

# Issues Paper on Review of the regulatory frameworks for stand-alone power systems

Energy Networks Australia response

9 October 2018

## Contents

|   |  |   |
|---|--|---|
| 1 | Executive summary  | 3 |
| 2 | Scope of distributor-led SAPS                                      | 4 |
| 3 | Pre-conditions for transition to off-grid supply                   | 6 |
| 4 | The need for a customer consent                                    | 6 |
| 5 | Process for identifying when a SAPS is the most efficient solution | 7 |
| 6 | Opportunities for SAPS is transmission                             | 8 |

# 1 Executive summary

Energy Networks Australia welcomes this opportunity to provide a submission in response to the Issues Paper Review of the regulatory frameworks for stand-alone power systems from the Australian Energy Market Commission (AEMC).

There is clear evidence of significant potential benefits to customers associated with the deployment of lower cost stand-alone power system (SAPS) solutions to some regions, communities or customers. Despite the potential benefits, the current regulatory framework prevents distributors from installing stand-alone power systems.

Restrictions on the efficient uptake of stand-alone power systems by distributors may lead to customer detriment through higher prices, lower reliability and reduced safety of electricity supply. It is likely that these detriments will grow over time if the deficiencies are not addressed.

This review represents an important step toward making the regulatory framework more responsive to technology and market developments. However, Energy Networks Australia holds significant concerns about regulatory options that limit alternative delivery models by which network businesses could efficiently provide regulated services.

There has been a tendency in recent AEMC decisions toward options that allow inefficient service delivery models to support an overriding goal of facilitating competition. Energy Networks Australia urges the AEMC to draw pragmatic lessons from recent experiences with the introduction of competition in the distribution network space. For example, the metering rule reflects faith in a capacity to create effective markets and competition through rule-making processes, but even these well-designed markets carved out and created by the AEMC have led to significant implementation problems leading to poor customer experiences, demonstrating the need for appropriate caution. We strongly encourage a focus on likely real customer outcomes, not theoretical ones.

The regulatory framework for stand-alone power systems should provide networks with an obligation to supply with a focus on the efficient long-term cost to serve. The framework will maximise benefits for all consumers if there is scope to deliver regulated services in an efficient way to customers by networks owning and operating whichever technologies deliver the best outcome. Such pragmatic arrangements can work in conjunction with the control measures provided for in the *National Electricity Rules*. This recognises that networks are obliged to efficiently deliver network services to customers, not simply operate pre-defined classes of assets such as poles and wires.

Energy Networks Australia has developed a set of key messages to inform and frame its approach to the issues raised by the AEMC in its Issues Paper:

- » The potential detriment to all customers arising from the existing barriers to adoption of stand-alone power systems by distribution businesses can be removed by addressing a discrete set of issues that only pertain to existing fringe of grid customers.
- » Networks should be able to transition their remote customers to stand-alone power systems in circumstances where this is able to lower the costs for remaining grid customers, and to achieve service, quality and price outcomes that do not disadvantage those customers moving off-grid.
- » Additional regulation is not required to protect competition in services involving the provision of supply by stand-alone power systems. There are sufficient safeguards for competition within the existing regulatory framework to ensure that the most efficient options are adopted, including those involving third parties.
- » Under the distributor-led model, the primary purpose of an investment in stand-alone power systems is provision of a distribution service. Therefore, distribution networks should be able to include the relevant assets in their regulated asset base where it represents the most efficient solution.
- » Only via network participation can the value gap between existing cost-to-serve (usually much higher than existing price paid) and off-grid cost to serve be captured and shared across all customers.
- » The public's preferences and the question of customer consent need to be a part of this review. Extensive engagement activities with customers subject to a potential SAPS solution being implemented will need to be undertaken. We note that a model which allows right of veto by individual customers for a distributor-led stand-alone power system delivering equivalent services to that currently provided will be unworkable and harmful to the goals of efficient service provision to customers overall.
- » Energy Networks Australia supports consideration by the AEMC of broadening the scope of its recommendations to include similar regulatory arrangements for transmission-connected customers.

Energy Networks Australia discusses these issues in the remainder of this submission. Further responses to the AEMC's Issues Paper questions are provided in [Attachment 1](#).

