12 October 2018

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2499
Sydney South NSW 1235

Dear Mr Pierce

EMO037 Stand-alone Power Systems Review, Issues Paper

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Australian Energy Market Commission (AEMC) regarding its Issues Paper on the regulatory arrangements for stand-alone power systems.

The attached submission is provided by Energy Queensland, on behalf of its related entities, including:

- Distribution network service providers (DNSPs), Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy Network);
- A regional service delivery retailer, Ergon Energy Queensland Limited (Ergon Energy Retail); and
- Affiliated contestable businesses, Yurika Pty Ltd (Yurika).

Should you require additional information or wish to discuss any aspect of Energy Queensland's submission, please do not hesitate to contact either myself on (07) 3851 6416 or Trudy Fraser on (07) 3851 6787.

Yours sincerely

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Encl: Energy Queensland submission

Energy Queensland Submission to the Review of the regulatory frameworks for stand-alone power systems

Issues Paper

Energy Queensland Limited

12 October 2018

About Energy Queensland

Energy Queensland Limited (Energy Queensland) is a Queensland Government Owned Corporation that operates a group of businesses providing energy services across Queensland, including:

- Distribution Network Service Providers (DNSPs), Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy);
- a regional service delivery retailer, Ergon Energy Queensland Pty Ltd (EEQ); and
- affiliated contestable business, Yurika Pty Ltd.

Energy Queensland's purpose is to "safely deliver secure, affordable and sustainable energy solutions with our communities and customers" and is focussed on working across its portfolio of activities to deliver customers lower, more predictable power bills while maintaining a safe and reliable supply and a great customer service experience.

Our distribution businesses, Energex and Ergon Energy, cover 1.7 million km^2 and supply 37,208 GWh of energy to 2.1 million homes and businesses. EEQ sells electricity to 740,000 customers.

The Energy Queensland Group also includes Yurika, an energy services business creating innovative solutions to deliver customers greater choice and control over their energy needs and access to new solutions and technologies.

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1 Introduction

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Australian Energy Market Commission on its *Review of the Regulatory Frameworks for Stand-alone Power Systems Issues Paper* (the Issues Paper). This submission is provided by Energy Queensland, on behalf of its related entities Energex Limited (Energex), Ergon Energy Corporation Limited (Ergon Energy), Ergon Energy Queensland Limited (EEQ) and Yurika Pty Ltd (Yurika).

Energy Queensland recognises that stand-alone power systems (SAPS) have the potential for increased application in the electricity sector. At the edge of the national grid, SAPS are increasingly becoming the least cost way to supply electricity to customers. It is therefore, widely recognised that significant policy and regulatory changes are required to support a transition to SAPS framework. Energy Queensland's DNSP, Ergon Energy is already at the forefront in the delivery DNSP-led SAPS in the regional and remote locations of its distribution network. We have thought deeply about these issues and the opportunities a DNSP-led SAPS framework will enable.

Prior to addressing the AEMC's questions and outlining our opinions on a regulatory framework for DNSP-led SAPS, we wish to note that it is unfortunate stakeholders have only been provided four weeks to respond to the questions and other issues raised in this Issues Paper. We appreciate the AEMC's position in terms of the timeframes required to respond to the Council of Australian Governments Energy Council Terms of Reference. However, it is extremely disappointing that all impacted parties have only been provided four weeks to consider these issues. This is a significant and complex issue, and, in order to inform and stimulate debate, interested parties should have been provided a more reasonable timeframe, such as six weeks to respond.

In response to the AEMC's invitation to provide comments on the Issues Paper, Energy Queensland has focused on key matters that are relevant for the establishment of a regulatory framework to support the provision of DNSP-led SAPS. Energy Queensland has also provided responses to the questions raised in the Issues Paper.

Energy Queensland is available to discuss this submission or provide further detail regarding the issues raised, should the AEMC require.

2 Specific comments

2.1 Proposed regulatory approach to SAPS

For a range of reasons, regulation of SAPS is appropriate. In economic terms, SAPS have natural monopoly characteristics as well as providing an essential service and therefore, it is important to protect customers through best practice regulation.

However, as has been noted in the Western Power Rule Change, SAPS challenge the purposes for which the regulatory framework under the National Electricity Law (NEL) and National Electricity Retail Law (NERL) were designed. The timing of this review is favourable and presents a real opportunity to develop a framework to support the facilitation to transition to DNSP-led SAPS.

Energy Queensland Limited (Energy Queensland) has a strong stake in promoting workable, effective changes to enable SAPS, with fit-for-purpose regulation. Energy Queensland also has a deep understanding of the range of technical, commercial and regulatory issues at play due to our experience in the provision of remote power supplies and isolated networks.

