

3 November 2016



Ms Lily Mitchell
Senior Advisor
Australian Energy Market Commission

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Dear Ms Mitchell

Draft determination—Alternatives to grid supplied network services

SA Power Networks (**us** and **we**) welcomes the opportunity to comment on the AEMC's draft rule determination on the rule change proposed by Western Power—*Alternatives to grid-supplied network services*. As we have previously stated, we support the proposal as it would expand the means by which we can continue to deliver network services efficiently for our customers.¹ We welcome the AEMC's recognition of the merit of the rule change and acknowledge that this reform involves legislative changes outside of the AEMC's remit which must be considered by the Council of Australian Governments (CoAG). In this submission we provide our views on key factors to be considered.

Reform imperative

This reform should be given appropriate and timely consideration as it could drive cost savings to all electricity customers over time. This is particularly true for network businesses like ours, with large numbers of customers connected to remote rural fringes of the distribution network. In some situations, supplying energy to these customers via an off-grid power system could be significantly cheaper than grid-supplied energy, particularly when significant replacements of 'poles and wires' assets servicing those customers are triggered due to asset condition. In these cases, using off-grid power systems could minimise costs for all customers and ensure we can 'right-size' our network in these rural fringes.

We disagree with the AEMC that this reform should depend on introducing locational distribution prices. Departing from state-wide averaged 'postage-stamp' pricing is unlikely to be palatable for customers or governments and requires legislative change in several jurisdictions. Such significant reform is unlikely, and in our view, unnecessary for application of the rule change. Under current regulatory frameworks, DNSPs will still be driven to deliver least cost distribution services independent of the pricing regime.

Reform considerations

We observe that CoAG is already currently considering broader issues around regulatory arrangements to govern all scenarios of off-grid supply / microgrids and embedded networks. However, to ensure timely consideration, we encourage the AEMC and CoAG to focus any subsequent review of Western Power's proposal onto the specific circumstances in which the rule change was proposed. That is, existing grid-connected customers who could be more efficiently provided with an off-grid power system / solution than remaining grid-connected when poles and wires need replacing.

There could be various models by which to govern any transition of existing customers to off-grid supply, and ongoing service provision in off-grid situations. Different models will vary in complexity with respect to new required national and /or jurisdictional regulations and pose differing risks of disruption for customers. We would be pleased to work with the AEMC and CoAG to identify principles that could be applied to evaluate different models. In the meantime, two key guiding considerations should be that:

- Any customers eligible to be transitioned to off-grid supply will continue to receive an essential service subject to regulatory oversight; and

¹ SAPN, *Submission to AEMC consultation paper—Alternatives to grid-supplied network services consultation paper*, July 2017. Accessible on the AEMC website: <http://www.aemc.gov.au>



- Any customers transitioned to off-grid supply should, as far as practical, not be left any worse off with respect to the prices they pay and consumer protections they face when grid-connected.

DNISP-led transition and service provision

Applying these guiding considerations to the DNISP-led model—where the DNISP is the party to propose transitioning customers to off-grid supply (subject to regulatory approval as discussed below) and remains responsible for ongoing off-grid service provision (one of many possible models), as broadly reflected in Western Power’s proposal, we would observe that:

- Existing customers would be protected from an efficiency perspective.
 - Existing regulatory arrangements ensure that any consideration on whether customers should be transitioned to off-grid supply, would be based on relevant costs and benefits (to customers and the broader market) and therefore would only occur where efficient. Considerations would be via the AER’s regulatory determination process, the Regulatory Investment Test for Distribution (RIT-D), or otherwise via the operation of the AER’s expenditure incentive schemes.
 - The comparators considered within these processes would be the costs and benefits of off-grid supply versus those of replacing and / or maintaining any poles and wires network assets.
- Existing customers would be protected from a service performance perspective:
 - DNISPs would be the responsible parties for service provision and performance—both of on-grid and off-grid supply. Existing registrations and licensing regulations applying to DNISPs could continue to be used to protect customers and would avoid needing to design new regulatory frameworks to register / monitor new potential service providers.
 - Existing regulatory requirements which DNISPs must currently comply with in relation to service performance (quality, safety, security, reliability) of grid supplied network services, could equally continue to apply to off-grid supplied network services. In fact, as noted by the AEMC, customers in fringe of grid scenarios might actually experience improved reliability levels.
- Existing customers could continue to be protected from a service pricing perspective:
 - Existing regulatory price oversight of network services could continue to apply to off-grid network services. The AER would continue to exercise the direct price / revenue oversight it applies to grid supplied network services, avoiding the need to design new pricing regimes.
 - Consideration will be needed on the treatment of parts of the off-grid supply involving generation, direct customer relationships and billing / retailing. Practicality will be needed:
 - Disconnection from the National Electricity Market (NEM) means it might be impractical to simply transplant competitive market expectations to service provision within an off-grid supply. That is, to require that off-grid customers should be able to access retail / generation service providers via a competitive market.
 - Generators within an off-grid supply system are likely to be monopoly providers. Equally, although retailing could potentially be competitive, the administrative complexity of retail competition given monopoly generation and network provision may be inefficient, especially in the more likely small-scale off-grid community scenario.
 - Under a DNISP-led model, an efficient option could be to simply subsume all the costs of off-grid network assets (lines, wires, generation / storage etc) and any operation / maintenance and administration, within a regulated tariff that the DNISP provides directly to the off-grid customers.
- Consideration would be needed in relation to customer consent:
 - Considerations are needed as to required customer consent in situations where for example, transitioning customers to an off-grid supply passes a RIT-D from an efficiency perspective. We would be pleased to explore this matter further with CoAG and with consumer stakeholders.

- Considerations should be cognisant of the fact that customers in question might see no material difference in being transitioned from grid to off-grid supply. For example, any off-grid energy assets such as generation / storage might actually sit outside of a customer's connection point and premises. The only potential change is that the bill might be subject to a jurisdictional price control rather than having prices offered by a competitive market.
- Considerations as to consent arrangements should also be mindful that even if a small sub-set of affected customers did not consent to off-grid supply, there would be significant costs that will be added to the bills of all other grid-connected customers, by virtue of needing to retain a more expensive on-grid solution.
- New customers would be protected in relation to service access:
 - Existing regulations would govern the process and pricing of connections in situations where new customers in fringe of grid locations seek to connect to any off-grid power supply / system.
 - New customer connections would continue to be governed by the AER's Connections Guideline and each DNSP's connection policy which in turn accord with Chapter 5A of the NER.

Summary

We continue to support the Western Power proposal. This reform would expand the means by which we can continue to deliver energy services efficiently and should therefore be given appropriate and timely consideration.

We would be pleased to work with the AEMC, CoAG and consumer stakeholders to identify principles that could be applied to identify practical solutions to customers in fringe of network scenarios.

If you wish to discuss any of our comments further, please contact Bruno Coelho on 08 8404 5676 or by email on: bruno.coelho@sapowernetworks.com.au

Yours sincerely



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