Energy Networks Australia urges that the AEMC develops pragmatic recommendations for distributor-led stand-alone power systems to the COAG Energy Council.

## 2 Scope of distributor-led SAPS

Energy Networks Australia considers the potential detriment to customers arising from the existing barriers to adoption of stand-alone power systems by distribution

businesses can be removed by addressing a discrete set of issues that only pertain to existing fringe of grid customers.

In particular, we refer to a situation in which a distribution business seeks to establish a SAPS as an alternative means of supplying existing customers, in preference to undertaking expenditure to replace the existing network supplying those customers by means of the interconnected network and remotely located, central generation. In this circumstance, a SAPS may represent a more cost-efficient overall supply solution than replacing current network assets, which is likely to be most relevant for areas that are remote from the main interconnected network, and connected via long feeders.

Analysis undertaken by Energeia for Energy Networks Australia and CSIRO found that stand-alone power systems are most likely to be cost effective in areas that are the highest cost to serve, which are also areas most subsidised under ‘postage stamp’ network pricing arrangements. In urban areas, the introduction of alternative supply models such as stand-alone power systems may be driven by a customer response to the economic cost of the network. However, where ‘postage stamp’ tariffs or uniform tariff arrangements provide significant subsidies to regional and remote customers, off-grid solutions are unlikely to be adopted by individual customers.<sup>1</sup>

The Issues Paper asks whether new customers or developments without an existing grid-connection should be eligible for SAPS provision facilitated by distribution businesses. Energy Networks Australia considers that there is limited merit in distributor led off-grid solutions for new customers as these customers already face price signals to provide their own stand-alone power systems. That is, new customers in remote locations potentially face material connection charges meaning they are likely to seek out their own off-grid solution.

However, there may be circumstances where it may be appropriate for a distribution business to consider a SAPS model of supply as an alternative to a new grid connection for new customers.<sup>2</sup> The framework supporting the provision of stand-alone power systems by distribution businesses needs to be sufficiently flexible to allow the most efficient solution possible to manage the obligation to supply requirement.

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<sup>1</sup> Energeia, Roles and Incentives for Microgrids and Stand Alone Power Systems, October 2016

<sup>2</sup> For example, the following scenarios need to be considered:

- Where a distributor has already off gridded a community or group of customers, it would be reasonable for the distributors’ solution to be able to accommodate efficient forecast load growth. In this circumstance new customers would have an expectation that the solution could accommodate their connection.
- Where network connection charges are substantial and customers want the protections offered by the regulatory framework, it would be appropriate for distributors’ to be able to offer an off grid solution. These (new) customers would face a connection charge that would reflect the cost of the off grid solution provided by the distribution (which could be higher than a third party solution that does may not come with the protections of the regulatory regime).

### 3 Pre-conditions for transition to off-grid supply

Energy Networks Australia supports an evolution of the regulatory framework that would enable distributor-led stand-alone power systems and facilitate the following outcomes:

- » **Savings to all network customers.** Networks should be able to transition their remote customers to stand-alone power systems in circumstances where this is able to lower the costs for remaining grid customers, and to achieve service, quality and price outcomes that do not disadvantage off-grid customers.
- » **Equivalent reliability and quality (e.g. voltage) standards for off-grid customers.** Once customers are taken off grid, their customer experience should be the same as if they were still connected to the grid because the relevant reliability obligations continue to apply. In practice, off-grid customers' supply quality and reliability are likely to improve as this has been the experience in Western Australia. Energy Networks Australia notes that, where reliability targets are specified, they differ by different feeder types (i.e., CBD, urban, short rural, long rural). This reflects the fact that the costs of improving reliability, and the value that customers in those different areas are likely to place on reliability improvements, are likely to be different. In the case of distributor-led stand-alone power systems, networks should be required to achieve the same level of reliability as provided under the interconnected network for a relevant category.
- » **Retaining retail competition where possible.** Energy Networks Australia supports retail competition and considers that AusNet's and PIAC's models for off-grid supply with retail competition deserve further exploration by the AEMC.
- » **Equivalent consumer protections for off-grid customers.** Whether a customer is or is not connected to the interconnected grid is clearly not the right basis for assessing their need for consumer protections. All energy customers should receive a clear set of consumer protections that are appropriate for their circumstances, through a nationally agreed and funded framework.

