



## Department of Environment, Land, Water and Planning

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Dear Kami Kaur

### **VICTORIAN GOVERNMENT SUBMISSION ON THE ELECTRICITY DISTRIBUTION PRICE REVIEW 2021-26**

Energy is an essential service. The Victorian Government considers that energy suppliers have an important role to play in protecting and supporting businesses and the community through the COVID-19 pandemic. In the coming months it will be important that energy businesses implement actions to support their customers and the broader Victorian community.

The Victorian Government would like to acknowledge the changing operating environment and the potential for this to impact on the current price review process as outlined by the Australian Energy Regulator (AER). The Department of Environment, Land, Water and Planning (DELWP), on behalf of the Victorian Government, appreciates the opportunity to provide a submission on the Electricity Distribution Price Review (EDPR) 2021-26 and recognises the importance of a timely EDPR process to maintain confidence and investment in this essential service.

The Victorian Government's primary objectives are to ensure the interests of Victorian energy consumers are represented and that the policy priorities of the Victorian Government, including climate change targets and the Solar Homes program, are supported by efficient investment for the benefit of all Victorians.

We welcome the forecast reductions in distribution costs for consumers over the coming regulatory period and encourage the AER to ensure that cost savings from efficiencies in network management continue to flow through to consumers.

The uptake of distributed energy resources (DER) and innovations in information and communications technology (ICT) are creating opportunities for consumers and network operators and increasing the complexity of managing electricity distribution networks. The Victorian Government encourages innovation to enhance connection of DER into the grid and facilitate multi-directional transactions between customers. We also encourage distribution businesses to transition successful trials into their business-as-usual operations, share the learnings of those trials and collaborate with other businesses.

Given the rapid pace of change and increasing complexity, transparency is more important now than it has ever been. Transparency on the purpose and impact of expenditure is required, and this relies on distribution businesses providing comprehensive and timely information for regulators and key stakeholders.

The distribution businesses' proposals should explicitly state the outcomes to be delivered if expenditure is granted, particularly for expenditure that is not tied to existing benchmarking or incentive programs. These outcomes should be measurable and, where possible, comparable across distribution businesses. Businesses should be held accountable to deliver the results.

DELWP welcomes the AER's intention to review the proposals, including Tariff Structure Statements, as a comprehensive package to ensure a consistent strategy to address the energy system transition. To assist in this review, the Victorian Government will provide a position on network tariff reform in the coming months.

We recognise the importance of effective consumer consultation and engagement by distribution businesses to inform their proposals. We acknowledge AusNet Service's Customer Forum as a best-practice process that facilitated effective negotiation. We support best practice engagement to understand consumer perspectives and to consider their views in the development of proposals. We also encourage distribution businesses to formally incorporate continuous consumer feedback on the costs and delivery of their commitments. We note all the DER integration proposals demonstrate support for investments that allow consumers to increase control over their energy. We also recognise the work by the AER, including the establishment of the consumer challenge panels, to lead by example on best practice customer engagement in assessing proposals.

The following overarching principles were applied in our consideration of the draft proposals submitted by the distribution businesses, that the distribution network arrangements should:

- promote fair and affordable energy services with strong customer protections;
- empower energy users;
- promote a reliable, safe and stable energy system;
- reduce emissions; and
- increase jobs and economic growth.

These objectives underpin our analysis and we make the following comments on specific aspects of the distribution business' draft EDPR proposals.

#### **Affordable energy services with strong protections**

Affordability for consumers is the overarching outcome required of the 2021-26 electricity distribution pricing review process. Forecast reductions in distribution costs for consumers over the 2021-26 period are welcomed. We note that further expenditure may be required to address infrastructure rebuild from the recent bushfires.

To ensure an affordable supply of essential electricity, we encourage the AER to continue to closely examine the validity, appropriateness, priority and efficiency of the proposed network expenditure. We note the results of the AER's comparative analysis. In particular, the positive outcomes associated with AusNet Services trial of a new, more consultative, approach to developing its proposal and that this may support a streamlined assessment. We also note that some other businesses are not achieving similar service improvements and cost reductions, and encourage the AER to explore the reasons for this.

#### **Distributed Energy Resources (DER) integration to empower energy users**

The Victorian Government is committed to help Victorians take control of their energy bills, create jobs and take strong and effective action on climate change. The \$1.3 billion Solar Homes program will install solar panels, solar hot water systems or batteries on 770,000 homes across the state and will save Victorian households more than \$500 million a year once the program is fully rolled out. We expect that the investments proposed by distribution businesses will support the delivery of this flagship program over the coming regulatory period.

