers.

AGL supports a move towards more cost-reflective distribution network tariffs, as we have elaborated in previous submissions to the Commission.³ However, in AGL's view, a principled approach should be adopted in relation to cost reflective network tariff reform, encompassing the following key elements:

- sending efficient price signals that encourage energy users to minimize the costs they impose on the network;
- ensuring that all customers contribute fairly to the costs of shared networks;
- avoiding rebates and subsidies; and
- promoting informed customer choice about the products and services that they use to meet their energy needs, including through transparent pricing reflecting the costs and benefits of different choices.

Cost-reflective network tariffs are the logical forerunner to network price signals for export at the small customer level for a number of reasons. Firstly, there are substantial network benefits associated with customers managing their own maximum demand on the network. Cost reflective network tariffs are intended to signal this value and will themselves be an important driver of investment in large microgrids, small microgrids, and individual power systems and complementary technologies, where these allow the customer to reduce their grid consumption during network peaks.

As long as existing volumetric tariffs predominate, inherent cross subsidies between those who place a larger burden on the network at peak times and those who place a lesser burden on the network will be sustained.

While in the long-term, efficient and cost reflective network pricing may involve time- and location (feeder)-differentiated dynamic pricing, it is essential that the complexity of customer tariffs is matched by the availability of enabling technology and retail offerings, so that customers can understand how and why they are being charged, can anticipate and manage their costs and are not exposed to unreasonable risk.

Any reform towards cost-reflective network pricing will need to ensure the most equitable outcomes for customers. Customers in rural locations should not be disadvantaged by only having access to utilities on unreasonable terms. On the other hand, these customers should also have the opportunity to go to the competitive market for their energy services where the market is able to provide a more cost-effective solution. Accordingly, careful consideration should be given to the parameters of location-specific distribution pricing. Indeed, it may be more appropriate to consider reform towards cost-reflective time signals before introducing location-specific distribution pricing. Further analysis may also include whether

³ See for example, AGL, Submission in response to the AEMC 2016, Local Generation Network Credit, Consultation Paper (February 2016), Available at <http://aglblog.com.au/wp-content/uploads/2016/02/LGNC-submission.pdf>.



tariff structures should vary depending on the number of customers serviced by a particular distribution network or between rural and metropolitan locations.

2. Provide appropriate protections for consumers moving to off-grid supply

AGL agrees with the Commission that careful consideration needs to be given to which consumer protections, at which levels, are appropriate in the context of large microgrids, small microgrids, and individual power systems. We appreciate the Commission's preliminary work in seeking to address some of the key consumer protection issues namely retail competition, retail price controls, reliability, as well as other off-grid specific consumer protections.

We note the Commission's view that, although the potential for retail competition should be a factor when determining the appropriate models of off-grid supply, it may be difficult to retain effective retail competition in practice and that if effective retail competition in off-grid supply is not possible, price regulation may be appropriate. In AGL's view, effective competition will be essential to ensuring price and service discipline in the provision of stand-alone energy systems. Given that the Commission has not yet undertaken an extensive analysis of models for retail competition, we consider the Commission's preliminary views about its ability to deliver cost efficiency to be somewhat premature. We would urge that further analysis of models be undertaken to support the COAG Energy Council's Energy Market Transformation Project Team to develop a more considered view. We would also recommend that any analysis of the need for retail price controls be considered in the context of that more detailed modelling and would welcome the opportunity to contribute more fully to that analysis.

AGL agrees with the Commission that appropriate reliability standards for off-grid supply should be established to ensure distributor-led off-grid supply meets the National Electricity Objective, also providing appropriate enforcement mechanisms. Whilst the Commission has suggested that it may be more appropriate for the exact standards to be defined on the basis of the localised demand that a particular system was designed to meet, we also consider that as far as possible customers should be able to expect consistency in their level of protection. Accordingly, any reliability standard would need to carefully balance the need for consistency alongside the technical requirements of a particular power system. AGL notes that Commission has not yet undertaken an extensive analysis of appropriate reliability requirements. Again, we would recommend that such analysis be commissioned as soon as possible and we would welcome the opportunity to contribute to that assessment.

