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Mr Warwick Anderson
General Manager
Australian Energy Regulator
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AER reference: 62729

By email: SAPN2020@aer.gov.au

3 June 2020

Dear Mr Anderson,

Victorian electricity distribution determination 2021-26

AGL welcomes the opportunity to provide comments to the Australian Energy Regulator (AER) in relation to the AER's Issues Paper on the regulatory proposals from the five electricity distribution networks in Victoria for five year period from 1 July 2021.

AGL appreciates that there is an enormous amount of detail which the Victorian electricity distributors have prepared and for the AER to analyse and determine the efficient costs for the network business to operate in order to meet the National Energy Objective (NEO). By comparing the proposals against each other, the 2016-20 determinations and the networks' actual expenditure, the AER has assessed the key areas of focus. The Consumer Challenge Panel (CCP 17) and Energy Consumers Australia have also provided valuable perspectives on the regulatory proposals.

AGL anticipate that there will be some revision of these regulatory proposals due to the impact of COVID-19 on demand, operations and capital works. As overall energy demand is expected to decrease, given the revenue cap form of regulation, there may be a material impact on network prices.

Our key points relate to distributed energy resources, tariff reform and ancillary network services:

- Where there are non-network participants who can provide DER services, the AER should consider if it is appropriate for distributors to undertake these expenditures,
- With the introduction of Consumer Data Rights, the distributors should ensure that investments in consumer enablement are appropriate,
- There is merit in considering if the proposed structure of the new default TOU tariff will be appropriate with the changing demand profile,
- Due to the implementation of the Victorian Default Offer (VDO), single rate and TOU tariffs need to be re-balanced to ensure parity, and
- Comparing the distributors' ancillary network charges, there are some material differences in the level of the charges as well as the type of charges. The failed or wasted visit charge appear to be higher than some of the service charges.

Our comments on aspects of the regulatory proposals are provided below.

Revenue proposals

The comparison of the five regulatory proposals highlights areas where the cost allowances appear out of line. AGL agree with the areas of proposed operating and capital expenditures that the AER has identified need to be further assessed:

- Some distributors have proposed very large cost changes while other distributors have not attributed any significant costs in opex categories such as regulatory requirements under environmental and bushfire mitigation legislations (Citipower, Powercor and United Energy), and insurance premiums (Jemena); and
- For capital expenditure, Citipower, Powercor and United Energy have initially proposed significant costs to comply with new environmental obligations while AusNet and Jemena did not propose any. We note that these distributors have subsequently removed most of these costs. There are also differences in non-network expenditure, in particular, IT and communication costs where United Energy's proposed expenditure ($194 million) is twice the amount proposed by either Citipower or Jemena.

We also note that CCP17 has also provided detailed assessment of the distributors' opex and capex.

Distributed energy resources

Solar capacity in Victoria is expected to double over the next regulatory period, incentivised by the Solar Homes program. To accommodate this and other DER requirements, the Victorian distributors have proposed augmentation expenditure, ranging from $23 million (Jemena) to $60 million (Powercor) and totalling $201 million, to address hosting capacity and voltage control. The distributors are also seeking non-network solutions including demand management to avoid or defer augmentation to the network.

AGL's involvement in the DER market continues to develop and, in addition to rooftop solar and home batteries, AGL's innovative solutions include:

- a South Australian Virtual Power Plant (VPP) program which commenced in 2016 comprises the sale, installation, and orchestration of 1,000 energy storage systems installed behind-the-meter in homes and small businesses in South Australia,
- expanding our orchestration service offerings to enable customers in New South Wales, Queensland, South Australia, and Victoria to bring their own battery to AGL's VPP, and for customers in South Australia to purchase a more affordable battery through AGL,
- exploring the opportunities associated with electric vehicles, both as a demand response resource to improve network stability and storage, and as a component of a multi-asset virtual power plant, and
- launching demand response programs in NSW and Victoria to 20,000 residential customers.