Victoria is working towards a future where energy consumers are always allowed to install and operate solar for self-consumption. Solar and batteries should generally be allowed to export electricity. Exports should only be curtailed for specific times when the network is experiencing a constraint and

timely communication should be provided to consumers regarding their generation. It is also important to prepare for widespread uptake of electric vehicles. The Australia Energy Market Operator's 2019 forecasts estimate there is the potential for the number of electric vehicles in Victoria to increase from approximately 3,500 in 2020-21 to approximately 56,000 by 2025-26 under its Central Case scenario or up to 220,000 under its Step Change scenario.

Electricity export constraints are preventing the full economic and environmental benefits of DER investments from being realised, including their value in lowering wholesale energy costs and reducing emissions. DER integration expenditure is required to capture these benefits for all consumers. However, it is important to ensure the costs incurred are efficient and cost outcomes are equitable for both solar and non-solar users.

Assessing the proposed investment is challenging due to lack of agreed methodology and limitations of transparency in assumptions and approaches. Distribution businesses have used different methods to forecast solar penetration, and the assumptions behind these forecasts are not always clear. We encourage the AER to work with distribution businesses to ensure that their forecasts are robust and consistent.

We acknowledge that distribution businesses will have different investment requirements depending on the technical conditions of their network, and the specific level of solar penetration in their area. It is essential that distribution businesses are explicit on the outcomes they will achieve for the proposed DER integration funding. We expect distribution businesses to deliver measurable results, and for these results to be evident to community as soon as practicable. Further, these results should be comparable across businesses through common metrics. We encourage the AER to require distribution businesses to develop these common metrics, and to develop regulatory instruments that can support the efficient delivery of these investments.

To support its analysis, we encourage the AER to implement a consistent valuation method for solar electricity exports. This approach should consider both electricity system benefits and social benefits. Victoria's feed-in tariff includes the avoided social cost of carbon, and the associated methodology is legislated through an Order in Council. DELWP encourages the AER to incorporate this, or a similarly robust method, in their assessment of Victoria's regulatory proposals. Consumers deserve to be fully informed about the societal costs and benefits of regulated decisions made on their behalf.

The AER should have regard to benefits that cannot currently be easily quantified. This includes location-specific benefits, such as deferred network augmentation that could be achieved through solar and battery systems, and future benefits, such as laying the foundations for distribution-level platforms for the delivery of new DER market services. Prudent investment is required in this regulatory period to support the energy system's transition. Failure to support 'no regrets' investments now could undermine future opportunities or create a need for retrofits at a higher cost.

The Victorian Government supports ICT investments that improve low voltage network visibility, build on smart metering capabilities and help networks transition towards the dynamic management of DER. Networks should use these investments to improve equity outcomes for consumers. This includes moving away from a 'first come, first served' approach on new solar connections and allow solar electricity exports most of the time, with restrictions imposed only when networks exceed their operational limits. While these changes involve complexity, distribution businesses should ensure that these changes are implemented in a way that is readily understood by, and acceptable to, DER users.

Distribution businesses should be required to publicly report on network voltage performance so stakeholders can transparently assess DER's impact on the network and to support the development of innovative solutions. The Essential Services Commission recently updated the Electricity Distribution Code to include new reporting requirements of voltage data from advanced metering infrastructure (AMI). Distribution businesses should also implement better data sharing arrangements with consistent frameworks, and support consumer choice by facilitating the implementation of third-party solutions across the state.

### **Demand management to promote affordable and reliable energy services**

Improved demand side management will be essential to deliver a more reliable, affordable and cleaner system. Demand management is being used globally to support the integration of renewable energy into the power system, reduce the need for expensive generation and network infrastructure to meet peak demand, and improve the reliability and affordability of electricity. In addition to strengthening established energy efficiency standards and incentive programs, DELWP is supporting demand side management by investing in innovative trials and pilots, removing barriers to rewarding consumers for supporting the energy system, and laying the foundations for a thriving demand side management market.

The Victorian Government has a strong expectation that distribution businesses increase their use of non-network solutions to manage peak and minimum demand issues and support network reliability. While the distribution businesses have reported demand management capacity this summer 2019-2020, we believe there is potential for more demand response capacity. We note that research and development efforts vary considerably among distribution businesses and expect to see greater investment made by CitiPower and Powercor in particular. The latest available data by the AER shows that, for the current regulatory cycle, AusNet Services had already spent 103 per cent of its Demand Management Innovation Allowance (DMIA) by the end of the third year (2018), Jemena had spent 54 per cent and United Energy had spent 52 per cent. In contrast, CitiPower had only spent 3 per cent and Powercor had spent 21 per cent.

We support the distribution businesses' proposals to use the new Demand Management Incentive Scheme (DMIS) and access the maximum possible DMIA to produce the greatest innovation and benefits to customers. We encourage the AER to approve these aspects of the proposals. We also expect distribution businesses to scale their efforts and make the most of these opportunities over the next regulatory cycle, and encourage collaboration and information sharing amongst businesses. We will continue to work with distribution businesses to increase their uptake of demand management, utilising their AMI capabilities.