There are different drivers and demand for SAPS across the jurisdictions, as well as potentially many different circumstances and technical arrangements that may be required. Further technological innovation is expected, and learnings from practical experience should inform regulatory evolution.

However, a single set of prescriptive detailed national rules may not be suitable for SAPS regulation. The challenge is to strike the right balance between harmonised common provisions, and potentially variable detail.

Our proposed approach is a SAPS regulatory regime that establishes in the national framework high level principles while the jurisdictions develop the detailed design and application of SAPS regulation.. A pragmatic delineation between national and jurisdictional regulation would apply the principles of:

- **best practice regulation**, to develop fit-for-purpose, flexible regulatory arrangements for the diverse circumstances that may apply to different SAPS solutions, where the regulatory benefits outweigh the costs; and

- **subsidiarity**[1], to drive policy and regulatory decisions to their most efficient local level.

In the context of SAPS, the subsidiarity principle can support reforms to enable policy, regulatory and industry structure decisions that affect low density parts of the network to be: made as close as possible to the local level; and driven by a National Electricity Objective (NEO) and principles of best practice regulation.

Best practice regulation principles will lead to targeted, proportionate and fit-for-purpose regulation, i.e. regulation that:

- is targeted at material problems and risks;
- represents a proportionate response to the problems or risks; and
- procedurally efficient and effective in addressing the problems and risks.

2.1.1 National regulatory framework

Indicatively, Energy Queensland suggests that a national framework would be a SAPS-specific regulatory framework with stand-alone national principles; and no general application of the NEL and NERL provisions. Other national electricity rules would only apply to SAPS if clearly relevant, and if expressly incorporated, similarly to Queensland's current application of modified provision of the National Energy Customer Framework. We believe that this position is consistent with the model described by the Energy Market Transformation Project Team in the Consultation Paper on the Regulatory Implications of Stand-alone energy systems in the Electricity Market, as a "tailored, perhaps less onerous, regulatory framework for stand-alone systems which addresses their needs specifically".[2]

National SAPS regulation would include ***common principles*** that apply to all SAPS that are authorised at a jurisdictional level, and which:

- allow vertical integration of SAPS activities, with regulation applied to a single accountable provider
- are high level, and enable diverse scenarios, e.g. requirements that there be:
    - a responsible SAPS service provider, with the necessary skills, resources and obligations to perform its role;
    - appropriate fall-back arrangements, in the event of SAPS (third party) failure to supply;
    - possibly principles for SAPS connection and expansion;

[1] Subsidiarity is the principle that a central authority should have a subsidiary function, performing only those tasks which cannot be performed at a more local level. Colloquially, it means pushing decision-making as close as possible to the local level.

[2] at p14, 19 August 2016.

- establish a common process whereby detailed regulatory content is determined by a jurisdiction's nominated regulator, in line with the high-level principles; and
- identify national technical standards that cannot be excluded, specifically, where benefits of uniformity outweigh costs and risks.

2.1.2 Jurisdictional regulatory framework

The regulatory framework would allow for a fit-for-purpose jurisdictional instrument to authorise and regulate SAPS. Jurisdictional regulation would give effect to the national principles, and provide targeted, proportionate, and effective measures to achieve the underlying policy objectives. These should be developed at the jurisdictional level to accommodate for diverse factors rather than developing a one-size fits all approach.

Jurisdictional regulation may include matters not otherwise adequately covered in existing laws, such as:

- any necessary service provider rights and obligations e.g. in relation to access to property;
- appropriate fall-back arrangements to maintain services in event of failure of a SAPS (where it's a third party provider);
- competitive neutrality rules, if necessary; and
- possibly minimum commercial requirements (terms and conditions) for SAPS service contracts.

2.2 Competition in Ergon Energy's existing DNSP-led SAPS in the isolated networks

The existence of Ergon Energy's SAPS in its isolated networks has been well documented in this Issues Paper and various other related papers. Ergon Energy owns and operates 34 isolated networks and 33 isolated generators (referred to together as isolated systems or SAPS) that supply isolated communities across Queensland which are not connected to the national electricity grid.

The services provided in relation to isolated systems are not regulated by the Australian Energy Regulator (AER) as they do not form part of the national grid. Ergon Energy SAPS in its isolated networks operate under a mix of national and jurisdictional regulatory requirements. For example, the National Energy Retail Law applies with modifications specifically tailored for the isolated systems.