When reviewing the proposed capital expenditure on DER programs, it is important for the AER to accommodate the existence of a competitive market in DER. The distributors have proposed capex to facilitate load control optimisation and dynamic export limits. AGL has concerns with distributors engaging in demand response services directly with customers which could interact with market provided demand services. Where there are non-network participants such as retailers and specialist service providers who can provide these services, the AER should consider whether it is appropriate for distributors to undertake similar expenditure. The allowable expenditure may be limited to building the capability to allow access to the network for orchestration of home batteries and electric vehicles, particularly in relation to controlled loads. For instance, retailers in Victoria currently only receive customer data as an overnight batch file while there are other service providers who can deliver real-time smart meter data. The provision of real time data will promote the development of the DER market.

We understand that distributors are conducting trials with external funding from ARENA such as AusNet's trial of the hybrid DSO model, flexible PV exports and EV charging management. While we support these trials, the AER should ensure that the costs of these trials are not passed onto customers until there is industry agreement, where relevant, on the operating model to adopt.

There may be other efficient solutions to avoid or defer capital expenditure such as the implementation of cost reflective pricing to incentivise changes in demand.

We also recommend that the AER specify categories of DER integration expenditure to enable certain categories of spending to be subject to benchmarking. This would enable the AER to assess the materiality of any proposed expenditure in these categories and highlight areas of differences. In addition, the AER should assess whether a proposed approach may lead to any 'rail gauge' issues and the risk of creating stranded assets.

The Demand Management Incentive Scheme (DMIS) and Demand Management Innovation Allowance (DMIA) are intended to encourage distributors to consider demand side alternatives to opex and capex. AGL supports these schemes but in our view, the level of incentives is not sufficient to encourage significant activities in this area by non-network related participants. Recently, the AER has released the 2018-19 reports by the distributors in New South Wales, Australian Capital Territory, Queensland, South Australia and Tasmania. We note that the DMIA totalled $3.72 million which is immaterial compared with the opex and capex of these distributors. We also note that while some reports are detailed, others are unclear about the outcomes or learnings from the projects undertaken.

Customer enablement – Consumer data rights (CDR)

The Victorian distributors are proposing to improve the provision of data (including the development of apps and gamification) as a way to benefit consumers. While we agree that greater access to data helps consumers overall, we question the value the distributors can provide to customers in this evolving market and whether these significant investments can be justified.

Retailers, by nature of the direct relationship with the customer, provide a wide range of online and digital services to the customer. While improved data access is always better for customers, we question the value of distributor led IT initiatives in this area for three key reasons:

- Digital uptake by distributors will not see the same level of penetration as will be seen with retailers,
- Retailers have significant regulatory obligations upon them to ensure information is clear, prominent and accessible, so should the distributors seek to engage in this space we would recommend the same level of obligations apply to them regarding provision of information, and
- The incoming CDR regime will improve free data access for customers which will require significant investment from energy market participants.

The CDR is a national data access regime that will allow consumers to access their data, and direct that data to accredited third parties for the purposes of services such as product and service comparison. As the CDR regime evolves and expands, and data is more readily available and exchangeable between parties (with consumer consent), the investments made by distributors for these proposed services will become less relevant.

Tariff structure statement

The regulatory proposals to introduce default time of use (TOU) tariffs for residential and small business customer from 1 July 20201 is an important step in the move towards more cost reflective tariffs. AGL supports the common approach to tariff design taken by the five distributors as it will also simplify the provision of retail tariffs across Victoria. While we also support the introduction of a default TOU tariff for residential and small business customers, there could be improvements in tariff design and transitioning arrangements.

Tariff design

The new residential TOU tariff will have a peak rate between 3pm – 9 pm, and an off-peak rate at all other times, 7 days a week. The new small business tariff (<40 MWh) will have a peak rate from 9am – 9pm on weekdays, off peak rate at all other times.

There is merit in considering if the proposed two rate structure of the new default TOU tariffs will be adequate in addressing the need to improve network utilisation and will reduce costs in the long term. It is clear that the continued penetration of solar PV installations will impact on the load profile and it is therefore important for the distributors to prepare for it over the next five-year regulatory control period. It is unlikely that the two rate TOU tariff will adequately deal with the “duck curve” demand profile. Solutions could include a TOU tariff with a solar sponge as proposed by SA Power Networks.

