

Australian Energy Market Commission  
PO Box A2449  
SYDNEY SOUTH NSW 1235

Lodged online: [www.aemc.gov.au](http://www.aemc.gov.au)

05 February 2019

### **Review of Regulatory Arrangements for Stand Alone Power Systems – Draft Report**

The Australian Energy Council welcomes the opportunity to make a submission to the AEMC draft report and recommendations to develop the regulatory framework for the provision of stand-alone power systems by distribution businesses.

The Australian Energy Council (AEC) is the industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

The AEC recognizes the role that the stand alone power system may take in efficient investment in the grid of the future. We agree that the regulatory frameworks must support stand-alone power systems as an economically efficient alternative to standard grid supply. We also broadly agree that the regulatory arrangements should ensure consumer protections comparable to those afforded to customers supplied via the interconnected grid.

Our detailed responses the key areas of the report are provided below.

#### **Facilitating transparent decision-making**

The Commission proposes that DNSPs should only seek to transition customers to a SAPS where this meets an efficiency pre-condition (i.e. SAPS provision would be cheaper than maintaining grid supply). This criteria excludes the regional development options that may be lost. Infrastructure is a critical factor in locational decisions and many businesses are concerned about future provision of cost competitive supply. Given the obligations under the NEO to consider the long term interests of consumers, we believe that further criteria to consider, amongst other things, the loss of industrial location opportunities in the preconditions. We note the Commission has proposed including the types of costs and benefits assessed under the RIT-D in the next stage of the review and we agree with this approach.

The AEC has previously submitted<sup>1</sup> that the Regulatory Investment Test for Distribution (RIT-D) financial threshold (currently \$6 million) is too high to capture the projects likely from emerging DER and SAPS projects. We welcome the AEMC's recommendation for the next stage of this review to address a new set of minimum SAPS evaluation requirements where the RIT-D threshold is not met is proposed. Properly done, this will provide transparency to potential SAPS proponents for smaller projects.

The Commission proposes that DNSPs should not be required to obtain explicit consent from customers in order to transition them to off-grid supply. The Commission's view is informed by the understanding that the customers involved should and will continue to benefit from equivalent price and reliability. Unfortunately this assessment may not address all customer concerns about equivalency and impact. In particular well organized and social media inspired consumer opposition to technology change, such as those opposed to digital metering, has become a real issue for suppliers<sup>2</sup>. Opposition to SAPS using diesel generation (emissions), opposition to digital meters and opposition to wind turbines can all lend themselves to the unfortunate position we reach where a project cannot proceed unless all affected stakeholders agree, and presents the real risk that small numbers of customers could veto changes that would benefit all consumers. This means that for all practical purposes the stakeholder consultation will be required to obtain explicit customer consent. This issue would benefit from expanded discussion in the consultation, especially as to what the threshold of community consent required is in the development of regulatory guidance on a SAPS customer engagement strategy.

The Commission previously recommended as part of the Western Power rule change that new SAPS connections should be supplied through competitive processes for SAPS as a grid-connection pre-condition. The proposed restrictions<sup>3</sup> regarding distributor ownership of individual power systems were expected to have the effect of increasing competition for supply of systems to distributors. The AEC welcomes this approach and its application to future SAPS decisions.

The AEC also welcomes further consideration of the issues that may affect the development of remote area SAPS. Everyday use of the term *regional and remote communities* perhaps implies that these communities share closely similar characteristics, when in practice they may not. Major communities, such as Broome, are classified as remote. This does not mean that it is not served by a by competitive markets. Broome local government area, for example, has over 1200 businesses<sup>4</sup>. In such an environment it is less likely that a competitive market will be slow to develop, and DNSP supplied SAPS with no competitive process may ultimately hinder the development of a competitive market for SAPS in that larger region. Consideration of these matters in the future consultation is

---

<sup>1</sup> Rule Change Proposal: Amendments to Chapters 5, 6, 6A and 7 of the National Electricity Rules In the implementation of Demand Response and Network Support Services, AEC, 13 October 2016