### 4 The need for a customer consent

The Issues Paper discusses the need for customer consent in the decision to move to a stand-alone power systems model of supply.

A useful analogy would be if a distributor wanted to convert a 3 phase 11kV supply to a SWER (or some new innovative distribution solution) rather than replace it like with like. The customers may still require 3 phase so the distributor would likely need to provide a hybrid battery/inverter arrangement at each customer premises to provide the equivalent service. As long as it is a genuinely equivalent level of service, there is

no requirement for customer approval. The only difference is that the customer would still be connected to the grid.

Based on pure efficiency grounds, customer consent is not required in the case in which SAPS represents the most efficient solution as the benefits for customers extend across the broader customer base. However, Energy Networks Australia understands that the public's preferences and the question of customer consent need to be a part of this review. The customers being taken off grid are the most impacted and their views clearly need to be heard.

Energy Networks Australia considers that extensive engagement activities with customers subject to a potential SAPS solution being implemented will need to be undertaken. Customers can be engaged with through a variety of processes, including initial planning and identification of SAPS opportunities, following by specific and more detailed investigation and consultation with customers, as well as education on current rules and protections to provide confidence to customers that distributor-led SAPS decisions will be in all customers' interests. Distribution businesses will undertake these activities during the regulatory determination process as a matter of course.

We consider that a model which allows right of veto by individual customers for a distributor-led SAPS delivering equivalent services to that currently provided will be unworkable and potentially harmful to the goals of efficient service provision to customers overall.

## **5 Process for identifying when a SAPS is the most efficient solution**

Additional regulation is not required to protect competition in services involving the provision of supply by stand-alone power systems. There are sufficient safeguards for competition within the existing regulatory framework to ensure that the most efficient options are adopted, including those involving third parties. Energy Networks Australia does not support regulatory options that limit the circumstances and manner in which networks can employ flexible service solutions. Under the distributor-led model, the primary purpose of an investment in stand-alone power systems is provision of a distribution service. Therefore, distribution networks should be able to include the relevant assets in their regulated asset base where it represents the most efficient solution.

The current network planning arrangements in the *National Electricity Rules* require the distribution businesses to apply the RIT-D before augmenting or replacing their network assets. The test requires alternatives to be considered to network augmentation and replacements, which should include both network and non-network options.

The RIT-D considers the costs and benefits to those producing, consuming and transporting electricity in the NEM, and so considers the wider implications for the electricity sector, i.e., whether there is an overall benefit, not just a benefit to those customers who are disconnecting from the grid. The existing tests therefore provide an appropriate means for identifying when replacement of an existing line(s) by a SAPS may result in more efficient (lower cost) solution for the market as a whole.

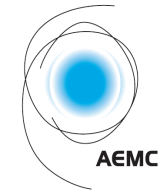
Distribution businesses are not required to apply the RIT-D to projects under \$5 million. However, distributors are required to demonstrate that their investment meets the capital expenditure objectives under the *National Electricity Rules*, and would have no reason to implement a stand-alone power system model if it was not the most efficient option. The incentives under the economic regulatory framework also operate at this stage to encourage distributors to pursue the most cost efficient solution - whether that is insourced or outsourced.

## 6 Opportunities for SAPS in transmission

Energy Networks Australia supports consideration by the AEMC of broadening the scope of its recommendations to include similar regulatory arrangements for transmission-connected customers.

