



Department of Environment, Land, Water and Planning

PO Box 500, East Melbourne,
Victoria 8002 Australia
delwp.vic.gov.au

Mr Chris Pattas
General Manager, Networks
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Via email: Vic2021-25@aer.gov.au

Dear Mr Pattas

Re: Preliminary framework and approach for 2021 Victorian regulatory control period

The Department of Environment, Land, Water and Planning (the Department), on behalf of the Victorian Government, welcomes the opportunity to provide a submission on the Australian Energy Regulator (AER)'s preliminary framework and approach for the Victorian regulatory control period commencing 1 January 2021.

The Victorian Government's primary concern through the revenue determination process is to ensure that the interests of Victorian energy consumers are represented and considered by the AER in setting revenue decisions. The Department would also like to provide guidance, where appropriate, on matters of government policy which may impact upon the AER's deliberations.

To this end the Department would like to make the following comments on aspects of the AER's draft framework and approach.

Distributed energy resources

One of the major change drivers for distribution services over the 2021-25 period will be even greater penetration of distributed solar energy. This will transform the energy system to one where power generation is based on a diverse mix of energy sources including a substantial amount of generation embedded within distribution networks. There will be new challenges in managing distribution systems as a result, and many new opportunities to manage them smartly and efficiently, to the benefit of consumers.

The Victorian Government supports distributed solar. The government has announced that it will help Victorian households cut their electricity bills through the Solar Homes Package which will be delivered by the newly established Solar Victoria.

Under the program, eligible households may claim a 50 per cent rebate on the cost of a solar PV system, up to a maximum rebate of \$2,225 or a \$1,000 rebate for the replacement of hot water systems with solar hot water.

Distributed energy resources (DER) such as rooftop PV and batteries can significantly benefit consumers by lowering energy costs, cutting emissions and supporting networks. The Department also recognises that the extent of any such benefits may be partially offset against capital expenditure costs that DNSPs may incur to connect and manage these resources.

It is therefore critical that DNSPs are in a position to support greater uptake of DER and that enabling infrastructure is recognised as efficient and necessary in order to maximise the net benefits of greater volumes of DER.

The Department therefore urges the AER to consider in its revenue determination of network business costs, amongst other things:

- additional smart inverter technologies required to effectively enable the higher uptake of DER while maintaining system security and reliability by giving DNSPs greater visibility, optionality and control for managing voltage;
- the information available from smart meters and AEMO's distributed energy register which may enable better management of distribution systems; and
- the co-location of additional energy storage devices in congested parts of the network.

The Victorian Government has announced that it will provide half price batteries for 10,000 Victorian households that already have solar. The battery program will be available in growth areas where there is already a large number of homes with solar panels.

The Victorian Government will also work with distributors and invest \$10 million to transition the grid to support more renewable energy over the next ten years, including a new expert Network Services Advisory Committee and regulatory reform.

These Victorian Government initiatives are expected to help support greater DER penetration.

Capital Expenditure Sharing Scheme (CESS)

The Department questions the application of the CESS for the 2021- 25 regulatory control period. The application of a CESS may incentivise Victorian DNSPs to over-forecast capital expenditure and then underspend relative to those forecasts to profit from the CESS.

This appears evident in the first two years of the CESS, as Victorian DNSPs have underspent the forecast capital expenditure by between 15 per cent (AusNet Services) and 30 per cent (CitiPower).

It is the Department's preference that the CESS does not apply during the 2021-25 regulatory control period. Application of a CESS to privately owned DNSPs requires strong confidence by the AER that it can accurately correct any over-forecasting. The AER must consider whether this is actually possible under the circumstances, and whether the case for application of the CESS in Victoria has been demonstrated by experience.

Service classification

It is unclear why the AER is not proposing to classify recoverable works and support for another DNSP during an emergency event as alternative control services. An alternative control classification would seem to be more in keeping with the nature of these services, whose costs can usually be attributed to a specific party (this being why these services were unregulated prior to the introduction of the AER's ring fencing guidelines). In respect of recoverable works, the use of a standard control classification may disincentivise DNSPs from using all reasonable efforts to recover costs from the parties which caused the costs of the service. The Department asks that the AER consider and clearly explain the rationale for the approach it elects to take in respect of recoverable works, to ensure that

customers generally are not forced to bear costs imposed on the networks by third parties – in this case those who have caused damage to the network, and other DNSPs during emergency events.

AusNet Services have also proposed a new unregulated service, “Transmission Network Support”, which would cover the provision of network support services to the transmission network, such as switching off capacitors at zone substations to reduce voltage on the transmission network when required.

With the ongoing transition to a new energy supply system, there will continue to be changes in the way that the power system is operated, which may require more actions to be taken by electricity DNSPs to maintain voltage and frequency within acceptable limits. These actions are likely to cost more than merely switching off capacitors. This service should be classified in such a way that allows for the service costs to be shared amongst those who benefit from its reliability and safety benefits – namely all Victorian customers – rather than only being borne by the customers of the DNSP which is called upon to provide this service.