Competition in these areas is limited. The lack of competition in regional and remote areas has been acknowledged by the AER in the development of its Ring-Fencing Guideline, where it has explicitly allowed for exemptions from ring-fencing requirements for regional offices. The AER, also recognised this in its assessment of Ergon Energy's ring-fencing waiver application for some of its regional depots (not automatically classified as such) to be classified regional offices for the purpose of the Ring-Fencing Guideline. Ergon Energy sought a waiver on the basis that there is currently no or very limited competition with respect to contestable electricity services provided within the impacted depot boundaries. The AER granted a waiver as they considered it appropriate

to promote the efficient investment, operation and use of services for customers where there is a genuine lack of competition due to the remote location. A similar approach in assessing the regulatory framework should be undertaken by the AEMC.

It is important to highlight, that Energy Queensland is not opposed to supporting a competitive market in the provision of SAPS, which we understand will be considered during the next phase of consultations on the Terms of Reference. Equally important is the recognition that SAPS, depending on the structure, are a natural monopoly. However, it would be negligent if we did not recognise the lack of electricity retail competition in regional and remote locations in Queensland and that in this environment, the establishment of a competitive market for SAPS may be difficult to establish in the medium to long term. In addition, the development of a competitive market for SAPS should be facilitated with the support of network tariff reform and the widespread adoption of cost reflective network tariffs. Whilst the adoption of cost reflective network tariffs across Queensland is expected to increase during the 2020-25 regulatory control period, initially the level of cost reflective network tariff penetration is expected to be low.

Attachment 1 Stakeholder feedback template

The template below has been developed to enable stakeholders to provide their feedback on the questions posed in this paper and any other issues that they would like to provide feedback on. The AEMC encourages stakeholders to use this template to assist it to consider the views expressed by stakeholders on each issue. Stakeholders should not feel obliged to answer each question, but rather address those issues of particular interest or concern. Further context for the questions can be found in the consultation paper.

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Questions		Feedback
Question 1 – Jurisdictional opt-in provisions		
(a)	Should the arrangements supporting the transition to off-grid supply include an explicit mechanism to enable jurisdictions to determine when the national framework for SAPS would come into effect for DNSPs in their jurisdiction?	Energy Queensland believes it's critical to ensure mechanisms exist that enable jurisdictions to determine when to apply a national framework. As non-grid supply affects a local community and jurisdictional energy policies, it is important to recognise jurisdictional differences at a local level. There are diverse ways in which electricity supply by way of a SAPS could be provided to a particular community and the jurisdictions are best placed to determine the level of regulation identifying specific requirements that benefit that local community. The AEMC is aware that Energy Queensland operates 34 isolated networks and that these are regulated under a mix of national and jurisdictional regulations. This allows the flexibility to develop and apply fit-for-purpose regulation that recognises the particular community circumstances. Therefore, Energy Queensland encourages the AEMC to consider that an appropriate SAPS regulatory regime, should consist of a national framework that features a set of overarching principles that enable diverse scenarios, and allows state and territory governments to determine the specific details for their jurisdiction taking into account different circumstances and technical arrangements.

Questions		Feedback
(b)	Should this mechanism provide jurisdictions with the flexibility to opt-in to the national framework on a more bespoke basis e.g. on a regional or distribution area basis, rather than state or territory wide?	Energy Queensland strongly supports a mechanism to provide jurisdictions with flexibility to opt-in to a national framework. Similarly to sentiments expressed above in question 1(a), non-grid supply is a local essential service which affects a local community, which has important implications for the design of regulation. Therefore, allowing jurisdictions with the ability to opt-in is crucial. Importantly, DNSPs should be able to identify high-cost to serve areas through an appropriate economic efficiency test with the jurisdictional regulators.
Question 2 – Efficiency pre-condition		
(a)	Is the RIT-D and supporting consultation process appropriate in the context of SAPS, including in respect of the different models of SAPS supply (that is, microgrids and IPS)?	Noting that Energy Queensland supports a national framework including high level principles, where the regulatory detail is determined by the jurisdictions, we broadly supports the intent of an economic test similar in concept to the RIT-D. This process provides transparency in decision-making is economically efficient and benefits customers in the long term. However, some significant modifications are required for it be sustainable for a SAPS solution. This is partly because the RIT-D focuses on an overall market benefit. As the competition increases the current RIT-D approach is not appropriate for SAPS. The RIT-D consultation process serves well as a notice to the market and requires DNSPs to actively solicit feedback from customers. However, for use with SAPS, the RIT-D will need to be modified to ensure it is fit for purpose and does not create any perverse outcomes. It needs to account for a variety of impacts associated with SAPS. A test loosely based on the RIT-D concepts which maintains flexibility would be an appropriate starting point. Although we support a modified version of the RIT-D applying, we consider it important to note that there are deficiencies with the existing RIT-D process and therefore an overhaul would be necessary to support a SAPS assessment.