<sup>2</sup> Getting Smart Grid customers plugged in Motivating change through mobile and social technology, Deloitte Center for Energy Solutions, p.2 <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Energy-and-Resources/dttl-er-gettingsmartgrid-08082013.pdf>

<sup>3</sup> AEMC, Alternatives to grid-supplied network services, Final Rule Determination, 19 December 2017 4.5.1 p.53

<sup>4</sup> Australian Bureau of Statistics Broome Local Government Area [http://stat.abs.gov.au/itt/r.jsp?RegionSummary&region=50980&dataset=ABS\\_REGIONAL\\_LGA2017&geoconcept=LGA\\_2017&datasetASGS=ABS\\_REGIONAL\\_ASGS2016&datasetLGA=ABS\\_REGIONAL\\_LGA2017&regionLGA=LGA\\_2017&regionASGS=ASGS\\_2016](http://stat.abs.gov.au/itt/r.jsp?RegionSummary&region=50980&dataset=ABS_REGIONAL_LGA2017&geoconcept=LGA_2017&datasetASGS=ABS_REGIONAL_ASGS2016&datasetLGA=ABS_REGIONAL_LGA2017&regionLGA=LGA_2017&regionASGS=ASGS_2016)

required. The Australian Standard Geographical Classification System<sup>5</sup>, whereby areas are classified as Inner Regional, Outer Regional, Remote or Very Remote, may provide a useful starting point in the assessment of what is defined as unable to be serviced competitively.

The Commission also propose to clarify that DNSPs should be able to offer new connections to pre-existing stand-alone systems, such as microgrids. Our view is that this needs to be considered in conjunction with a new set of minimum SAPS evaluation requirements where the RIT-D threshold is not met. We would like to caution against an arrangement where expanding existing microgrids could be seen as a mechanism for avoiding competitive processes in SAPS.

### **Arrangements for the ongoing supply of electricity to off-grid customers**

The Commission highlighted its concerns with DNSPs potentially owning individual power system assets, instead preferring that DNSPs should contract the services from the contestable market. The AEC has previously submitted that when DNSPs supply and/or own the power system assets, competitive neutrality in the provision of these services to customers is compromised. Across a short period, this could allow DNSPs to dominate the market for SAPS in their own service area, which would deny customers the dynamic benefits of effective competition. The AEC has previously contended<sup>6</sup> that these dynamic benefits will outweigh any short-term gains to customers from obtaining DNSP provided SAPS slightly more conveniently in the near term but that over time the dynamic efficiency benefit would be expected to overtake the DNSP provision benefit.

The Commission contends that to the extent that SAPS assets are considered to provide services in addition to distribution services, the AER's distribution ring-fencing guidelines and rules would apply, and these are appropriate and well-suited to supporting the development of competitive markets where competition is feasible, and allowing for exemptions where it is not. The objective of ring-fencing is to provide a level playing field for third party providers in new and existing markets for contestable services, such as those for metering and energy storage services, in order to promote competition in the provision of electricity services. Without effective ring-fencing, DNSPs would hold significant advantages in such markets.<sup>7</sup>

However Ring Fencing in of itself is an explicit concessional arrangement to allow a lower threshold than full physical, structural and legal separation of the competitive and regulated parts of network businesses. The arrangement works largely in favour of the network businesses themselves, allowing them to augment opportunities for growth in revenues, and substitutes to network investments, without the establishment costs of competitive market entry. Competitive businesses do not enjoy this comparative advantage, and they remain justifiably concerned that the current ring fencing arrangements will neither prevent market harm nor ultimately prove to be in the best long term interests of consumers.

