

13/02/2019

Mr John Pierce
Chair
Australian Energy Market Commission
PO Box A2449
Sydney NSW 1235

Lodged online via: www.aemc.gov.au

Dear John,

Electricity networks economic regulatory frameworks review – approach paper

TransGrid welcomes the opportunity to respond to the AEMC's approach paper in relation to the electricity networks economic regulatory frameworks (ENERF) review.

TransGrid is the operator and manager of the high voltage transmission network connecting electricity generators, distributors and major end users in New South Wales and the Australian Capital Territory. TransGrid's network is also interconnected to Queensland and Victoria, and is instrumental to an electricity system that allows for interstate energy trading.

Australia is in the midst of an energy transformation. This is primarily driven by changing community expectations and choices, advances in renewable energy technologies, retirement of existing generation, and the adjustments required in Australia's economy to meet our international climate change commitments. These changes raise complex issues in relation to the design of the National Electricity Market (NEM), which must adapt to these changes and provide the basis for low emissions, reliable supply at the lowest cost to consumers over the long run.

TransGrid broadly supports the scope and approach proposed by the AEMC for its 2019 ENERF review. We understand that the AEMC's review will include two separate workstreams, with the approach paper focusing on network incentives and sector development.

We agree that consumer choices will continue to shape the future development of Australia's energy markets and it is not possible to predict exactly how the market will evolve over the coming years and decades. Therefore, it is critical that the economic regulatory framework for transmission services is flexible enough to continue to adapt to changing consumer needs and preferences.

In this regard, we consider there is an opportunity for the AEMC to improve incentives to adopt non-network solutions in the transmission regulatory framework. The current framework lacks a positive financial incentive for transmission businesses to pursue and procure non-network solutions. Combined with practical barriers to the adoption of non-network solutions such as compliance and reputational risk, this creates an imbalance compared with incentives relating to network solutions. Non-network solutions may include local generation, energy storage and demand-side services, such as the coordination of distributed energy resources. A more mature and integrated market for non-network solutions is likely to encourage greater innovation in the supply of electricity and result in lower prices for consumers.

As the AEMC is aware, Energy Networks Australia is seeking to address some of these issues through an incremental change to the current framework, proposing the introduction of a demand management incentive scheme and a demand management incentive allowance for transmission networks.

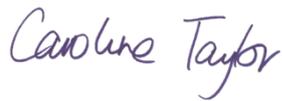
The ENERF review however provides an important opportunity to consider the issues in a more holistic manner. It will be critical to manage the reconfiguration of the transmission sector that is

required during the energy transition in a way that delivers the best possible outcomes for consumers. This requires encouraging innovation and appropriately rewarding efficient operating and investment decisions by transmission businesses, while also mitigating risks that could flow through into higher costs for consumers.

We have also provided a response to the AEMC's related workstream on regulatory sandboxing as we support the need for sandbox arrangements in the NEM. A sandboxing framework would reduce uncertainty and risk in the testing stage for innovations, and allow the regulator to be more adaptive in its response to change in the industry.

We appreciate the opportunity to comment on the AEMC's approach paper and look forward to engaging with the AEMC and other stakeholders further. If you would like to discuss our submission, please contact Neil Howes, Acting Head of Public Policy on 02 9284 3748.

Yours faithfully

A handwritten signature in purple ink that reads "Caroline Taylor".

Caroline Taylor
Acting Executive Manager, Policy and Corporate Affairs