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Ms Sherine Al Shallah
Project Leader
Australian Energy Market Commission

Submitted online: www.aemc.com.au

9 October 2018

Dear Ms Al Shallah,

Review of the regulatory frameworks for Stand-alone power systems: Issues Paper

AGL Energy (AGL) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) *Review of the regulatory frameworks for Stand-alone power systems, Issues Paper*, September 2018 (Issues Paper).

AGL is a significant retailer of energy that provides energy solutions to over 3.5 million customers throughout Australia. AGL is continually innovating our suite of distributed energy services and solutions for customers of all sizes (residential, business and networks). These 'behind the meter' energy solutions involve new and emerging technologies such as energy storage, electric vehicles, solar PV systems, digital meters, and home energy management services delivered through digital applications.

AGL notes the AEMC view that the regulatory frameworks governing the use of stand-alone systems (SAPS) and the transition of grid-connected customers to SAPS should be reformed to enable the most efficient technological solutions to supply some customers. We appreciate that changes in technology and technology costs are leading to SAPS becoming an increasingly viable option for customers, especially in circumstances where the cost of providing a grid-connected service might be high (for example in remote locations).

Nevertheless, the energy sector is principally concerned with delivering an essential service for customers. Accordingly, the regulatory framework governing SAPS should be designed from a customer-centric perspective that carefully balances the following guiding principles:

- Ensuring that customers have access to energy;
- Promoting informed customer choice;
- Enabling innovative deployment and ownership business models for new technologies; and
- Maintaining price and service discipline in the provision of energy services (through competition to the extent feasible).

At a fundamental level, the national electricity market (NEM) was designed to ensure optimal customer outcomes through a supply chain that entails competitive generation and customer markets and regulated network services. This configuration is an important aspect of ensuring reliable and cost-effective supply. Any deviation from this approach would therefore need to demonstrate clear efficiency outcomes whilst maintaining consistent levels of customer protection.

The Issues Paper discusses a range of important considerations in the design of the regulatory framework for SAPS including:

- Transition to off-grid supply facilitated by a network business;
- Allocation of roles and responsibilities in off-grid supply;
- Application of consumer protections in off-grid supply; and
- Transition to third party stand-alone power systems.

We have addressed these topics in detail in Attachment A but in general, AGL supports a regulatory framework that:

- Would allow for SAPS, subject to a RIT D assessment;
- Provides consumers with the same consumer protection as grid connected customers are currently afforded;
- Is not rendered unworkable because of individual Explicit Informed Consent and instead should be subject to an independent assessment by a group like the Australian Energy Regulator (AER);
- Prohibits the networks from being both maintainers and distributors of the energy in SAPS; and
- Continues to promote competition for the provision or retailing services, both energy plans and behind-the-meter solutions.

Should you have any questions in relation to this submission, please contact Kurt Winter, Regulatory Strategy Manager, on 03 8633 7204 or KWinter@agl.com.au.

Yours sincerely

(signed for email transmission)

Con Hristodoulidis

Senior Regulatory Strategy Manager

ATTACHMENT A

1. Transition to off-grid supply facilitated by a network business

Jurisdictional opt-in provisions

A nationally consistent framework would ensure consistent customer outcomes both in terms of customer protections and reliability standards.

AGL agrees with the rationale for a jurisdictional opt-in trigger into the national framework applicable to SAPS. The speed of adoption of SAPS in individual jurisdictions, which may be affected by a range of factors including the age of existing infrastructure and the geographical spread of customers, should not impede upon the establishment of a national regulatory framework to govern SAPS.

However, in the interests of ensuring consistency within each jurisdiction, we would suggest that the AEMC establish an explicit mechanism to enable jurisdictions to determine when the national framework for SAPS would come into effect for network businesses in their jurisdictions. In our view, this would ensure that as jurisdictions review and amend their own jurisdictional arrangements, a once-off decision can expedite the introduction of a nationally consistent regulatory framework.

