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Ms Victoria Mollard
Director
Australian Energy Markets Commission
PO Box A2449
Sydney South NSW 1235

Online: www.aemc.gov.au

19th January 2017

Dear Ms Mollard,

Re: Distribution Market Model Approach Paper (December 2016)

The Eastern Alliance for Greenhouse Action (EAGA) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) consultation on the Distribution Market Model Approach Paper (December 2016). EAGA is a formal Alliance of seven councils in Melbourne's East, including:

- City of Boroondara
- Knox City Council
- Maroondah City Council
- City of Monash
- City of Stonnington
- City of Whitehorse
- Yarra Ranges Council

EAGA is committed to delivering mitigation and adaptation projects and advocating for initiatives that support sustainable, low carbon communities. EAGA recognises the importance of regulatory and market based mechanisms in overcoming the barriers to an efficient and timely transition to a decentralised and sustainable energy distribution model. To make this transition, energy providers must build new capabilities that enable them to capture and scale up new opportunities and tap into unconventional markets. This will require establishing business models with stakeholders with whom they have previously had little interaction, including local government authorities.

Victorian councils are already proactively engaging with distribution networks in areas of mutual interest, however this is taking place in an ad-hoc manner outside of the current regulatory framework. Some examples of this include:

- Working collaboratively on initiatives that cut peak demand, reduce emissions, and save householders money (e.g. United Energy's Summer Savers program)

- Fast tracking the roll out of sustainable public lighting across the State (e.g. 72 of 79 councils have completed bulk change-over of street lights. Victoria currently boast the world's second largest public lighting energy efficiency program)
- Facilitating trials and assisting scaling up the deployment of new technologies and distributed energy generation (e.g. AusNet Services' mini-grid trial in Mooroolbark)
- Sharing data between sectors to deliver improved forecasting, harmonise land use and network planning and improve reporting and communication capabilities (e.g. Future Energy Planning conference series)[1]

Under the current market model and regulatory framework, there is a lack of clear financial drivers for network businesses to pursue activities within these areas (and engage with customers in general) in any substantive way. This is consistent with the findings within the Electricity Network Association (ENA) and CSIRO in the Network Transformation Roadmap: Key Concept Report[2] which clearly identifies the requirement for a *"Balanced Scorecard of Consumer Outcomes"* to ultimately deliver power system security in a zero net emissions future.

EAGA urges the AEMC to consider the following in response the questions posed in the Approach Paper:

Do stakeholders support this project scope? Is there anything that has not been flagged for consideration that should be? Is there anything that should be excluded from the project scope?

The paper inquires whether changes to the regulatory framework, distribution system operation and market design more broadly are needed to enable the evolution to proceed in a manner consistent with the National Electricity Objective (NEO). Framing the Approach Paper in this way is inherently problematic as the National Electricity Objective (NEO) is no longer appropriate to the current and future Australian energy market. The NEO currently does not recognise the interests of the community at large and confines consumer interests mainly to economic interest:

> *"to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:*
>
> *a) price, quality, safety, reliability and security of supply of electricity; and*
>
> *b) the reliability, safety and security of the national electricity system"*

The focus on 'price' rather the 'total cost' is often at odds with the 'long term interest of consumers' with respect to environmental and social sustainability in the context of climate change. It has driven short term decision-making throughout the market's various institutions. The interpretation of 'efficient investment' has resulted in unbalanced rule-making and a market bias that supports centralised infrastructure rather than demand management or other non-network solutions.

EAGA therefore recommends that the NEO should be redrawn to better reflect broader consumer interests, including explicit environmental (i.e. emission reductions) and social outcomes, as in

[1] eaga.com.au/projects/future-energy-planning/

[2] CSIRO and Energy Networks Australia 2016, Electricity Network Transformation Roadmap: Key Concepts Report

comparable international jurisdictions. This is consistent with findings of the Finkel Review which also point to an outdated NEO that is no longer fit for purpose.[3]

Are there any other elements of a DNSP's role or current responsibilities that should be considered?

Under Victoria's planning system local councils and the State Government develop planning schemes to control land use and development. Currently, electricity network planning and land-use planning occur in isolation, meaning long term, viable and sustainable options for integrating demand and supply side opportunities are lost, resulting in inefficient investment and higher prices for consumers.

Whilst both land use planning schemes and the national energy market objectives intend to serve the long term interest of the community, they cannot do so whilst operating in isolation. Despite the implications land use planning has for local energy use and demand patterns, existing regulatory requirements do not require either sector to synchronise their respective planning processes.

The current consumer engagement processes for network planning, such as the Regulated Investment Test (RIT-D), are overwhelmingly complex and time consuming for local (and to a lesser extent state) governments to proactively engage with. For example, a number of councils have recently been consulted by their DNSP a few days prior to the RIT-D due date, with the DNSP seeking local government support for substation upgrades. This is an example of this process failure and highlights the need for coordinated and ongoing engagement between the sectors. Future regulatory settings should incentivise proactive and collective cross-sector solutions, particularly with respect to network constraints.

EAGA therefore supports the introduction of regulatory and market based approaches to ensure coordinated planning the delivers smarter, tailored integrated energy solutions that alleviate costs to consumers. This will also ensure that consumers have equitable access to a range of emerging energy services and are not constrained by outdated traditional market models.

Are there any other issues the Commission should have regard to in considering possible market design options?

At the moment, local governments are incentivised to duplicate electricity network infrastructure through building private wires across property boundaries to share electricity between their own facilities and with neighbours. Many councils have exhausted the potential for large scale solar on their own buildings where they prioritise size systems for self-consumption only. Similarly a number of councils are investing in other technologies such as co-generation and tri-generation, and in other parts of the state, bioenergy and wind.

At the moment the business case only favours behind the meter consumption, with exports only receiving a very small feed in tariff. Councils own many buildings with large roof spaces that have little daytime energy demand despite nearby facilities with poor solar potential having high demand. In our view it is critical that a mechanism is developed to incentivise customers to use the existing electricity network, so as to avoid mass duplication of infrastructure through the building of private wires. It also reduces the likelihood of mass defection from the electricity network as consumers seek to generate and share their own low carbon energy in new ways. This risk should not be underestimated and would be the worst social, environmental and economic outcome for all consumers. We consider the electricity network to be an important asset in a low carbon energy

[3] Independent Review into the Future Security of the National Electricity Market (Dec 2016) Preliminary Report

future, but the rules need to change to facilitate optimal integration of new energy technologies and efficient utilisation of existing assets.

EAGA is willing to work with AEMC to support equitable and consistent approaches to an integrated and sustainable distribution model which represent the best value proposition for the community, industry and all levels of Government.

Should you have queries or questions relating to this letter, please contact Scott McKenry, EAGA Regional Coordinator on scott.mckenry@maroondah.vic.gov.au or 03 9298 4250.

Kind regards,

Cr John Mortimore
Executive Committee Chair
Eastern Alliance for Greenhouse Action
Councillor, Knox City Council

This submission has been approved through EAGA's formal governance structure as described in the EAGA Memorandum of Understanding 2016-17. The submission may not have been formally considered by individual member councils.