

8 November 2017

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Dear John

Draft Rule Determination: National Electricity Amendment (Alternatives to grid-supplied network services) Rule 2017

AusNet Services is pleased to have the opportunity to make this submission on the Australian Energy Market Commission's (the Commission's) draft rule determination on the rule change proposal by Western Power titled 'Alternatives to grid-supplied network services'.

As noted previously, AusNet Services strongly supports the objective of the proposed rule change to allow distribution networks to deploy off-grid solutions where it is more efficient for existing network customers. The rule change has the potential to deliver improved customer outcomes by reducing network costs (and therefore customer bills) whilst maintaining service quality and reliability. It would also support the efficient achievement of our bushfire mitigation obligations.

The AEMC's draft decision clearly supports this view. It has recognised the merits of allowing distributors to offer off-grid supply as a regulated service. AusNet Services considers that there is a simpler way forward than referral to the COAG Energy Council energy market transformation work program, as proposed by the AEMC. Amendments to the NEL and NER should be pursued immediately. These amendments are capable of being crafted in a such a way that they provide the full suite of customer and reliability protections to customers that receive a regulated distribution service via an off-grid system.

The COAG Energy Council energy market transformation work program is appropriate to develop protections for the broader population of off-grid customers being supplied under competitive market arrangements. Unnecessarily waiting for the outcome of the COAG Energy Council process before making the targeted changes that are the subject of this rule change request will mean that current opportunities to make substantial network savings as part of meeting our bushfire safety commitments will be lost.

Our attached submission outlines a recommended way forward and addresses the AER's recommendations regarding the procurement of off-grid services.

AusNet Services has had the benefit of reviewing the joint submission made by Energy Networks Australia (ENA), the Public Interest Advocacy Centre (PIAC) and the Alternative Technology Association (ATA) in response to the draft determination. We also support the matters raised in their submission.

We look forward to engaging further with the Commission. Please contact Deirdre Rose, Principal Regulatory Economist on 03 9695 6435 with any inquiries related to this submission.

Yours sincerely,



Kelvin Gebert
Manager Regulatory Frameworks

AusNet Service Submission: Alternatives to grid-supplied network services rule change draft rule determination

Significant value of rule change recognised

The draft determination provides a range of evidence supporting the benefits associated with off-grid solutions to provide distribution services, particularly in high cost, remote network areas. For example:

Given that it can be costly to provide electricity via the grid in low-density areas, and that the costs of off-grid system components have dropped sharply in recent years, it is not surprising that recent research and stakeholder submissions support Western Power's conclusion that, in some areas, it would be more cost-effective to supply electricity via off-grid systems than to maintain and replace existing links to the grid.
(p.19., Draft Rule Determination)

...it seems clear that there are already a number of grid-connected customers in high-cost areas (very remote areas, or areas subject to bushfires where new, more expensive lines are required) who could be more cost-effectively supplied by off-grid supply.

The number of grid-connected customers who could be more cost-effectively served by off-grid supply, and the total savings available, are likely to increase over time as the costs of solar PV and batteries, the main components of off-grid systems, are predicted to continue to decrease in coming years (as discussed in section 3.2), unlike the costs of maintaining lines in remote areas.

It is very difficult to quantify the other potential benefits of moving to off-grid supply, such as reduced bushfire risk and improved land amenity. However, if even one bushfire is avoided, this could save many millions of dollars for property owners and insurers.
(p.24., Draft Rule Determination)

Hence, the draft determination has accepted that there is sound evidence that there are significant savings and other benefits associated with allowing distribution services to be provided by off-grid systems. The AEMC also acknowledges that these savings benefit all distribution customers.

Valid case for distributors to provide off-grid supply in limited circumstances

The AEMC's draft determination also acknowledges that there are situations where it is most efficient to allow distributors to provide a distribution service via off-grid supply, including where the off-grid system is more cost efficient than maintaining a grid connection.

The AEMC therefore supports allowing distributors to provide off-grid services to customers as regulated distribution services.

This means that the case for the rule change has substantially been made and is supported by the AEMC. The key impediment to achieving the desired outcome of the rule change is identified practical implementation issues. As explained below, we would urge the AEMC to take

more proactive action to develop and progress the package of regulatory changes necessary to implement this proposal.

Targeted regulatory changes are possible

The AEMC's draft determination proposes an implementation pathway that would address not just the desired rule change, but also broader concerns about the lack of customer protections for all off-grid customers. The AEMC has recommended that the COAG Energy Council's energy market transformation program develop a package of laws, rules and jurisdictional instruments to implement customer protections for off-grid customers.

AusNet Services agrees that the COAG Energy Council process is appropriate to develop protections for the broader population of off-grid customers being supplied under competitive market arrangements (and potentially other energy transformation issues). However, this broader reform package is not needed for the sub-set of customers that would receive a regulated distribution service via an off-grid system. This smaller set of customers could be automatically covered by the existing energy sector protections (including customer and service reliability protections), under a more targeted set of changes to the National Electricity Law (NEL) and National Electricity Rules (NER).