While the nature and scale of opportunities for stand-alone power systems may differ between electricity distribution networks and electricity transmission networks, there does not appear to be a compelling reason to exclude the potential realisation of these opportunities in electricity transmission. Indeed, in some circumstances a transmission connection may be more efficiently supplied via a stand-alone power systems versus, when compared to a line replacement. There should be scope for this to occur.





| Questions  |  | Feedback   |
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| <b>Question 1 – Jurisdictional opt-in provisions</b> |  |  |
| (a)  | Should the arrangements supporting the transition to off-grid supply include an explicit mechanism to enable jurisdictions to determine when the national framework for SAPS would come into effect for DNSPs in their jurisdiction?   | Energy Networks Australia supports arrangements that would allow jurisdictions to opt in to the national framework.  |
| (b)  | Should this mechanism provide jurisdictions with the flexibility to opt-in to the national framework on a more bespoke basis e.g. on a regional or distribution area basis, rather than state or territory wide?   |  |
| <b>Question 2 – Efficiency pre-condition</b>         |  |  |
| (a)  | Is the RIT-D and supporting consultation process appropriate in the context of SAPS, including in respect of the different models of SAPS supply (that is, microgrids and IPS)?  | The current network planning arrangements in the National Electricity Rules require the network businesses to apply the RIT-D for network replacements and augmentations. These tests require alternatives to be considered to network augmentation, which should include both network and non-network options. The RIT-D considers the costs and benefits to those producing, consuming and transporting electricity in the National Electricity Market, and so considers the wider implications for the electricity sector, i.e., whether there is an overall benefit, not just a benefit to those customers who are disconnecting from the grid. The existing tests therefore provide an appropriate means for identifying when replacement of existing lines by a stand-alone power system may result in a more efficient (lower cost) solution for the market as a whole. |
| (b)  | To ensure they remain fit-for-purpose in the context of SAPS, what (if any) amendments may be required to: <ul style="list-style-type: none"> <li>the RIT-D test (including to the classes of market benefits and costs)</li> <li>the RIT-D consultation process and information requirements (including in relation to the non-networks options report), and</li> </ul> | Energy Networks Australia that the existing RIT-D test is appropriate in the context of SAPS. We do note, however, that two categories of market benefits are currently not explicitly included in the RIT-D (but are in the RIT-T), being dispatch costs and competition benefits. There is   |

| Questions                                       |  | Feedback   |
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|   | <ul style="list-style-type: none"> <li>the AER's application guidelines?</li> </ul>  | merit in discussing the relevance of these two categories as part of this review.  |
| (c)   | Is there a need to develop a light handed, targeted test to apply where the RIT-D is either not applicable or not proportionate? What might this test and/or assessment process look like?   | <p>Energy Networks Australia does not consider that there is a need to develop a light-handed economic test.</p> <p>Distribution businesses are not required to apply the RIT-D to projects under \$5 million. However, distributors are required to demonstrate that their investment meets the capital expenditure objectives under the National Electricity Rules, and would have no reason to implement a stand-alone power system model if it was not the most efficient option. The incentives under the economic regulatory framework also operate at this stage to encourage distributors to pursue the most cost efficient solution - whether that is insourced or outsourced.</p>  |
| <b>Question 3 – Consumer consent provisions</b> |  |  |
| (a)   | Is a requirement for customer consent necessary? If existing consumer protections can be maintained for SAPS customers, is consent necessary? If so, should this be based on a unanimous or majority consent model? What are the implications and issues associated with each model? | <p>Based on pure efficiency grounds, customer consent is not required in the case in which SAPS represents the most efficient solution as the benefits for customers extend across the broader customer base. However, Energy Networks Australia understands that the public's preferences and the question of customer consent need to be a part of this review. The customers being taken off grid are the most impacted and their views clearly need to be heard.</p> <p>Energy Networks Australia considers that extensive engagement activities with customers subject to a potential SAPS solution being implemented will need to be undertaken. Customers can be engaged with through a variety of processes, including initial planning and identification of SAPS opportunities, followed by specific and more detailed investigation and consultation with customers, as well as education on current rules and protections to provide confidence to customers that distributor-led SAPS decisions will be in all customers' interests. Distribution businesses will</p> |

