



Clean Energy Council submission to the Australian Energy Market Commission's Draft Determination:

Alternatives to grid-supplied network services

Executive Summary

The Clean Energy Council (CEC) welcomes the opportunity to provide feedback on the draft rule determination on alternatives to grid-supplied network services.

The CEC is the peak body for the clean energy industry in Australia. We represent and work with hundreds of leading businesses operating in solar, wind, hydro, bioenergy, marine and geothermal energy, energy storage and energy efficiency along with more than 4,000 solar installers. We are committed to accelerating the transformation of Australia's energy system to one that is smarter and cleaner.

The CEC welcomes the expression of support by the Australian Energy Market Commission (AEMC) for enabling off-grid supply. The reforms proposed would stimulate growth in off-grid markets and would provide a net benefit to all customers.

The CEC supports the objective of changing the National Electricity Law (NEL) and National Energy Rules (NER) as required to allow network service providers to provide microgrid or off-grid supply as a distribution service, which could then be subject to economic regulation.

We also support the proposal to amend the National Energy Retail Law and Rules (NERL and NERR) and/or relevant jurisdictional instruments to implement an appropriate regime of energy-specific consumer protections for off-grid customers, including reliability standards and price controls. We are of the view that both reliability standards and price controls would be necessary to address concerns that rural or fringe-of-grid customers might otherwise receive a lower standard of service compared with grid-connected customers.

We would be very happy to discuss these issues in further detail with the AEMC. We look forward to contributing further to this important area for policy development.

Opportunities for significant cost savings

As noted in the AEMC's draft determination, the NER do not permit network service providers to provide electricity to customers from microgrid or off-grid supply as a distribution service. This denies customers the benefits of delivery of not only the most cost-effective services, but also potentially more reliable and safe services. In many cases it will be cheaper to provide off-grid supply than to maintain and replace long power lines linking remote customers to the national grid. Moving to off-grid supply could potentially offer additional benefits such as improved reliability for remote customers and reduced bushfire risks.

Remote customers with an existing grid connection have no incentive to move off-grid on their own, as they do not face the full costs of maintaining the network assets, which are spread across all customers. An off-grid solution is only likely to eventuate if undertaken by the network service provider as an economically regulated service.

There will be situations where it is efficient to allow network service providers to offer off-grid supply as a regulated service where competition is not practicable and off-grid supply would be cheaper than maintaining a grid connection.

The total potential savings across the National Electricity Market are unknown but would be very significant. Of note are the following estimates of savings from providing off-grid power supply compared to the cost of replacing existing network assets:

- Western Power estimates a net benefit of \$388 million from providing off-grid power supply to 2,702 candidates on its network, and
- Essential Energy estimates a \$513 million saving from supplying off-grid power to up to 8,430 customers.

Importance of the proposed service supply conditions

In order to ensure a competitive market it will be crucial to enforce certain service supply conditions. The regulated network service provider should procure microgrid or off-grid power supply assets through an open and transparent competitive tendering process subject to ring-fencing requirements. The CEC supports the proposed service supply conditions outlined in the AEMC's draft determination, namely that:

- Regulated network service providers are prohibited from self-supplying individual power system assets, meaning that they must obtain these services on the contestable market, and
- Customer relationships and billing are managed by a retailer (or equivalent).

The CEC supports the recommendation that to avoid damaging the competitive market for off-grid systems, network service providers should only be permitted to provide regulated off-grid services where the use of off-grid supply would result in network savings and the customer has no financial incentive to obtain off-grid supply from the competitive market. Moreover, off-grid services should remain completely contestable and consumers should

always be allowed the option of choosing an off-grid supply from a provider that is not contracted by a network service provider. Our proposal is that network service providers should be allowed to cross-subsidise rural power supply using microgrids and off-grid supply because poles and wires supply is already cross-subsidised and using microgrids would be cheaper. However private suppliers of microgrids should always be allowed to compete against network service providers for power supply, regardless of whether and how the network service provider is allowed to cross-subsidise rural electricity supply.

This approach will ensure competition, which will drive innovation, better outcomes for customers supplied by microgrid or off-grid supply and lower costs for all customers.

Importance of customer protections

The CEC agrees with the AEMC's observation that customers should not be expected to move to off-grid supply unless it is offered to them at a price, and with protections, similar to those for electricity supplied via the national grid.

If network service providers are permitted to provide microgrid or off-grid supply as a distribution service it will be crucial to put in place customer protections and to ensure that rural customers are aware of these measures. Customers in remote areas who are currently connected to the grid are only likely to want to move to off-grid supply if it is no more expensive than their current tariff for grid power.

The AEMC has pointed to the importance of reliability standards to ensure that customers continue to have access to reliable electricity supply in the event that network service providers are permitted to provide microgrid or off-grid supply as a distribution service. The CEC is also of the view that price controls will be important to reassure rural customers that they will not be disadvantaged by the proposed changes. An appropriate point of comparison would be the local standing offer price charged by the local area retailer for new connections.

Regulation will be important to guarantee equitable reliability and price outcomes for rural customers.