While the Victorian distributors have conducted stakeholder engagement on tariff designs, it is important that the distributors take the lead to establish the most appropriate pricing structure which will encourage network and non-network solutions to improve network utilisation and defer expenditure to meet peak demand.

Tariffs should be cost reflective but simple for customers to understand with price signals relatable to usage patterns. This may require some customers to change consumption patterns but there are behind the meter solutions which could assist customers if proper signals are in place. The distributors should ensure that the proposed cost reflective tariffs are implemented for the long term and avoid the lack of commitment as we have observed with the introduction of demand and flexible tariffs.

Transitioning

The Victorian distributors are proposing to offer three residential pricing structures – single rate, a new two rate ToU and demand – while maintaining legacy ToU price structures which are closed to new customers. From 1 July 2021, new connections, upgrades to three phase metering, new solar or battery installations and EV customers will be assigned to the new ToU price structure. However, new residential customer connections and three-phase upgrade customers may request to be transferred to the single-rate pricing structure.

For residential customers, there is no proposal to transition existing customers on the single rate tariff or legacy ToU tariffs to the new ToU tariff. The introduction of a new ToU tariff will increase the number of network tariffs. Currently, in Victoria, there is a more complex 3-part TOU tariff, referred to as the flexible tariff, which was introduced in 2014 to realise the benefit of the rollout of smart meters. In our view, the range of network tariffs should be consolidated and if the new ToU tariff (or other cost reflective tariff) is introduced, all customers on the existing legacy ToU and flexible tariffs should be transitioned to the new ToU tariff.

The distributors have also proposed that small business customers (<40 MWh) can opt out of the default TOU tariffs to a single rate or demand tariff. The distributors have also proposed a policy, which we support, to move all customers on legacy TOU tariffs to the default TOU tariff and to remove these legacy tariffs from the tariff schedules.

In AGL’s view, distributors should firstly, simplify their range of tariffs and secondly, assign all customers to cost reflective network tariffs. Retailers have the discretion to mirror network tariffs and are better placed to offer a range of retail tariff options to cater to different customer needs. In addition, price changes should be fairly predictable to prevent price shock as a result of initial pricing of new tariffs not being cost reflective.

Victorian Default Offer

The implementation of the VDO since 1 July 2019 is a significant regulatory change that is impacting on retailers. The VDO price is constructed through a cost build up using the flat (single rate) network tariff in each of the distribution network zones. For non-flat tariffs such as the ToU, flexible and demand tariffs, the VDO will be based on a maximum annual bill which is calculated using the flat VDO price for a representative consumer. Therefore, when network tariffs are re-balanced, it is important to at least maintain parity of the flat and non-flat tariffs for the representative customer.

Ancillary Network Services

As a result of the smart meter rollout, Victorian distributors are the leading distributors in the National Electricity Market (NEM) for the provision of remote services for meter reads, re-energisation and de-energisation. AGL welcomes the abolishment of remote re-energisation and remote de-energisation fees from 1 July 2021.

When comparing the five regulatory proposals, there are some material differences in the level of charges as well as the type of charges and we encourage the AER to assess the justification for this.

There are also differences in charges for services performed during business hours and after hours. We also suggest that the descriptions of similar services be standardised where possible to reduce any misunderstanding for retailers who operate in all these network regions.

We accept that it is reasonable to charge for failed or wasted field visits where a field crew cannot undertake the task once arriving at the site due to the customer's fault. These charges range from $206 (AusNet) to $807 (UE – after hours). However, it is important to clarify the services where this charge can be levied as we note the failed/wasted visit charge exceeds the cost of some of the listed ancillary services. This is unreasonable as the time at site is reduced and no materials are used. AGL believes the failed/wasted visit charge needs to be set below the normal service charge.

If you have any questions in relation to this submission, please contact Meng Goh, Senior Manager Regulatory Strategy, on mgoh@agl.com.au or (02) 9921 2221.

Yours sincerely,

Elizabeth Molyneux
General Manager Energy Market Regulation