| Questions   |   | Feedback  |
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|   |   | <p>undertake these activities during the regulatory determination process as a matter of course.</p> <p>We consider that a model which allows right of veto by individual customers for a distributor-led SAPS delivering equivalent services to that currently provided will be unworkable and potentially harmful to the goals of efficient service provision to customers overall.</p> |
| (b)   | Are customers equipped to make informed decisions, particularly with respect to understanding what they are agreeing to in terms of reliability and security, and potentially price, outcomes? Should explicit informed consent be required before DNSPs transition customers from the grid to supply via a SAPS? | As above  |
| (c)   | Where consent is considered appropriate, could incentives be offered by DNSPs to secure the consent of affected customers? What might these be (and could the benefits of a SAPS be shared)?  | Incentives offered by the distributor could be appropriate if the broader customer benefits outweigh the incentives offered to customers. The distribution business is in the best position to determine what if any incentives are appropriate as the circumstances of each SAPS are unique.   |
| (d)   | What alternative mechanism(s) could be used to ensure the long-term interests of affected customers are met?  | No response   |
| <b>Question 4 – Regulatory oversight role</b>     |   |   |
| (a)   | Is there a need to incorporate a formal oversight and/or approval role by the AER (or other appropriate body) in relation to the transition arrangements for DNSP-led SAPS?   | Energy Networks Australia considers that an additional oversight role in relation to the transition arrangements for DNSP-led SAPS is unnecessary.  |
| (b)   | Who would be best placed to perform such a role?  |   |
| (c)   | If the AER is the appropriate body, what additional benefits might be provided by giving the AER additional powers in relation to SAPS, given it is already responsible for monitoring, investigating and enforcing compliance with various aspects of the energy laws and rules?                                 |   |
| <b>Question 5 – Grid-connection pre-condition</b> |   |   |
| (a)   | Should new customers or developments without an existing grid-connection be eligible for SAPS provision facilitated by a DNSP? Why or why not?  | Energy Networks Australia considers that there is limited merit in distributor-led off-grid solutions for new customers as these  |

| Questions |  | Feedback  |
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|           |  | <p>customers already face price signals to provide their own stand-alone power systems. That is, new customers in remote locations potentially face material connection charges meaning they are likely to seek out their own off-grid solution.</p> <p>However, there may be circumstances where it may be appropriate for a distribution business to consider a SAPS model of supply as an alternative to a new grid connection for new customers. The framework supporting the provision of stand-alone power systems by distribution businesses needs to be sufficiently flexible to allow the most efficient solution possible to manage the obligation to supply requirement.</p> |
| (b)       | Would new customers always have a financial incentive to obtain SAPS from the competitive market? Could implementation of a SAPS for a new customer or group of customers by a DNSP result in network savings?   | Connection charges to remote customers are cost reflective under Chapter 5A of the NER. These customers already face the correct price signals in determining whether to seek (customer-led) off grid supply or a network connection.   |
| (c)       | Would enabling DNSPs to consider and potentially implement a SAPS solution as an efficient alternative to grid connection for new customers damage the competitive market for SAPS? In answering this question, consider new customers located in remote areas where a competitive market for SAPS may not be established. | <p>Additional regulation is not required to protect competition in services involving the provision of supply by SAPS. There are sufficient safeguards for competition within the existing regulatory framework to ensure that the most efficient options are adopted, including those involving third parties.</p> <p>Existing incentive mechanisms, as well as legal and regulatory constraints incentivise networks to utilise the most efficient</p>  |

| Questions                                 |  | Feedback   |
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|   |  | <p>mode of service delivery. For example networks:</p> <ul style="list-style-type: none"> <li>• must demonstrate that proposed capital and operating expenditure programs are efficient;</li> <li>• have expenditure profiles that are subject to benchmarking to provide further assurance that proposed expenditure reflects efficient costs;</li> <li>• are incentivised by multiple schemes such as the capital expenditure efficiency sharing scheme and the efficiency benefit sharing scheme to deliver least cost solutions;</li> <li>• are obligated to undertake regulatory investment test processes across a range of new investments;</li> <li>• remain subject to a recently expanded range of ring-fencing and cost allocation obligations which further support incentives for efficient and non-discriminatory service delivery options.</li> </ul> |
| (d)                                       | What are the potential issues associated with DNSP obligations to connect where SAPS are regulated under the national framework?   | The obligation to connect reflects the current central dispatch paradigm. In order to facilitate the SAPS model, this would need to be re-framed as an obligation to provide an electricity supply.  |
| <b>Question 6 – Right of reconnection</b> |  |  |
| (a)                                       | Should existing reconnection rights apply unchanged to DNSP-SAPS customers wishing to seek reconnection to the grid? Alternatively, should the SAPS arrangements include special rights for DNSP-SAPS customers seeking to reconnect/revert? | We recommend that this process considers the appropriateness of reconnection rights in a workshop setting to allow for consideration of various scenarios that may occur in the future.  |
| (b)                                       | Should the reconnection rights of DNSP-SAPS customers who have provided consent (where applicable), or new customers, differ from the rights of customers who have not provided their consent to be moved?                                   |  |
| (c)                                       | What might a “return to grid process”, including charges, look like for DNSP-SAPS customers?   |  |
| (d)                                       | Would a mechanism need to be designed to avoid any potential to burden other customers with the costs of reconnection?   |  |

