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Dr Stuart Johnston
Energy Networks Association
Unit 5, Level 12,
385 Bourke St
Melbourne VIC 3000

Submitted electronically

Dear Mr Johnston,

Re: AEMO and Energy Networks Australia: Open Energy Networks

Red Energy (Red) and Lumo Energy (Lumo) welcome the opportunity to make a submission to the Open Energy Networks consultation paper as released jointly by Energy Networks Australia (ENA) and the Australian Energy Market Operator (AEMO).

ENA and AEMO examine the merits of three different distribution platform designs in their consultation paper. The distribution platform designs would coordinate and optimise the services that Demand Energy Resources (DER) provide to the distribution system in order to maximise the value to consumers. They include:

- Single Integrated Platform – which is an extension of the current wholesale market, and would use a set of standard interfaces to support the participation in the integrated multi-directional market by third parties (i.e. retailers, aggregators etc.)
- Two Step Tiered Regulated Platform – where there is a layered distribution level platform interface operated by the local distribution network and an interface with AEMO, with distribution networks providing an aggregated view per the transmission connection point taking into account local level system constraints; and
- Independent Platform – where an independent body separate to AEMO or the distribution network, would work with the local network to optimise dispatch of the DER based on local system constraints and provide aggregated bids to AEMO for incorporation into the wholesale market.

We understand that resulting from the submissions to the consultation paper, the ENA and AEMO will undertake a cost benefit analysis on each of the market designs presented to them and determine the model that maximises the net benefit to consumers.

Recommendation

Red and Lumo do not support any of the distribution platform designs in the consultation paper.

Implementing a distribution platform design on the distribution system that coordinates and optimises the value of DER would be premature at this stage. More detailed analysis that provides clear evidence that a distribution platform would provide a long term benefit to consumers would be necessary before we can support it.

We understand that in the ENAs Electricity Network Transformation Roadmap (the roadmap) it is suggested that consumers could save in excess of \$100 billion by 2050 by implementing a distribution platform. The ENA argue these benefits alone justify introducing a distribution platform. However, in our view these estimates are highly uncertain and a distribution platform is a risky investment at this time. The reasons for this are:

The avoided grid scale generation and deferred augmentation benefits claimed in the roadmap modeling can be captured by DER owners under the current regulatory arrangements. For example, DER owners are currently compensated for the energy they provide to the grid through feed in tariffs - which are forecast to become more granular and cost reflective. Additionally, DER owners are paid for network support (through an aggregator) for the value of deferred network benefits, where they have earned that right to provide that service. All of this raises legitimate questions regarding the credibility of the benefits that have been claimed in the roadmap modelling and the real value of the distribution platform designs presented in the consultation paper.

The amount of DER that is required to develop a competitive market that optimises and coordinates DER through a market platform may not actually come to fruition. Whilst there has been a lot of hype around the emerging technology, to date the uptake of DER has not matched the hype. As such, predicting the future demand of DER with any certainty is difficult. We accept that there is the potential for the future to involve high levels of DER. Conversely, technology and climate change policies may result in a future that results in more use of grid scale renewable generation and storage. Especially as grid scale renewable generation has become cheaper than coal fired generation, we expect to see more of it entering the market.

Given all of this, implementing any of the distribution platform designs at this stage would be both premature and adds risk. Of particular concern to us is that if a distribution platform is prematurely introduced it may end up being a stranded asset. Which ultimately would add significant costs associated with implementing it will be borne by consumers. This is a scenario that we are particularly keen to avoid.

Finally, if the introduction of any of the distribution platform designs make economic sense, then private investors will allocate their capital to develop it - when they see necessary. As such, we prefer that both ENA and AEMO leave this work to the private sector. It will invest to progress a distribution platform when it is both timely and efficient.

Current market structure

The success of the National Electricity Market (NEM) to date has been clear demarcation of regulated/monopoly and competitive services.

In the wholesale market, energy is dispatched through the National Electricity Dispatch Engine (NEMDE) at 30 minute intervals (which will move to 5 minute intervals) in different regional markets and reflects the outcome of competitive bidding by generators. This process delivers an

efficient wholesale price which reflects the demand/supply balance in the relevant regional market.

The AER applies CPI-X incentive regulation to the monopoly parts of the supply chain. This ensures that the monopoly components of the industry do not earn monopoly rents and that network charges remain efficient. Both distribution and transmission are regulated under CPI-X regulation.

The implementation of any one of the three distribution platform designs being considered by the ENA and AEMO would threaten the financial viability and success of the NEM. A distribution platform would change the current market structure potentially crowding out the competitive market.

For example, significant levels of DER that are coordinated and optimised through a central market platform could act as virtual power plants (VPP) in the future. Given that the ENA and the CSIRO forecast that 50% of generation will come from Behind the Meter (BTM) by 2050, a DMM has the potential to threaten the financial viability of generators in the long term.

We prefer that distributors remain focused on the efficient investment and operation of the distribution system. They should concentrate on delivering energy to consumers at an efficient price whilst ensuring a reliable network. Their main focus should be providing network services to consumers on the distribution system at least cost.

Ring Fencing

The ring fencing requirements for distributors must be maintained and strengthened to ensure there is no cross-subsidisation of prescribed to competitive services offered by network companies.

The AER Ring Fencing Guideline (Guideline) imposes obligations on distributors to separate the monopoly from contestable activities. The obligations set out in the in the Guideline include functional, accounting and legal separation. The Guideline has been designed to ensure the separation of monopoly services and contestable services where a regulated business also offers services into a competitive market.

A distribution platform design that has networks central to its coordination and optimisation function would be required to undertake this work through a separate legal entity. The business of coordinating and optimising DER through a market platform would represent a contestable service.

We expect that any distributors' independent legal entity to operate in manner that ensures that it does not cross-subsidise contestable services with revenue earned from the provision of regulated services. In addition, we would also expect that any distributor not discriminate in favour of its own independent legal entity that provides contestable electricity services.

Where distributors plan to concentrate on providing more contestable energy services in the future, then our expectation would be that they comply with the Guideline. In addition to this, as distributors become more active in supplying contestable energy services we expect for the Guideline to be strengthened and the AER's compliance activities increase.



Energy policy

Red and Lumo prefer that any energy policy issues are dealt with by the Australian Energy Market Commission (Commission).

While acknowledging that ENA and AEMO have undertaken a significant effort to undertake this work, energy policy development work is best left to the Commission. The Commission has previously dealt with market design matters that relate to the distribution system as part of their work they undertook in their distribution market model project. Any further policy developments on a distribution platform in the future must be dealt with by the Commission, as they are independent from any proposed model and provide the appropriate governance and consultative processes to ensure a result that is in the long term interests of consumers.

About Red and Lumo

Red and Lumo are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria, South Australia, New South Wales and Queensland to over 1 million customers.

Should the ENA or AEMO have any enquiries regarding this submission, please call Con Noutso, Regulatory Manager on 0481 013 988.

Yours sincerely

A handwritten signature in black ink, appearing to be "Ramy Soussou", written over a faint circular stamp or watermark.

Ramy Soussou

General Manager Regulatory Affairs & Stakeholder Relations

Red Energy Pty Ltd

Lumo Energy Australia Pty Ltd