We would recommend against a regulatory framework that allows jurisdictions to opt in on a more bespoke basis, for example at the regional or distribution level. In our view, this approach could lead to poor customer outcomes as customers in some distribution networks may be subject to less robust customer protection and reliability standards.

Efficiency pre-condition

AGL considers that the decision to transition customers to a SAPS should be subject to a planning and investment application framework overseen by the AER. As regulated monopoly businesses, it is essential that network businesses demonstrate efficiency outcomes in their investment and planning expenditure. Subjecting network business' expenditure to consistent regulatory oversight enables appropriate scrutiny of the cost-benefit analysis undertaken by network businesses and enable customers and stakeholders to provide input on any such proposal.

While the RIT-D would appear to present the most appropriate planning and investment framework, we consider that the parameters of the RIT-D Application Guidelines may need to be revised to take into account consideration of market benefits associated with the generation and retail aspects of SAPS as compared with the current competitive generation and retail models.

While the current RIT-D Application Guidelines consider modelling of network and demand side options, proponents generally build in assumptions on generation costs into the mix of options. If network businesses were permitted to also consider the provision of SAPS, the RIT-D Application Guidelines may need to give more specific direction on the modelling of the generation market benefits and costs as well as the potential market impacts of this arrangement as compared with access to retail market competition. Given that investment in generation is subject to long-term market forces, there would to be some complexity in developing a model that appropriately tests the generation market benefits of SAPS. Apart from remote locations, we consider that there are likely to be few circumstances where transitioning customers to a SAPS system (and thereby severing customers' connection to the NEM) would demonstrate an overall market benefit.

Even in remote locations where the cost of providing a grid-connected service might be high, it may be more appropriate to keep distribution lines connected and augment the network with non-network solutions (through the existing regulatory framework) to build the network's overall resilience rather than proceeding with a SAPS.

We appreciate that in some circumstances, a SAPS project may not meet the RIT-D cost threshold (currently set at $5M) or may not represent a proportional response, for example where it would only affect a small number of customers. The provision of energy services to business parks may present one such example.

However, we do not consider that these circumstances are sufficient grounds to establish a targeted 'light handed' test for investment in SAPS. In our view, the preferable approach would be to lower the RIT-D cost threshold for all augmentation and replacement decisions. As we have advocated previously in the context of the *National Electricity Amendment (Replacement expenditure planning arrangements) Rule 2017*, this would further encourage the development of a competitive market for non-network services and solutions to build overall network resilience. This approach would therefore support the efficiency of the electricity market more broadly.

Customer consent provisions

Given the long-term implications of transitioning customers to off-grid supply, the regulatory framework needs to protect the long-term interests of customers by empowering customers to engage directly in the decision-making process, enabling ongoing customer choice through access to retail competition, and establishing sufficient safeguards to guarantee customers' access to energy.

While obtaining customers' explicit informed consent would ensure that customers are given sufficient information on the risks and benefits of transitioning to off-grid supply, we also appreciate that some customers may not fully understand what they are agreeing to in terms of reliability, security and price outcomes. Indeed, these considerations may be more appropriately determined by an independent regulator in the context of an efficiency pre-condition assessment.

Having regard to the regulatory arrangements in New Zealand, we would recommend that network businesses be required to give notice to customers, market participants and the public, rather than requiring explicit customer consent. These consultation requirements could be incorporated in the RIT-D framework. The AER should then be required to consider submissions made by customers, market participants and the public in the context of its RIT-D determination.

A set of minimum customer outcomes should also be guaranteed by network businesses. As the AEMC has suggested, these should reflect the key consumer protections and reliability outcomes currently afforded to grid connected customers. To ensure that customers are not adversely affected, a prudential fund or insurances against the failure of the off-grid system should be underwritten by the relevant network business leading the transition of customers to a SAPS.

We also agree with the AEMC that the SAPS framework should provide customers with access to retail competition to alleviate concerns that consumers may have in relation to giving up their access to retailer choice and competitive market outcomes.