Accordingly, the Department believes the most appropriate classification is alternative control service, as costs are recovered from AEMO and therefore the beneficiaries of the service (all Victorian electricity customers). Furthermore, there would be no obligation for DNSPs to ring fence associated activities. While there is a risk that costs associated with providing this service may not be appropriately identified and allocated to alternative control services, the Department believes that this risk is low.

Connections - Proposed classification of community network services

The Department agrees with the AER's position not to classify AusNet Services' proposed 'community network upgrade' service. AusNet Services proposes the introduction of a new alternative control service for connections provided to multiple parties under a common process. This service is intended to capture community groups seeking to connect multiple behind-the-meter solar PV systems to the network as part of a community energy project. Introducing this service would mean a community energy project could be treated as a single, large connection, rather than multiple basic connections.

AusNet Services states the reason it is proposing this new service and seeking alternative control service classification is that currently the cost of the network augmentations required to accommodate the generation output of these projects cannot be recovered from the individual connection applicants and is therefore borne by its whole customer base.

The Department agrees with the reasoning provided by the AER for not supporting the introduction of this service classification. Community energy is set to play an important role in the state's transition to renewable energy and in achieving Victoria's energy goals. Community energy projects can provide many benefits, some of which include: improving social cohesion; reducing energy costs; and strengthening local economies. The government is committed to providing continued support for community renewable energy projects.

The government is working to recognise and reduce barriers faced by community energy groups which are planning for and implementing renewable energy projects in regional and metropolitan areas. Introducing a service classification which could see community energy projects paying for the costs of a network augmentation (but given no firm guarantee that they will not be constrained from exporting

energy to the network) would not be in the interests of those or other consumers who could benefit from the project.

Timely electricity connections to new developments

On 7 September 2018, the ESC published a report in response to a request from the Victorian Government to provide advice on the effectiveness of economic regulation to achieve timely electricity connections to new developments. The request was made in response to concerns from the housing and land development industries about delays by DNSPs in providing connections to new property developments. These delays potentially inhibit progress in achieving the government's affordable housing objectives.

While the ESC concluded that the regulatory framework itself is not the main driver of delays to connect new developments to electricity networks, it advised that its effectiveness can be improved through targeted measures. One of these measures was to have the Victorian DNSPs voluntarily agree to a Service Improvement Commitment that seeks to deliver a range of initiatives designed to improve matters related to timely connections.

As part of this Service Improvement Commitment each DNSP committed to seeking appropriate service descriptions and classifications for connection audit services as part of the 2021-25 Victorian electricity distribution price review (for example, each will consider 'fast-tracked audit services', and 'audit revisits', as possible alternative control services). This measure is intended to ensure the appropriate pricing of connection audit services. The Department requests that the AER ensure that the classifications the DNSPs have proposed for these services are consistent with what the DNSPs have agreed to under the Service Improvement Commitment.

Reliability and supply

The AER will apply the national Service Target Performance Incentive Scheme (STPIS) to Victoria, which aims to provide financial incentives to DNSPs to maintain and improve service performance. Previously, the AER has set STPIS targets based on historical performance.

The Victorian Government is currently completing an extensive roll out of Rapid Earth Fault Current Limiter (REFCL) equipment. Although the primary purpose of this work is to reduce bushfire risk as a result of powerline faults or breakages, the technology also has potential to significantly enhance supply reliability throughout the network. Therefore, STPIS targets may need to be evaluated and adjusted to take into account additional factors, such as REFCLs, increasing reliability in the network.

Further to this, AusNet Services is estimating to receive \$31.8 million to upgrade its Distributed Feeder Automation systems, which may also improve network reliability.

Given this, the Department remains concerned about STPIS targets being set simply based on historical performance when Victorian consumers may be currently funding network improvements with the potential to improve reliability and therefore incurring further unwarranted costs from STPIS payments.

The Victorian f-factor scheme

The f-factor Incentive Scheme, an existing regulatory instrument under the National Electricity (Victoria) Act 2005, provides a financial incentive for DNSPs to mitigate the risk of fire starts. The

operation of REFCLs is expected to reduce the risk of fire starts in high bushfire risk areas. In December 2016, the Victorian Government amended the f-factor scheme to, amongst other things, account for the impact on the risk of fire starts from operating REFCLs. The amended f-factor scheme reduced Ignition Risk Unit (IRU) target by 55.2 IRUs from the 2019–2020 financial year.

The AER's preliminary F&A states that it will continue to apply the f-factor scheme as set out in the 2016 Order in Council, including the specified IRUs for each DNSP. The Department notes that the Victorian Government intends to publish updated IRUs for the financial year 2020/21 and onwards, prior to the commencement of the next regulatory control period. The Department will continue to keep the AER and DNSPs updated on any changes to the f-factor Order in Council.

I trust this input is of assistance. If you have any questions about this submission, please contact Alex Badham, Director, Energy Markets and Transformation, Energy Sector Reform at alex.badham@delwp.vic.gov.au.

Yours sincerely



Paul Murfitt
Executive Director, Energy Sector Reform
Department of Environment Land Water and Planning
29/10/2018