| Questions   |   | Feedback  |
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| <b>Question 7 – Defining the SAPS system service(s)</b> |   |   |
| (a)   | Should the national framework be designed around one model of SAPS service provision which could accommodate various circumstances? What might this model look like?  | Networks have a mandatory obligation to deliver services, and must have the capacity to use the delivery model best adapted to a diverse range of network and market circumstances to meet the common needs of customers of the shared network. It is yet to be tested whether business models and contractual frameworks are available and offered in the market that provide equivalently firm service solutions, with the outsourced service provider agreeing to accept appropriate damages premised on the value of lost load or liability to the network in non-delivery. Therefore, option (b) is preferable.  |
| (b)   | If the answer to the previous question is no, should this review focus on establishing a framework that allows DNSPs to pursue a variety of approaches to SAPS service provision, depending on the circumstances at hand? Why or why not? | As above  |
| (c)   | In what circumstances (if any) might it be appropriate for a DNSP to own/operate a vertically integrated SAPS solution?   | The nature of the process for implementation, and the arrangements that would need to be put in place, can be expected to depend on the specific circumstances of the SAPS solution. For example, the appropriate arrangements for a larger-scale grid incorporating several sources of supply and a large number of customers can be expected to differ from those that would apply to a micro-grid connecting a small number of farms. In the former case, the size of the grid may make it feasible for there to continue to be competing generators and retailers. In the case of a small-scale grid, supply may need to be via a single, vertically integrated electricity supplier. Existing incentives will direct distributors to make the most efficient choice. |
| (d)   | When (that is, at what stage point in the process) would contestability in the provision of SAPS be tested and by who?  | Service classification decisions by the AER.  |

| Questions  |  | Feedback   |
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| <b>Question 8 - Role of the distributor</b>      |  |  |
| (a)  | Are the issues identified in the contestability of energy services rule change applicable in the context of SAPS?  | Energy Networks Australia urges the AEMC to draw pragmatic lessons from recent experiences with the introduction of competition in the distribution space. For example, the metering rule reflects faith in a capacity to create effective markets and competition through rule-making processes, but even these well-designed markets carved out and created by the AEMC have led to implementation problems impacting customers experiences, demonstrating the need for appropriate caution.   |
| (b)  | Is it necessary and appropriate to restrict the ability for DNSPs to earn a regulated return on behind-the-meter and/or in-front-of-the-meter assets specifically associated with the provision of SAPS? Why or why not? | It would be imprudent to limit the range of options by which DNSPs can provide the SAPS model of supply as a distribution service.<br>Under the distributor-led model, the primary purpose of an investment in stand-alone power systems is provision of a distribution service. Therefore, distribution networks should be able to include the relevant assets in their regulated asset base where it represents the most efficient solution.<br>A model that includes restrictions on asset ownership, complicated exemption processes and temporary waivers does not represent the most pragmatic approach. |
| (c)  | In what circumstances (if any) might it be appropriate for a DNSP to own/operate a vertically integrated SAPS solution (that is, to seek an exemption (where relevant) from restrictions on asset ownership)?            | See question 7(c)  |
| <b>Question 9 – Provision of retail services</b> |  |  |
| (a)  | Is it likely to be feasible to design arrangements to provide SAPS customers with access to retail competition? What might these arrangements look like?   | Energy Networks Australia supports retail competition and considers that AusNet's and PIAC's models for off-grid supply with retail competition deserve further exploration by the AEMC.   |
| (b)  | What specific retail services would need to be provided to customers supplied via a SAPS model of supply?  |  |
| (c)  | Is there a need for a separate retailer role (distinct from the provision of other services) within the SAPS model of supply? Why/why not?   |  |

