

Ref: fC116710

18 July 2017

Mr John Pierce
Chair
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Mr Pierce

Western Power's proposed National Electricity Amendment (Alternatives to grid-supplied network services) Rule 2017

Thank you for providing the opportunity for Essential Energy to make a submission to the Australian Energy Market Commission (AEMC) regarding Western Power's proposed National Electricity Amendment (Alternatives to grid-supplied network services) Rule 2017, tabled on the 14 June 2017.

Essential Energy is a NSW Government-owned corporation with responsibility for building, operating and maintaining one of Australia's largest electricity networks – delivering essential network services to more than 800,000 homes and businesses across 95 per cent of regional, rural and remote NSW and parts of southern Queensland.

In contrast to other Distribution Network Service Providers (DNSPs), we have one of Australia's lowest average customer densities – less than five customers per kilometre of power line.

Essential Energy's network is largely radial, and around 80 per cent of our network is rural. These lines supply sparsely populated areas and carry lower loads along very long distances. We often have to install asset components with a greater capacity (and greater cost) than our required demand to account for the drop in voltage that occurs as electricity travels along our vast network lengths.

Hence, the Rule change proposed by Western Power is of potentially significant impact to our business and the customers we serve.

Essential Energy wishes to express its in-principle support for the Rule change.

In particular, Essential Energy believes the proposed Rule change may have significant impact in situations where a DNSP can realise:

- cost benefits in providing electricity to a customer on the edge of the grid and these cost benefits can be passed through to all Essential Energy customers via reductions in distribution charges, and / or
- significant reductions in capital expenditure on planned projects by adopting stand-alone power system (SPS) options rather than replacing current infrastructure by traditional means.

In both cases, we believe the proposed Rule change would only be relevant to those customers who are currently connected to the grid. A request for a new connection should be able to be satisfied through the contestable market.

Underpinning the entire Rule change proposal is the challenge of how to utilise the grid to service areas of low customer density and manage the resulting cross-subsidisation impacting all customers.

Under the current Rules, given the levels of cross-subsidisation on the Essential Energy network it is unlikely to be in the commercial best interest of many rural and remote customers to disconnect from the grid, as this would increase their current energy costs.

While the majority of DNSPs have the capability to deliver this service and respect the competitive market economics, Essential Energy also recognises that the proposed Rule change has potential to limit the scope for competition in a market and welcomes further, open debate and engagement on how this might be resolved.

Essential Energy believes its goal should be to strike a balance between supplying customers on the edge of a grid with a level of service that is comparable to remaining on the grid, while utilising the most effective technologies to keep distribution charges to a minimum for all customers.

For this to occur, DNSPs require the flexibility to apply their local market knowledge and industry expertise to select appropriate energy solutions to service these customers' requirements. The proposed Rule change supports DNSPs in providing this service and, in line with Western Power's proposed changes to the definition of 'distribution service' in the NER, to incorporate off-grid supply as a distribution service for which distributors may receive regulated returns.

Essential Energy also acknowledges the potential complexities this proposed Rule change brings, including:

1. Customer protections

Protection of customers' rights is paramount and current service standards must be maintained, if not improved. Essential Energy agrees with the AEMC's conclusion that the National Energy Retail Law and National Energy Retail Rules do not apply to the sale or supply of electricity to customers via off-grid supply in New South Wales.

Depending on the nature of the off-grid solution provided, the interruption duration and frequency standards specified in Essential Energy's distribution licence may apply to off-grid customers. However, the overall reliability standards for feeders and individual feeder standards specified in Essential Energy's distribution licence are unlikely to apply, based on the definition of a 'feeder'.

2. Long term maintenance of off-grid solutions and the changing needs of customers

Many of the current and proposed technologies being suggested are relatively new to the market and have not been examined over the long term in Australian climates. As such, the long term implications around system maintenance, system expansion in response to growing energy requirements, and the service business models required to support these changes have not been tested over the long term. While Essential Energy believes there are real customer benefits to be gained, a clearer understanding of these new technologies is required to enable accurate benefit statements to be compiled.

3. Blurring the traditional line between generation, distribution, and retail

While the proposed Rule change does go some way to delivering a more efficient means for supplying power to the edge of the grid, it may be limited in its ability to reach beyond the distribution network and address other areas of the electricity supply chain. Further investigation is required into the generation and retail components of the supply chain before a 'system wide' solution that provides real cost savings for customers on the edge of the grid can be delivered.

4. Implementation of the proposed Rule change within different State regulations.

While Essential Energy is confident that the proposed Rule change, correctly implemented, has potential to benefit all customers, we believe the degree of success of the Rule change may be dependent on inter-operability between different State legislations. This will require further investigation at a Federal and State level to ensure that the proposed Rule change can be implemented to the benefit of all involved.

Given the nature of these potential complexities, Essential Energy requests that the AEMC host a roundtable with the relevant DNSPs and Energy Networks Australia to discuss and agree the most appropriate path forward for the Western Power proposed Rule change.

In the meantime, if you or your officers have any questions or require further information about this submission, please contact our Innovation and Market Analytics Manager, Josh Harvey, either by phone on 0407 681 593 or by e-mail via joshua.harvey@essentialenergy.com.au.

Alternatively, you can contact me directly on 02 6589 8333.

Yours sincerely

A handwritten signature in black ink, appearing to be 'John Cleland', with a stylized flourish at the end.

John Cleland

Chief Executive Officer