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Chantelle Bramley
Australian Energy Markets Commission
Level 6
201 Elizabeth Street
SYDNEY NSW 2000

Online: www.aemc.gov.au

Dear Chantelle,

Re: EMO0030 – Strategic Priority for Energy Market Development

United Energy (UE) and Multinet Gas (MG) welcome the opportunity to respond to the Australian Energy Market Commission's (AEMC) discussion paper *Strategic Priorities for Energy Market Development*.

At this time of accelerating change in the energy supply industry, it is critically important that the AEMC, as the key energy market agency responsible for policy development, has a clear view of the strategic priorities for energy market development over the coming years. We set out below a number of matters we believe the AEMC should take into account as it finalises its strategic priorities.

We also draw you attention to the submission from the Energy Networks Association (ENA).

United Energy and Multinet Gas

UE and MG own and manage the distribution network – the poles, wires and pipes – that deliver electricity and gas to 1.2 million Victorians. United Energy provides electricity to approximately 660,000 customers across east and south-east Melbourne and the Mornington Peninsula. Multinet Gas services 687,000 residential, commercial and industrial customers across Melbourne's inner and outer east, the Yarra Ranges and South Gippsland.

Importance of the AEMC Strategic Priorities for Energy Market Development

We are facing a time of unprecedented change in the energy supply industry as new technologies, new operating models, new entrants and changes in consumer behaviour occur simultaneously. We are seeing the start of the move towards decentralisation of the energy supply as customers take greater control of their energy supply through distributed generation.

We strongly support the recommendations of the Review of Energy Market Governance panel to clarify the responsibility of the AEMC as the sole energy market organisation for the provision of energy market development policy advice to the COAG Energy Council, where required supported directly by the AER and AEMO. The recommendations of the panel should result in improvements to the policy setting framework and make the setting of strategic priorities for Energy Market Development even more critical.

We support the three core areas of priority set out by the AEMC and set out below a number of factors we believe that the AEMC should take into consideration when finalising their strategic priorities.

Consumer Priority

Participation in the Market

We strongly support the participation of customers in the market. UE operates a customer portal, *Energy Easy* that allows customers to access their smart meter data to gain valuable insights into their usage patterns that support behavioural change and engagement with the retail market.

UE has benefited from ongoing engagement with consumer groups, customers, retailers, government and other stakeholders on tariff reform. We have submitted a proposal that introduces cost reflectivity while explicitly analysing, understanding and ameliorating customer impacts. Our tariff reform proposal will provide customers with better signals on the costs of using energy in different ways promoting further engagement by customers, provide customers with the opportunity and choice to make personal savings immediately and should result in the lower costs for all customers in the long term.

The effective implementation of new tariff structures will require effective communication and education to ensure customers can continue to participate in the market. We plan to actively work with all stakeholders including customers, customer representatives, retailers, governments and regulators to ensure the success of the implementation.

Engagement in the Regulatory Process

Customers and representative groups have an increased expectation that the energy sector, including regulators, governments and supply chain participants will engage with them in an on-going, effective and meaningful manner about the services that they provide and the price at which they provide them. This shift represents a significant challenge for network service providers that, in the case of Victoria, have managed the networks and operated with relative anonymity since privatisation in the mid-1990s.

In effect, network businesses have been challenged to engage with customers to secure their social licence to operate. This social licence relies on customers understanding the nature, quality and value of the services provided, and a majority of those customers supporting the approach and outcomes of individual businesses.

Over the past two years we have embarked on a journey to respond to this changing environment. This has required us to build capacity within the organisation, identify customer cohorts and representatives and build relationships that provide two-way value. To date our most intensive engagement has been centred two major projects, the preparation of our regulatory proposal and our Tariff Structure Statement.

Our experience has been of consumer advocates making highly valuable and constructive contributions to the development of our proposals. Those most heavily involved are very well informed, though resource constrained. One of the challenges we have identified and are seeking to address is to effectively assist to lighten the load on these stakeholders and also pursue the broadest possible range of diverse views.