| Questions  |   | Feedback   |
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| (d)  | Should retail services be managed by an authorised retailer?  |  |
| <b>Question 10 – Other roles/responsibilities specific to stand-alone power system provision</b> |   |  |
|  | Who are the key stakeholders within a SAPS model of supply (other than the DNSP and the retailer) and, specifically, what would be their key roles and responsibilities?  | No response  |
| <b>Question 11 – Treatment of existing market participants</b>                                   |   |  |
| (a)  | Which existing market participants (if any) may be impacted by a DNSP's decision to transition a customer (or group of customers) to a SAPS model of supply?  | No response  |
| (b)  | Should DNSPs be required to consider the impact of transitioning a customer (or group of customers) to a SAPS on these participants? Why or why not? Via what mechanism?  | No response  |
| (c)  | Is it necessary to put in place special arrangements for market participants, including embedded generators or retailers, who may be affected by a DNSP's decision to transition customers to a SAPS model of supply? What might these arrangements involve?  | No response  |
| <b>Question 12 – Roles of AEMO and the AER</b>   |   |  |
| (a)  | What role could/should the AEMO play within the framework for SAPS provision by a DNSP?   | This is likely to vary from little/no role to some role depending on the size and nature of the project, and the framework needs to ensure this flexibility. |
| (b)  | What role could/should the AER play within the framework for SAPS provision by a DNSP?  | Economic regulation role. As discussed above, we do not support an additional oversight role.  |
| <b>Question 13 – Retail price protections</b>  |   |  |
| (a)  | If retail competition is not possible in SAPS, what alternative protections may be appropriate (e.g. retail price controls) for customers receiving supply via SAPS?  | No response  |
| (b)  | Would applying the pricing condition from the AER's retail exempt selling guideline to not charge more than the standing offer price that would be charged by the local retailer be appropriate for SAPS, if retail competition does not apply? Is there an alternative price control that would be more appropriate? | No response  |
| (c)  | In the areas that currently have price regulation, is extending that price regulation to customers in SAPS an appropriate approach?   | No response  |



| Questions  |   | Feedback   |
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| <b>Question 14 – Other national energy-specific consumer protections</b>             |   |  |
| (a)  | The Commission has suggested a general principle that energy-specific consumer protections for customers being supplied via a DNSP-led SAPS should be equivalent to those for grid-connected customers. Are there any significant provisions that wouldn't apply, or would require amendment for customers under a DNSP-led SAPS model of supply? | Agree with the general principle. Customers must not face material disadvantage in the level and nature of consumer protection arising from a distributor-led SAPS.  |
| <b>Question 15 – Consumer protections specific to SAPS customers</b>                 |   |  |
| (a)  | Are there any additional consumer protections that may be necessary for SAPS customers?   | No response  |
| (b)  | In relation to detailed product information for the SAPS, what are the minimum provisions that should apply (if any)?   | No response  |
| <b>Question 16 – Options for providing electricity-specific consumer protections</b> |   |  |
|  | To provide equivalent protections for consumers receiving electricity supply via SAPS is the most efficient approach to amend the jurisdictional Acts adopting the NERL, as well as amending the NERL and NERR? Is there an alternative approach which may be more effective?   | No response  |
| <b>Question 17 – Reliability, security and quality</b>                               |   |  |
| (a)  | What reliability, security and quality standards are appropriate for DNSP-led SAPS? Should the same reliability and service quality levels apply as for grid-connected customers?   | The reliability standards that apply to network-connected customers should apply to off-grid customers. In general we expect customers that have been off gridded will receive an improvement to their supply reliability and quality based on experiences in Western Australia.   |
| (b)  | Are there any existing network reliability, security and quality standards that would be difficult to comply with for SAPS? For example SAIDI and SAIFI requirements may have equivalent principles, but the practice for determining them may be different in SAPS.  | SAIDI and SAIFI standards equivalent to grid-connected supply at the location are likely to remain suitable. Energy Networks Australia notes that, where reliability targets are specified, they differ by different feeder types (i.e., CBD, urban, short rural, long rural). This reflects the fact that the costs of improving reliability, and the value that customers in those different areas are likely to place on reliability improvements, are likely to be different. In the case of |

