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**Total Environment Centre
Western Power rule change
Alternatives to grid-supplied network services
Submission to Draft Determination
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Total Environment Centre’s National Electricity Market advocacy

Established in 1972 by pioneers of the Australian environmental movement, Total Environment Centre (TEC) is a veteran of more than 100 successful campaigns. For nearly 40 years, we have been working to protect this country's natural and urban environments: flagging the issues, driving debate, supporting community activism and pushing for better environmental policy and practice.

TEC has been involved in National Electricity Market (NEM) advocacy since 2004, arguing above all for greater utilisation of demand side participation — energy conservation and efficiency, demand management and decentralised generation — to meet Australia’s electricity needs. By reforming the NEM we are working to contribute to climate change mitigation and improve other environmental outcomes of Australia's energy sector, while also constraining retail prices and improving the economic efficiency of the NEM — all in the long term interest of consumers, pursuant to the National Electricity Objective (NEO).

Introduction

TEC is interested in the Western Power (WP) rule change as a by-product of our involvement in recent reforms around the regulation of the battery market on both sides of the meter (or connection point). We generally favour reforms that increase competition because this offers the prospect of facilitating high penetrations of solar energy supported by storage in local grids to complement the rollout of large scale renewables. Pursuit of this objective usually translates into restricting the role of networks in consumer-side DER.

Nevertheless, in principle we also support the WP rule change request on the basis that “there may be situations where it is efficient to allow distributors 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” – especially since the universal adoption by networks of postage-stamp pricing prevents consumers and the market from being exposed to the true (high) cost of serving isolated customers.

As well as being potentially cheaper and more reliable, in the current context of a fossil fuel-dominated wholesale market this option offers the potential for isolated consumers to source their energy from solar power backed up by batteries; a useful move towards the long term decarbonisation of the grid. (Over time we expect that the rationale for diesel gensets to provide backup power will be supplanted by solar batteries.)

We also support the submissions to the Consultation paper by the ATA and PIAC which detail the consumer protections and access to the equivalent of retail competition required to ensure that this reform directly benefits the consumers involved.

Rule or law change?

We accept that the AEMC has received legal advice that

...the proposed changes would result in inconsistencies between the NEL and the NER, by disrupting the mirroring between the term “distribution service” in the NER and the term “electricity network service” in the NEL. This would make the proposed rule invalid.

This finding informs the AEMC’s draft determination that “A change to the National Electricity Rules (NER) alone could not address a lack of customer protections for off-grid customers and may be invalid due to inconsistencies with the National Electricity Law (NEL).” The AEMC therefore concludes that a package of changes to the NEL, the NEFL and jurisdictional regulations is needed to enable networks to provide efficient off-grid supply, and that further work is required by the COAG Energy Council to progress

regulatory reform in this area.

However, while there is a “mirroring” between how *electricity network service* is defined in the NEL and how *distribution service* is defined in the NER,¹ neither definition is specific enough to either include or exclude offgrid systems. In our view, rather, the most problematic definition is that of a *distribution system* in the NER,² and in particular its reference to a network requiring the *connection* of one system to another – which obviously does not apply in the case of offgrid systems. (This does not even closely mirror the definition of the same term in the NEL.) But the definition of a *distribution system* in the NER could be amended by a rule change and would not require a change to the NEL. (This does not obviate the need to address separately other non-NER issues such as state regulations.)

For instance, the definition of a *distribution system* could theoretically be amended in the NER to read:

distribution system: a *distribution network*, together with the *connection assets* associated with the *distribution network*, which may or may not be connected to another *transmission or distribution system*.

New connections

However, our main concern for the future reconsideration of this important rule change relates to the need to ensure that a broader definition does not allow networks to own and operate offgrid systems that involve new connections. The rule change request appears to be ambiguous on this point. It needs to be clarified to prevent networks from extending the reach of their monopolistic control.

We would therefore argue that rather than a minimalistic change that might be ambiguous enough to open this door, perhaps a new definition needs to be added to both the NEL and the NER, such as:

Offgrid distribution network asset: the assets and/or services used to convey or control the generation, storage and supply of electricity, where these were previously but are no longer connected to the [remainder of the] *distribution system*.

Lifespans

We would also like to see more clarity around the lifespan of the offgrid systems owned and operated by networks. Given that the average warranty for battery systems is ten years and the average lifespan of network assets is approximately 30 years, we consider the latter would be an appropriate timespan for network involvement in offgrid supply. That is, any decision to take customers offgrid should be for a minimum of ten years and a maximum of 30 years. After that, the provision of energy services would revert to the third party market. (We anticipate that by that time offgrid systems may be considerably cheaper than grid supply, and that the market will have matured significantly for fringe-of-grid areas.)

This could be effected by amending the above definition to read:

Offgrid distribution network asset: the assets and/or services used to convey or control the generation, storage and supply of electricity, where these were previously connected to the remainder of the *distribution system*, for a period of no less than 10 and up to 30 years following the date of disconnection.

¹ The two definitions are as follows:

NEL: ***electricity network service*** means a service provided by means of, or in connection with, a transmission system or distribution system;

NER: ***distribution service***: a service provided by means of, or in connection with, a *distribution system*.

² NEL: ***distribution system*** means the apparatus, electric lines, equipment, plant and buildings used to convey or control the conveyance of electricity that the Rules specify as, or as forming part of, a distribution system...

NER: ***distribution system***: a *distribution network*, together with the *connection assets* associated with the *distribution network*, which is connected to another *transmission or distribution system*.

Alternately, the rule change could include a clause giving the AER the power to specify minimum and maximum lifespans for network ownership of offgrid assets.

Capex, opex or totex?

Finally, pursuant to our interest in the contestability rule changes, TEC would encourage the AEMC to explore how to introduce competition into the provision of network-initiated offgrid systems. If networks would not voluntarily take isolated customers offgrid if they were unable to add the costs to their asset bases, this is evidence of an ongoing capex bias in the NER. In principle, whether such consumers are on or off the grid should be an economic and equity decision, not one made because networks have a historical bias towards poles and wires because capex is a better corporate investment than opex. It should then follow that the provision of offgrid systems should be market-driven (with the successful provider – whether the network or a third party – then being responsible for reliability, consumer protections, retail prices, etc.) This issue is also addressed in our submission to the AEMC's recent Contestability rule change draft determinations.

We look forward to engaging further on this reform process when it returns to the AEMC from the COAG Energy Council.

Yours sincerely,



Jeff Angel
Executive Director