

## Department of State Growth

OFFICE OF ENERGY PLANNING

GPO Box 536  
Hobart TAS 7001 Australia  
www.stategrowth.tas.gov.au



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

Attention Sherine Al Shallah

### **Stand-alone power systems – Priority 2 (EMO0037)**

Dear Mr Pierce

I am pleased to provide feedback on some of the issues raised in the review of the regulatory frameworks for stand-alone power systems (SAPS) – Priority 2.

As indicated in the earlier submission to the Priority 1 Issues Paper, the Department is supportive of establishing a DNSP-led SAPS framework, on the basis of providing economically efficient electricity supply to customers.

Establishing a workable third-party led SAPS framework will be significantly more challenging than arrangements for a DNSP-led framework. Even when a workable third-party led national framework is established, a competitive market for third-party SAPS service providers may not eventuate in Tasmania at the same time as in mainland jurisdictions, due to the small size of the market. Whilst there is an existing SAPS service provider market (currently servicing individual power systems), these providers may not be willing, or have the resourcing/capability, to operate under a more heavily regulated framework.

As such, it is important that separate jurisdictional opt-in provisions are in place for DNSP-led and third-party led SAPS national frameworks. This will allow jurisdictions flexibility in transitioning to the framework

If Tasmania elects to opt-in to the DNSP-led SAPS framework but not the third-party led SAPS framework, this raises the question of what framework should apply to new connections.

The Department indicated in its submission to the Priority 1 (DNSP-led) Issues Paper that, for new connection requests, it could be beneficial for there to be flexibility for DNSPs to assess the most economically efficient supply solution, whether that be through a new grid connection or a SAPS. Similar to existing arrangements for new connections, it would be reasonable for a customer to make a capital contribution toward facilitating supply. By allowing the most economically efficient supply solution, this would also mean that the customer's capital contribution would also be kept to a minimum.

In its draft report for Priority 1 (DNSP-led SAPS) the AEMC indicated DNSPs should not be able to connect new customers through a SAPS. Rather, SAPS supply for new customers should be provided through a contestable market (under a third-party led SAPS framework).

However, in the event there is no third-party SAPS service provider market, or Tasmania elects not to opt-in to the third-party led SAPS framework, this could lead to inefficient outcomes where a new customer seeks to connect.

The DNSP is obliged to offer to connect the customer but if it is only able to connect the customer through a network connection rather than through a SAPS, individual customers may be financially worse off if they would need to make a larger capital contribution to network extension than would be required for a SAPS. It is possible that overall costs for the network (recoverable from all customers) may be higher than the ongoing costs of maintaining the SAPS supply.

The AEMC may wish to consider situations where DNSPs are able to provide the most efficient supply solution for new connection requests (that is for an individual customer, not a microgrid) – either a network connection or SAPS supply under the DNSP-led SAPS framework. In order to protect the interests of the existing competitive SAPS supply market, consideration could be given to a requirement that DNSPs tender for the provision of the SAPS system. This may involve SAPS providers having to comply with higher standards than currently apply, however these may be less onerous than the standards that would apply under a third-party led SAPS framework where the service provider would have full responsibility for the SAPS system on an ongoing basis.

This arrangement could be applied on an interim basis, in situations where jurisdictions have opted into DNSP-led but not third-party led SAPS (which is a likely scenario for Tasmania).

If you wish to discuss any aspect of this submission, or any other SAPS issue, please contact Sharon Raymond ([sharon.raymond@stategrowth.tas.gov.au](mailto:sharon.raymond@stategrowth.tas.gov.au)) or by phone on (03) 6166 3489.

Yours sincerely



Sue Morrison  
**Acting Executive Director**  
**Office of Energy Planning**

5 April 2019