| Questions  |  | Feedback   |
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|  |  | distributor-led stand-alone power systems, networks should be required to achieve the same level of reliability as provided under the interconnected network for a relevant category.  |
| (c)  | Should GSLs be determined for DNSP-led SAPS? If so, should the same standards apply as for grid-connected customers (why/why not)?   | The lived experience of customers of SAPS (as measured by SAIDI, SAIFI and response times) should be in line with reasonable service expectations as if they were connected to the grid in that same location. As such, GSLs and associated standards should still be applicable.  |
| <b>Question 18 – Other jurisdictional consumer protection considerations</b>                   |  |  |
| (a)  | Are the other jurisdictional issues presented in section 5.6 less likely to be a concern for DNSP-led SAPS (why/why not)?  | No response  |
| (b)  | Should any of these issues be examined in greater detail in relation to DNSP-led SAPS?   | No response  |
| <b>Question 19 – Third party stand-alone power systems – decision making framework</b>         |  |  |
| (a)  | Which party should make the decision to transition customers to a SAPS and which party/ies should approve the decision?  | An efficiency precondition is considered necessary before a third party can transition customers to a SAPS. This should not disadvantage remaining grid-connected customers. Any third party should also be subject to the same reliability and quality of supply obligations as distributors to ensure customers are not disadvantaged. |
| (b)  | What should be the grounds for deciding to transition customers to a third party SAPS?   |  |
| (c)  | Which mechanisms should be employed to seek approval and/or consent?   |  |
| (d)  | If the consent of transitioned customers is sought, what is the proportion of customers that should provide their consent? Should consent factors be defined, and what should they be? |  |
| (e)  | Should transitioned customers, either individually or collectively (in the case of a microgrid), retain the right to reconnect to the grid?  |  |
| <b>Question 20 – Third party stand-alone power systems –asset transfer and stranded assets</b> |  |  |
| (a)  | Is there a role for the AER, jurisdictional regulator or other body in setting or approving asset values and pricing methodologies as a result of the transfer?                        | This represents a critical area of design for maintaining a regulatory framework.  |
| (b)  | How should asset transfers be treated in the DNSP RAB?   | As above   |

| Questions  |   | Feedback  |
|--|---|---|
| (c)  | How should stranded assets be treated in the DNSP RAB?  | Arrangements should ensure that stranded asset provisions do not operate on a retrospective basis and change the risk profile of the network without appropriate cost recovery or compensation arrangements in place.   |
| (d)  | Should corresponding fees be charged to the transitioned customers and customers left behind on the grid?                             | There are complex issues which require further discussion and consideration, including benefit sharing, integrity of the regulatory asset framework, allocative efficiency outcomes, and promoting least cost outcomes for customers as a whole. Recommend fuller AEMC discussions around this topic.   |
| (e)  | Is a dispute resolution framework design required for asset transfer and stranded assets?<br>What are the key elements of the design? | No response   |
| Other comments on the review or consultation paper |   |   |
|  | Do you have any other comments on the rule change request or the consultation paper?  | <p>Energy Networks Australia supports consideration by the AEMC of broadening the scope of its recommendations to include similar regulatory arrangements for transmission-connected customers.</p> <p>While the nature and scale of opportunities for stand-alone power systems may differ between electricity distribution networks and electricity transmission networks, there does not appear to be a compelling reason to exclude the potential realisation of these opportunities in electricity transmission. Indeed, in some circumstances a transmission connection may be more efficiently supplied via a stand-alone power systems versus, when compared to a line replacement. There should be scope for this to occur.</p> <p>Additionally, the Energy Networks Australia recognises that this Issues paper will have an influence on other electricity markets in Australia and in particular the Western Australian electricity market and Western Power. The Energy Networks Australia acknowledges Western Power's interest in Stand-alone power systems as evidenced by its trials and its AEMC rule change proposal in 2016 on Removing barriers to efficient network investment.</p> |

