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Competition Policy Review Secretariat
The Treasury
Langton Crescent
Parks, ACT 2600

By online submission: www.competitionpolicyreview.gov.au

Dear Competition Policy Review Secretariat,

RE: Competition Policy Review – Issues Paper Response

United Energy and Multinet Gas (UE and MG) welcome the opportunity to make this submission to The Treasury as part of the Competition Policy Review – Issues Paper consultation process. We also draw your attention to the submission from the Energy Networks Association (ENA).

UE and MG own and manage the distribution network – the poles, wires and pipes – that deliver electricity and gas to 1.2 million Victorian gas and electricity customers.

UE is an electricity distribution network service provider to more than 650,000 customers across east and south-east Melbourne and the Mornington Peninsula over an area of 1,472 square kilometres.

MG distributes natural gas to 660,000 customers throughout Melbourne's inner and outer east, the Yarra Ranges and South Gippsland via 164 kilometres of transmission pressure pipelines and 9,866 kilometres of distribution mains.

The activities of UE and MG are regulated under a complex and multilayered regime of laws (eg, National Electricity Law, National Gas Law, Electricity Industry Act (Vic), Gas Industry Act (Vic), Gas Safety Act (Vic), Electricity Safety Act (Vic)), rules (eg National Electricity Rules, National Gas Rules) and guidelines (eg AER Cost Allocation Guidelines). These are developed by the Australian Energy Market Commission, Australian Energy Regulator and the Victorian and Commonwealth Governments, to be managed by the Australian Energy Regulator, Australia Energy Market Operator and Essential Services Commission (Victoria) amongst others.

The Evolution of Energy Markets and Regulatory Regimes

Following a long history of relative stability and predictability the electricity and gas distribution networks are facing a period of rapid change as new technologies, services and participants are introduced to the market. These changes have far reaching impacts on both the energy networks and the way they should be regulated. The key changes include:

- *Active Consumers and Distributed Generation:* Customers are becoming increasingly aware of energy efficiency messages and encouraged by policy incentives many have invested in solar generation. The increasing penetration of distributed solar generation has led to a reduction in total consumption from the grid with negligible impacts on capacity requirements for electricity at peak times which distributors must design and maintain networks to meet. Increases in distributed generation can also create additional technical challenges and costs in ensuring that power quality, services levels and safety are maintained for all customers.

- *Competition and New Market Participants:* New categories of market participants have been introduced to encourage competition for the provision of services across the energy value chain including for services traditionally provided by distributors. Distributors are now also required to seek alternatives to traditional network investment from market based service providers under prescribed circumstances. These changes require distributors to reconsider business models and the scope of future services provision.
- *Emerging Technologies:* Developing technologies including, electricity storage, electric vehicles and micro grids, all have the potential to significantly change how customers use the grid, the market and the competitive environment. While the nature of the impacts these new technologies will have on distribution networks in currently unclear, they have the potential to significant change business models, activities and cost structures required for the efficient provision of services to customers.

To address the changing nature of the industry the competition frameworks and regulatory regimes must:

- Encourage innovation
- Ensure fit for purpose regulation
- Reduce inefficient regulatory barriers to competition
- Facilitate fair and efficient pricing signals
- Minimise duplication in regulatory regimes
- Provide regulatory predictability

Encourage Innovation

Distributors have a key role to play in the ongoing evolution of the energy industry, including driving innovation. Regulation and competition policy should not create unnecessary and inefficient barriers to innovation. There are many areas including metering and demand side participation where distributors should be able to use network synergies to provide low cost, efficient solutions to customers. Failure to recognise these benefits may result in costly and inefficient outcomes for customers.

Regulatory regimes must also recognise the value of learning and allow distributors to trial new approaches, understand customer reactions and assess market implications without being subject to overly onerous or impractical restrictions.

Ensure Fit for Purpose Regulation

Regulatory regimes need flexibility to ensure efficient outcomes for customers in changing markets. As new technologies, products and services are introduced, barriers to the participation of regulated distributors in new and emerging markets should only be considered where they represent a true threat to competition. The default position should not be to prohibit the participation by any market participant in new and developing markets and barriers should only erected where robust analysis indicates the benefits of regulation out weight the costs.

Remove Inefficient Regulatory Barriers to Competition

Over time as markets, technology and competition evolve there will be elements of the current regulatory regime that become redundant and represent barriers to efficient competition. Appropriate processes and systems, independent of the responsible regulator, are required to regularly test whether ongoing regulation or the same level of regulation is efficient and still in the public interest. Where this is not the case regulation should be reduced or removed to facilitate the operation of efficient markets.

Facilitate Fair and Efficient Pricing Signals

Inequitable allocation of costs in existing tariff structures contributes to inefficient incentives for customer investment in some new and emerging technologies. Current distribution network tariffs structures do not provide customers with signals that reflect the true costs of using or avoiding use of the network at different times. Policy maker and regulator support for ongoing distribution network tariff reform is required to ensure that customers are provided with pricing signals that efficiently represent the true costs of their individual use of the grid.

Minimise Duplication and Conflicts in Regulatory Regimes

The complex nature of state and national regulatory regimes creates the potential for duplication of regulatory obligations and conflicts between regimes. Both national and state regulators should be encouraged to work to limit, to the extent that required to facilitate efficient market operation in individual jurisdictions, these duplicate obligations and conflicts.

Provide Regulatory Predictability

Significant reform of the regulatory environment for energy distributors has occurred over the past five years and this high level of activity is likely to continue over the coming years to address the changes facing the industry. There are currently a number of the proposed power of choice rule changes still to be completed, reviews of the AER, AEMC and AEMO to be undertaken in mid 2014 and the COAG energy council recently tasking officials to investigate the flexibility of the current regime to adapt to the changing market circumstances. Given the magnitude of recent changes and the scope of potential future reform to the energy market regulatory regimes it is important that all proposed reforms are appropriately prioritised, coordinated considering the interdependencies of the changes and implemented in a pragmatic fashion.

We look forward to continuing to engage with the department as it progresses through the Competition Policy Review process. If you have any questions or would like to discuss further any of the points raised in our submission please contact me on (03) 8846 9401.

Kind Regards,

Kiera Poustie
Policy Analysis Manager