Regulatory oversight role

Transitioning customers to SAPS should be subject to a transparent review administered by the AER. As we elaborated above, the AER should assess investments in SAPS through the RIT-D and associated instruments. This review process would scrutinise the cost-benefit analysis undertaken by network businesses and would enable customers and stakeholders to provide input on any such proposal. It would also be appropriate for the AER to be empowered to approve these proposals, having regard to the evidence at hand.

Grid connection pre-condition

AGL supports the grid connection pre-condition in the regulatory framework governing network businesses transitioning customers to SAPS. In our view, this condition aligns with the overarching aim of the proposed changes, to deliver efficiency in network expenditure considering the changing technology costs of SAPS and in circumstances where the cost of providing a grid-connected service might be high (for example in remote locations).

Right of reconnection

Given the long-term implications of disconnecting current grid-connected customers, the regulatory framework for SAPS should ensure that customers are fully informed on the nature and scope of their rights vis-à-vis reconnection. As noted above, if customers are consulted in the context of the RIT-D framework rather than by obtaining explicit informed consent, network businesses should also guarantee minimum customer outcomes. Where there is a failure of the off-grid system against service levels set by an independent body like the AER as part of approving a SAPS solution, we consider that customers should have recourse to an established prudential fund or insurance underwritten by the relevant network business that finances their reconnection to the grid.

2. Allocation of roles and responsibilities in off-grid supply

AGL considers that the regulatory framework should preclude networks from owning and operating SAPS due to the inherent conflict of interest in such an arrangement. A preferable regulatory model would require that network businesses procure SAPS solutions from an independent third party.

AGL regards the contestability rule changes as critical to the development of well-functioning markets in DER-related products and services, and indeed the energy market's broader transformation towards a more decentralised electricity grid. Restricting networks from earning a regulated return on BTM assets will enable customers to harness the full potential of their BTM resources. We consider that similar restrictions should apply in relation to the provision of SAPS, given that the supply of individual power systems does not have natural monopoly characteristics.

In order to ensure appropriate customer protections, it may be appropriate for networks businesses to cede ownership and control of SAPS to third parties such as local councils, who would then act as distributor and retailers. We note that such a model was implemented by Roxby Downs Council[1].

We also consider that retail services should be managed by an authorised retailer to ensure consistency in the standard of customer protections afforded to grid-connected and SAPS customers.

As noted above, the AER could be appropriately empowered to oversee the approval process for transitioning customers to SAPS, including the relevant preconditions for such a decision. It would also be appropriate for the AER to overseas associated regulations on pricing and tariff structure for SAPS.

[1] https://www.roxbydowns.sa.gov.au/roxbypower

3. Application of consumer protections

At a minimum, customer protections in the context of off-grid support should be aligned and consistent with the same protections afforded to grid connected customers under the National Energy Retail Rules.

In AGL's view, effective competition will be essential to ensuring price and service discipline in the provision of stand-alone energy systems. We note the AEMC's view in its review of the Western Power rule change proposal that although the potential for retail competition should be a factor when determining the appropriate models of off-grid supply, it may be difficult to retain effective retail competition in practice and that if effective retail competition in off-grid supply is not possible, price regulation may be appropriate. We would recommend that the AEMC undertake further analysis on the models that could be implemented to support retail competition and consider the need for retail price controls in the context of that more detailed modelling.

Finally, any reliability standard would need to carefully balance the need to provide reliable supply to consumers in the SAPS while also considering the technical requirements of a particular power system being utilised within the SAPS. AGL would encourage the AEMC to develop an appropriate framework to set guaranteed service levels to incentivise the operator of the SAPS to meet any reliability standard established.

4. Transition to third party stand-alone power systems

The transition to a SAPS needs to be applied consistently applied whether it is being initiated by a network or a third party. This includes:

- the decision to transition customers to a SAPS. It should be subject to consultation with the community and market participants as well as AER review rather than requiring explicit informed consent but would need to be established as a separate regulatory framework to the RIT-D;
- that transition should only be permitted where it results in overall efficiency gains; and
- as with the regulatory framework for network businesses transitioning customers to SAPS, customers should have guaranteed standards of supply and associated resource to insurance (underwritten by the third party involved) that would finance the need to reconnect.