---

<sup>5</sup> Australian Standard Geographical Classification System, <http://www.abs.gov.au/websitedbs/D3310114.nsf/home/remoteness+structure>

<sup>6</sup> Rule Change Proposal: Amendments to Chapters 5, 6, 6A and 7 of the National Electricity Rules In the implementation of Demand Response and Network Support Services, AEC, 13 October 2016

<sup>7</sup> AER Electricity distribution Ring-fencing Guideline Explanatory statement, November 2016

The Ring Fencing Guideline also contemplates the circumstances in which a waiver may be legitimately required because of a jurisdictional requirement that compels a network to provide services that do not satisfy the definition of distribution services under the guideline. Where such a community service obligation or other government direction or law exists, then to the extent that the AER ring fencing guideline is inconsistent with the obligation and the direction or law, the AEC has previously submitted that the threshold test has been met for a waiver to be made<sup>8</sup>. These are very limited and entirely apparent cases. However the AEC remains of the view that this threshold test should be the only circumstance in which a waiver application and subsequent exemption can be made or granted.

### **Options for SAPS delivery**

The Commissions draft report also presents two illustrative options for SAPS service delivery arrangements would govern the relationship between the distribution service provided by the DNSP and all the other activities required to provide an electricity supply service to end consumers.

The “NEM consistency model” would preserve customers’ existing relationships with their retailers and would facilitate the continuation of retail competition and consequently facilitate a seamless transition for customers to SAPS supply and, by using existing systems and arrangements, would have very low implementation costs. Whilst this model proposes settling using the wholesale spot price, there is no reason why alternative methods should not be considered, that were more appropriate or sophisticated models.

The “integrated service delivery model” proposes to achieve efficiency benefits by having DNSPs tender for services, providing “competition for the market” as opposed to “competition in the market” for retail in the NEM consistency model. The AEC does not generally support the discontinuation of retail competition for SAPS customers.

The AEC notes the Commissions intention to further consider and facilitate development of these models, or a hybrid of these two options. We look forward to further participation.

### **Preserving consumer protections**

The AEMC has been asked by COAG to consider whether the economic regulatory framework for electricity networks is sufficiently robust and flexible to continue to support the long term interest of consumers in a future environment of increased decentralised energy supply as part of its annual framework review to monitor market developments.

The Commission draft report notes that if the model of supply for a DNSP-led SAPS does not enable customers to continue to access retail competition, then new retail price protections will be required in those geographic areas that do not currently have retail price regulation. To the extent that this is inconsistent with supporting the long term interests of consumers, further consideration in the proposed consultation is required. The ACCC, in its Electricity Pricing Inquiry report, found that whilst improvements might be made in the retail electricity market that effective competition between retailers is crucial for maintaining downward pressure on costs throughout the supply

---

<sup>8</sup> Australian Energy Council, Response to AER Draft Ring Fencing Guideline- Exposure Draft, 16 November 2016

chain, and for passing through the benefits of cost reductions to consumers<sup>9</sup>. Taking hard won reform rights away from users with SAPS connections needs careful review.

The Commission notes that jurisdictions will need to review legislative instruments for reliability standards and guaranteed service level schemes, and make any changes required to cater for SAPS supply.

The Commission also notes that while reliability frameworks do not prescribe outcomes for specific customers, trials undertaken to date suggest that SAPS customers in remote areas are likely to experience significantly improved reliability as compared to grid supply. The asset life of SAPS may be shorter than traditional grid assets and grid connected assets, which would be built into any business case we assume. The AEC broadly agrees with the Commission that customers of DNSP-led SAPS should receive reliability protections equivalent to grid connected customers.

The AEC agrees with the Commission that customers transitioned to SAPS supply should continue to be subject to other relevant existing national energy specific consumer protections in the NERL and NERR.

Any questions about our submission should be addressed to David Markham by email to [david.markham@energycouncil.com.au](mailto:david.markham@energycouncil.com.au) or by telephone on (03) 9205 3107.

Yours sincerely,

**David Markham**  
Corporate Affairs  
Australian Energy Council

---

<sup>9</sup> ACCC Retail Electricity Pricing Inquiry Final Report June 2018  
[https://www.accc.gov.au/system/files/Retail%20Electricity%20Pricing%20Inquiry%E2%80%94Final%20Report%20June%202018\\_0.pdf](https://www.accc.gov.au/system/files/Retail%20Electricity%20Pricing%20Inquiry%E2%80%94Final%20Report%20June%202018_0.pdf)