AGL supports the Commission's view that beyond the issues discussed above, customer protections in the context of off-grid supply should include:

- requirements regarding accurate metering of electricity usage (if customer bills are based on electricity usage);
- requirements regarding regular billing, with bills to include clear information on the basis for the amount charged; and
- standard terms and conditions for off-grid retail contracts (while also allowing other contracts to be offered).

AGL also agrees with the Commission that additional off-grid specific protections may be necessary. We would welcome further analysis and consultation on this to ensure a fit-for-purpose regulatory framework. In particular, given the long-term implications of disconnecting current grid-connected customers, obtaining

customers' informed consent will be crucial. Some of the proposals raised by other stakeholders may be appropriate including demonstrating customers' explicit informed consent, provisions for a transitional period, full disclosure of detailed product information, and establishing a prudential fund or insurance against the failure of the off-grid system. As far as possible, the regulatory settings adopted should minimise the impact of customers' transition to off-grid supply.

3. Allow distributors to provide off-grid supply with certain restrictions

AGL notes the Commission's proposed restrictions on distributors providing off-grid supply, namely that:

- distributors should only be permitted to provide regulated off-grid services where the use of off-grid supply would result in network savings and the customer has no financial incentive to obtain off-grid supply from the competitive market (**Proposed preconditions**); and
- distributors will need to pay customers or third parties for use of BTM asset functions rather than investing in the assets themselves, consistent with the Contestability rule changes, and off-grid customer relationships and billing are required to be managed by an authorised retailer (or equivalent under jurisdictional legislation) (**Proposed conditions**).

AGL considers that further work is required in defining the parameters of the Proposed preconditions to ensure free and informed customer choice and the delivery of the most cost-effective solutions.

The transition towards stand-alone energy systems should be subjected to a transparent review administered by an independent body such as Australian Energy Regulator (**AER**). This review process would scrutinise the cost-benefit analysis undertaken by network businesses and would enable customers and stakeholders to provide input on any such proposal. It would also be appropriate for the AER to be empowered to approve these proposals, having regard to the evidence at hand.

In order to facilitate more efficient engagement with the competitive market, it may also be appropriate to require network businesses to establish panel agreements with a range of competitive market suppliers so that customers can choose for a range of pre-approved providers. This would avoid substantial contracting delay between the approval of a stand-alone energy system and its delivery. Customers should also be permitted to procure energy solutions from the competitive market themselves, and in that circumstance, receive a payment from the relevant distribution business equivalent to the appropriate portion of distribution service.

AGL strongly supports the Commission's proposed conditions relating to distributor provision of off-grid supply.

We regard the Contestability rule changes as critical to the development of well-functioning markets in DER-related products and services, and indeed the energy market's broader transformation towards a more decentralised electricity grid. Restricting distribution businesses from earning a regulated return on BTM assets will enable customers to harness the full potential of their BTM resources. An efficient deployment and use of DER will enable co-optimisation across multiple uses and value streams. It will also recognise that it is ultimately a customer's choice as to how their BTM resources are deployed and what compensation or reward they expect for participating in different service markets (including providing network support). We agree with the Commission that similar restrictions should apply in relation to the provision of individual power systems by distributors, given that the supply of individual power systems does not have natural monopoly characteristics.



Next steps

AGL looks forward to continuing to work with the Commission on this important reform agenda. As noted at the outset, we agree with the Commission that the COAG Energy Council should continue to advance this work through its Energy Market Transformation Project Team and other relevant agencies, including by publishing proposed action items with indicative timeframes.

We would urge the Energy Market Transformation Project Team and the Commission to undertake more detailed analysis and modelling of the issues discussed in the Draft Determination and would welcome the opportunity to engage more comprehensively as these reforms are taken forward.

Should you have any questions in relation to this submission, please contact Stephanie Bashir, Senior Director, Public Policy, on 03 8633 6836 or myself on 03 8633 7204.

Yours sincerely,

A handwritten signature in blue ink that reads 'Kurt Winter'.

Kurt Winter

Manager, Policy and Research