### **Advanced Metering Infrastructure (AMI) to create a reliable, safe and stable energy system**

The Victorian Government has decided not to introduce metering contestability in Victoria. The primary value of AMI has been as a network device and substantial operational and safety benefits have been realised to date. A key consideration in the review of metering contestability was the status of AMI benefits realisation. It was found that introducing contestability at this time may not unlock unrealised benefits to consumers and may potentially diminish some of the current benefits that have been realised.

We expect distribution businesses to continue to maximise the opportunities enabled by AMI data and functionality into the future. DELWP will continue to monitor the electricity market and consult with consumer groups and other stakeholders on options to realise additional benefits from Victoria's smart meters.

We consider access to AMI data to be a critical, but largely unrealised AMI benefit stream. Rich, secure data flows can enable third parties to deliver innovative products and services, inform effective policymaking and research, and empower consumers to participate in the energy market. The Victorian Government strongly encourage distribution businesses to deliver enhanced access for third party providers, researchers and policymakers in a timely manner. Subject to privacy constraints, we consider that this could be most efficiently achieved through collaborative initiatives with Victoria's Centre for New Energy Technologies (C4NET) as well as engagement with the Consumer Data Right (CDR) and National Energy Analytics Research (NEAR) program. We may consider regulatory mechanisms to ensure accessibility of certain AMI data flows if progress is insufficient, to ensure that benefits to Victorian energy consumers enabled by AMI data are maximised. Through the Energy Data Hub Concept Study and resultant pilot using the Victorian Energy Compare website, DELWP has demonstrated the potential value of safe third party access to data and will continue to explore opportunities in this area.

The Victorian Government encourages the AER to ensure operational efficiencies delivered by AMI are resulting in sustained cost savings for consumers. Initiatives such as abolishing move-in and move-out fees are a welcome example of cost savings for consumers enabled by AMI and we encourage the provision of further outcomes for consumers.

#### **Street lighting upgrades to reduce emissions**

The Victorian Government is driving the transition to a net zero emissions economy.

The proposed replacement of inefficient mercury vapour street lights is consistent with our commitment to reduce demand and energy costs for councils and the Road Management Authority (RMA), and as a result end users.

The Victorian Government is supportive of local councils and the RMA reducing their greenhouse gas emissions and energy costs through the bulk replacement of street lights with efficient light-emitting diode (LED) lights. There is scope for distribution businesses to support competitive costs for bulk efficiency upgrades.

#### **Reliable, safe and stable energy systems**

Community safety is a key priority for the Victorian Government, and improving electrical asset management, including pole replacement, and reducing bushfire risk is welcome.

#### **Power Pole Replacement**

The Victorian Government supports the proposals from CitiPower, Powercor and United Energy to increase pole replacement. We note the significance of Energy Safe Victoria's (ESV's) findings and recommendations from its recent investigation into Powercor's wood pole management and the subsequent proposals from CitiPower, Powercor and United Energy to increase their investment in pole replacements.

Further, DELWP understands that ESV will undertake similar reviews of other distribution businesses, commencing in 2020. Pending the outcomes of the further reviews, we would be supportive of AusNet Services and Jemena escalating their pole management programs if deemed necessary by ESV in the interest of Victorians' safety.

We note that network management activities undertaken to reduce risk as far as practicable need to be at an acceptable cost to consumers.

### **Rapid Earth Fault Current Limiters**

Rapid Earth Fault Current Limiters (REFCLs) are being deployed by three distribution businesses – AusNet Services, Jemena and Powercor – at 45 zone substations to meet enhanced earth fault standards mandated by the *Electricity Safety Act 1998*. A large element of the capital expenditures proposed in the distribution businesses' January 2020 filings – roughly \$210 million – is for works to maintain compliance with these enhanced standards.

Many of the works proposed are driven by the need to install more REFCLs or build new substations to overcome network capacitance associated with underground conductors. DELWP is preparing an Order in Council, to be gazetted in July 2020, which will exempt all prescribed zone substations from the need to provide REFCL protection to wholly underground electric lines.

The Victorian Government recommends that the AER require the distribution businesses to review their proposed capital expenditures to determine whether the exemption enables them to modify their proposals to reduce costs.

Finally, the AER should note that Powercor's Corio and Geelong zone substations are the subject of an Order in Council exempting those substations from complying with the Act as a new REFCL-equipped substation will serve their high bushfire risk feeders. Powercor has indicated it will amend its filing when the Order is published.

Thank you for the opportunity to provide input into the EDPR process. If you would like to discuss any of the issues raised in this submission further, please contact Ralph Griffiths, Executive Director, Energy Strategy, DELWP on [REDACTED] or by email at [REDACTED]

Yours sincerely

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**Anthea Harris**  
**Deputy Secretary, Energy**  
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