AusNet Services agrees with the AEMC's conclusion that changes to both the NEL and NER are required to allow distributors to provide off-grid services to customers as regulated distribution services. However, we do not consider that the AEMC has sufficiently explored the various options available to facilitate a regulated off-grid service offering.

As AusNet Services outlined in our previous submission on this rule change, with an appropriate change to definitions to bring off-grid solutions into regulated distribution services, arrangements can be made for the provision of network services via off-grid assets that allows customers to preserve the same electricity supply services as those that are conventionally grid-connected. This includes access to retail competition, service reliability and consumer protections.

AusNet Services strongly recommends that the AEMC undertake further work to identify the NEL and NER changes that would allow this more targeted reform to proceed without delay. The specific recommendations for NEL changes could then be provided to the COAG Energy Council for immediate endorsement. Waiting for the outcome of the COAG Energy Council process, which will incorporate this reform into a broader review, will mean that current opportunities to make substantial network savings as part of delivering our bushfire safety commitments will be lost.

As outlined in our previous submission, in order to comply with the Victorian regulatory requirements significant investments must be made in coming years to replace network in areas of highest bushfire risk. Network, including of 1,600km (route length) of high voltage (HV) powerlines, must be replaced with lower fire risk technologies (including insulated overhead, underground powerlines or new conductor technologies). Cost savings could be made by installing stand alone power systems (SAPS) where these are a more cost effective solution and customers agree.

Energy Networks Australia (ENA), the Public Interest Advocacy Centre (PIAC) and the Alternative Technology Association also support action by the AEMC to develop the necessary regulatory changes. Their joint submission on the draft rule determination urges the AEMC to develop the required regulatory changes as a matter of urgency and to present these to the COAG Energy Council. They also highlight the reality that without action by the AEMC, this beneficial reform is likely to be significantly delayed.

Procurement of off-grid services

The draft determination recommends NER amendments to allow distributors to provide distribution services using microgrids and individual power systems, subject to customer eligibility and service supply conditions. AusNet Services supports the customer eligibility conditions.

The proposed service supply conditions are:

- *Distributors are prohibited from investing in individual power system assets, meaning that distributors must obtain these services on the contestable market (unless an exemption is granted).*
- *Customer relationships and billing are managed by a retailer (or equivalent).*

AusNet Services has a range of concerns relating to the first service supply condition.

First, the distribution business must remain the provider of the distribution service despite the external off-grid service procurement arrangement. This is a fundamental requirement to ensure that all appropriate safety, consumer and reliability arrangements in the provision of the distribution service apply. Prohibiting distributors from owning the assets makes the arrangements far more complicated, which is not necessary.

AusNet Services may choose to procure off-grid services from the contestable market. However, in each instance we would need to determine that we were in a position to do so on acceptable terms, including with acceptable management of risk. For example, given the inevitably more remote location of the customer sites, we would need to determine whether:

- appropriately qualified external service providers are available to service the remote location;
- the service could be procured at an efficient price, given competition for service in the remote locations is likely to be limited;
- the service provider is able to service the remote location in accordance with our requirements on an ongoing basis;
- the service provider is able to provide financial guarantees to provide AusNet Services with back to back coverage to meet service reliability obligations. For example, in the event that reliability requirements are breached that the service provider is able to compensate AusNet Services for penalties incurred such as Guaranteed Service Level (GSL) payments; and
- transaction costs associated with the contractual arrangement do not outweigh any benefit of the external procurement.

If the conditions were not satisfied AusNet Services would want the right to procure and maintain the off-grid systems within our regulated business as for other network assets. Again, the proposed service condition would place these decisions outside our control.

A rigid requirement to only procure the off-grid service also raises a number of complications that may render the service impractical. For example, in the event of the collapse or closure of the contractor providing the off-grid service, the distributor may need to the right to step-in and take over ownership and responsibility for the off-grid systems. An inability to do so could impose a significant barrier to external procurement.

In conclusion, there does not appear to be a compelling reason for preventing distributors from owning the off-grid assets in the circumstances being contemplated.

Cost reflective network tariffs

AusNet Services is concerned that locational cost-reflective network tariffs is a primary recommendation made by the AEMC in responding to the rule change request. While we agree that moving to cost reflective tariffs is an important ongoing reform, we do not consider that this is a key consideration for the proposed rule change. Certainly implementation of locational pricing should not be a pre-requisite for proceeding with the reform proposal or delay its implementation.

Conclusion

We welcome and are encouraged by the AEMC's support for allowing distributors to provide off-grid services to customers as regulated distribution services. However, we urge the AEMC to progress the package of regulatory changes necessary to implement this proposal in order that it can be implemented at the earliest opportunity.