



27 March 2019

Ms Anne Pearson
Chief Executive
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Anne

AEMC Reference EMO0037 – Review of the regulatory frameworks for stand-alone power systems - Priority 2

Thank you for the opportunity to comment on the consultation paper 'Review of the Regulatory Frameworks for Stand-Alone Power Systems - Priority 2'.

The Energy & Water Ombudsman NSW (EWON) investigates and resolves complaints from customers of electricity and gas providers in NSW, and some water providers. EWON's jurisdiction has always included the ability to accept and investigate complaints from customers of exempt entities. EWON has recently also expanded its membership structure to accommodate embedded networks and exempt sellers. Our comments are informed by the complaints we receive and from our community outreach and stakeholder engagement activities.

Regulating stand-alone power systems

The framework must accommodate how future customers will obtain energy services

The proposed regulatory framework for third-party stand-alone power systems (SAPS) must be flexible enough to accommodate the future energy services that will be provided to residential customers. They must also provide consumer protections consistent with the proposed new embedded network framework and the existing protections available to grid connected customers.

EWON envisions a future where a customer will not simply obtain their energy services from a SAPS. Rather customers will soon be living in embedded networks that are connected to a SAPS. Their standard energy contract will include 'behind the meter' services such as solar and battery storage or energy management systems (owned and operated by the SAPS provider or embedded network). Such innovative energy services have great potential for delivering more reliable and affordable energy services to Australian households, however it is critical that these customers are included in the consumer protection framework.

This reality is not far away. The Australian Renewable Energy Agency's (ARENA) October 2018 submission in response to the AEMC issues paper for priority 1 referred to a report on the feasibility of microgrids for large new communities¹. The report focused on a proposed microgrid for the new 7,500 home community of Huntlee in NSW. A key feature of the proposed Huntlee microgrid was

¹ <https://arena.gov.au/assets/2015/04/Delivering-higher-renewable-penetration-new-land-housing-developments-microgrids.pdf>

the installation of solar panels on residential houses that would be owned and operated by the community utility provider as a smart grid. It appears from the report that home owners would not benefit in a traditional solar export tariff, but through lower energy prices delivered by the efficiencies delivered by the smart grid. This smart microgrid would be supported by a centralised solar generation plant, battery storage, and gas generators. The proposed model also included air-conditioning and hot water systems controlled by the community utility provider, in return for lower energy prices and annual dividends.

In the proposed Huntlee microgrid, the traditional energy services offered to customers are potentially bundled together with a variety of behind the meter services, all owned and operated by the owner of the SAPS. EWON is aware that the draft Behind the Meter Code is in development and will be submitted to COAG and the ACCC in April 2019. However, there is still uncertainty about how the voluntary Behind the Meter Code will interact with the consumer protections in National Energy Customer Framework (NECF). It is particularly uncertain for customers who are tenants and hold no rights under the contract for distributed energy services but must still be an account holder with the SAPS utility provider.

If the consumer protections contained in the NECF are extended to cover grid connected customers, embedded network customers and customers living in stand-alone power systems, there will be significantly less uncertainty for consumers, and less risk that the regulatory framework will need to be redesigned at a future stage.

Stand-alone power systems should be elevated to NECF to be consistent with embedded networks and grid-connected customers.

The AEMC's 2017 Review of regulatory arrangements for embedded networks found that the exemption framework is no longer fit for purpose due to the growth in the number and scope of embedded networks.

Whilst third-party SAPS will develop into a variety of different business models, customers living in third-party SAPS will share many of the same characteristics as customers living in embedded networks. Over many years, our data has shown that the central issues frustrating energy customers living in embedded networks are the lack of available information about how their energy services work; differences in their rights and entitlements compared to grid-connected customers; non-competitive energy prices; and confusion about why they lack choice when obtaining their energy services.

A residential customer living within a SAPS should be covered by the same consumer protections in the NECF that apply to a residential customer with a grid connection to the National Energy Market (NEM). To achieve this, we consider the framework for regulating SAPS should closely mirror the approach taken by the AEMC for updating the regulatory framework for embedded networks. Any microgrid established as a SAPS which is servicing residential customers should be subject to the same kind of national regulation proposed by the AMEC for operators of embedded networks, and on-sellers, within embedded networks.

It is critical that third-party SAPS are appropriately regulated now to avoid the potential further growth in the number of energy consumers with unequal consumer protections. A framework for regulating SAPS which does not adequately align with the regulation of embedded networks and current market participants will also risk becoming unfit for purpose if there is rapid future growth of the SAPS industry.

Individual power systems and microgrids

EWON recognises that there is a significant difference between a microgrid serving multiple customers and an individual power system (IPS), such as a single household going off grid. EWON suggests that IPS could be exempted from any future regulatory framework for SAPS and instead be regulated consistently with other behind the meter services (depending on the business model).

The consumer protections contained in the NECF are relevant for stand-alone power systems

The consultation paper notes that the consumer protections provided to grid-connected customers under the NECF relate primarily to:

- rights to access energy services and obligations to offer supply as a designated retailer
- informed consent requirements
- dispute resolution procedures
- minimum contractual standards
- billing, tariff and payment minimum requirements
- protections for vulnerable customers.

As we noted in our submission to the AEMC issues paper for priority 1 (SAPS), protections for customers facing disconnection are also critical and should be added to the list as a discrete protection.

These protections will remain relevant and critical for customers living in third-party SAPS. In addition to these protections, metering services within third-party SAPS should align with Chapter 7 of the National Electricity Rules. This ensures the possibility of future access to retail competition for SAPS customers.

Adequate price protections must be in place for SAPS customers that do not have practical access to retail competition. Many new development projects for embedded networks are clearly designed to provide residents with lower energy costs and improved environmental outcomes. However, complaints to EWON from embedded network customers about non-competitive energy pricing indicate that the intended benefits can be eroded overtime.

Price protections are also critical for tenants who are unable to choose their own energy retailer. In some embedded networks the benefit to consumers may not be directly reflected in the energy price, with benefits instead being bundled in other reduced costs for the property owner. In such situations, price protections are desirable to ensure that tenants are not left paying a high energy price without receiving the other benefits from living in the embedded network. Our experience managing complaints from embedded network customers strongly suggests that an adequate price protection should also be introduced for third-party SAPS customers.

If you would like to discuss this matter further, please contact me or Rory Campbell, Manager Policy and Research, on (02) 8218 5266.

Yours sincerely



Janine Young
Ombudsman
Energy & Water Ombudsman NSW