For regulators, we see the challenges as similar. Where divergent views exist, there is an imperative to work towards compromise and clearly explain decisions to stakeholder groups. We have found that the establishment of clear and agreed objectives is a critical first step to delivering good engagement outcomes, serving as a reference point to guide the decision making process.

Protection

Consumer protection frameworks are critical for protecting customers, especially those who are vulnerable, disadvantaged or disengaged.

We also note that regulation is not free, in the sense that all regulation necessarily results in compliance and other costs which are ultimately borne by customers. For this reason, regulatory intervention must explicitly consider the costs and benefits associated with consumer protection measures.

Further, regulatory intervention must be informed by a clear understanding of desired outcomes. Where regulation is more often seen as a mechanism by which to create consumer protection, it must avoid the risks of restricting customer access to the benefits of competition, innovation and emerging markets and product offerings.

As we move forward it will be critical to assess the different levels of customer protection that are requires for different services. Future frameworks need to be flexible and robust enough to deal with the changing business and not create advantages, disadvantages or unintended incentives for different market participants or particular business models.

Gas Priority

The AEMC strategic priorities for the gas market are all focused on the upstream gas industry and access to supply. While this is valid in the scope of issues facing the gas market over the coming years it is important to recognise the importance of the downstream gas network and the issues faced. In conducting its Energy Market Development role it is important to recognise the value that gas can have in contributing to a low carbon future and ensuring that policy decisions are based on emissions intensity rather than technology. For example, the hot water appliance market is currently distorted by subsidies for heat pumps that are more emissions intensive than gas hot water appliances.

Markets and Networks Priority

Technology and New Business Models

Given the changing environment it is prudent for policy makers to consider the current policy and regulatory environment to ensure that it remains fit for purpose and delivers solutions with the minimum level of regulatory intervention.

Going forward its critical for the long term interest of the customer that barriers to the entry of new products and services are minimised. The policy and regulatory frameworks adopted need to flexible enough to deal with multiple potential outcomes in the development of the industry. Policy makers should avoid picking winners in the race to better meet customer needs with new and emerging technologies by creating unnecessary barriers to the participation of any entities in newly emerging service markets and instead focus on ensuring frameworks are robust.

In situations where new entrant regulation differs for the regulation applying to existing market participants, regulators and policy makers should apply the COAG Principles for Best Practice Regulation and consider the removal of the regulation on incumbents to address the issues. It is important that markets are allowed to develop and regulatory intervention does not preclude any market participants from taking on challenge of new products and services as the markets develop.

Where a case for regulatory intervention has been identified, the options should consider the costs and benefits of regulation and adopt the regulatory approach that creates the greatest net benefit to customers. In the rare case where additional regulatory intervention is deemed appropriate to facility the development of the markets the need for this intervention should be regularly reviewed as the market develops.

We note that the AER is reviewing the ring-fencing guidelines for networks throughout 2016 and that the participation of networks in various new markets has been a topic of debate for some market participants. There are currently a number of ring-fencing mechanisms that exist within the current rules that ring-fence a distributor's regulated assets from other activities. These include:

- Service categorisation to distinguish between competitive, potentially competitive and monopoly services;
- Cost allocation provisions to ensure that costs are properly allocated to each different service category;
- Related party provisions to ensure that a network company cannot favour a related party in procuring competitive services (such as vegetation management); and
- Shared asset provisions to ensure that customers of the regulated business enjoy a cost reduction if regulated assets are used to provide unregulated (competitive) services.
- Distribution licence provision on information sharing.

Network Evolution

Going forward we expect that there will be multiple solutions to network investment for network augmentation or replacement. For example there may be areas on a network where storage, demand management or traditional network augmentation are all technically and economically feasible options. Regulation should be technology neutral and not create a bias for any one solution over the other options as a result of regulatory barriers or uncertainty over long term cost recovery. The existence of any bias would go against the National Energy Objective to 'promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity…'.

We look forward to continuing to engage with the AEMC as it progresses the development of the Strategic Priorities for Energy Market Development. If you have any questions or would like to discuss further any of the points raised in our submission please contact me via email (kiera.poustie@ue.com.au) or on (03) 8846 9401.

Kind Regards,

Kiera Poustie

Policy Analysis Manager