Questions		Feedback
(b)	To ensure they remain fit-for-purpose in the context of SAPS, what (if any) amendments may be required to: • the RIT-D test (including to the classes of market benefits and costs) • the RIT-D consultation process and information requirements (including in relation to the non-networks options report), and • the AER's application guidelines?	In addition to our comments in response to question 2(a), Energy Queensland provides more specific comments as they relate to the components of the RIT-D below. <u>The RIT-D Test</u> • The RIT-D test should take into account the framework, any jurisdictional issues, existing assets and impacts on those assets to ensure that the final outcome provides a benefit to customers. • Examination of costs should at a minimum explore: - network costs, including decommissioning and asset write down; - long term SAPS supply and funding model and ability to meet a transforming market; - Local economic impacts, including growth or decline in energy needs; - Impacts on government subsidies; - The longevity of any cross subsidies; - The available capacity in the line in the case of an augmentation driver; - Environmental considerations such as noise. That is, if a diesel generator is used as backup are there any considerations about how often or how noisy this system can be; - Ongoing maintenance costs; - A comparison of two like-for-like solutions, network or non-network, that meet economic efficiencies and the customer's needs; and - The customers' appetite to accept a different level of supply, for example bore pump that doesn't require continuous supply as opposed to a residential customer. <u>Consultation Process</u> • The engagement process broadly covers engaging with customers and the market and therefore may adequately already provide a framework for engagement. • Existing consultation timeframes may not be appropriate for an off grid solution. This is because it will depend on who is impacted, the likely solution and the location. For example: - A individual power system (IPS) for a single customer may likely have a simple fast consultation process as the DNSP can directly engage with the customer;

Questions		Feedback
		while - A very large system, that involves a small community, with an extensive rural network may require a longer time frame and different methodologies of assessment, and require considerably more time to engage with impacted customers. • Conversely, the consultation process may be too slow, especially if there is an urgent need for replacement of asset. • The consultation requirements need be balanced and flexible to ensure that the intended benefit is met.
(c)	Is there a need to develop a light handed, targeted test to apply where the RIT-D is either not applicable or not proportionate? What might this test and/or assessment process look like?	Energy Queensland also supports a light handed approach to regulation, and as such, an alternative test could be used. However, this alternative test will depend on the structure of the final rule, the allocation of responsibilities, risk and costs. A net present value or levelised cost of energy may be an appropriate economic test.
Question 3 – Consumer consent provisions		
(a)	Is a requirement for customer consent necessary? If existing consumer protections can be maintained for SAPS customers, is consent necessary? If so, should this be based on a unanimous or majority consent model? What are the implications and issues associated with each model?	At a high level, Energy Queensland considers that customers should not provide consent to move off-grid to a SAPS solution. We are concerned that customer consent requirements could be problematic and lead to inefficient outcomes if SAPS is demonstrated to be the least cost solution to deliver supply and benefits to all customers while meeting the National Electricity Objective (NEO). There is also danger in allowing one customer to veto removal of an existing power line where supply is to be replaced with a SAPS. This will frustrate economic efficiency. On this basis, Energy Queensland believes that consent is not required as long as the quality of the supply via a SAPS is equal or better to their existing grid supply and customer protections are guaranteed. This is consistent with the approach currently applied for grid-connected customers where a DNSP decides to upgrade the network. An appropriate economic assessment will remove emotional and other non-economic considerations and instead focus on providing a SAPS solution that benefits all those in the national electricity market (NEM). Despite consent not being favoured, we do believe that consultation is required with

Questions		Feedback
		impacted parties. Best practice engagement would be to ensure that customers and affected communities views are sought and respected, with any specific issues raised addressed/explained. Energy Queensland importantly notes that engagement and transparency are key requirements in ensuring a successful transition to a DNSP-led SAPS solution. The engagement strategy should outline risks, benefits, technical standards, service guarantees and customer protections. If the AEMC considers in the alternative, that consent is required, it may be appropriate for different approaches depending on the geographic location and scenario. Importantly, this should be determined at the local level, and modified where appropriate.
(b)	Are customers equipped to make informed decisions, particularly with respect to understanding what they are agreeing to in terms of reliability and security, and potentially price, outcomes? Should explicit informed consent be required before DNSPs transition customers from the grid to supply via a SAPS?	Similar to comments in question 3 (a) above, if proper engagement and education about customer protections and standards occur, then the risk of customers not being equipped to make informed decisions is reduced significantly. Customers would need information and to be educated around what is being proposed and what they potentially would be agreeing to. Recent research conducted by Energy Queensland shows that there is a high level of sensitivity around change and that customers are generally happy with their current supply reliability and having access to the grid. In the Queensland Household Energy Survey 2017 only 3% of respondents indicated a desire to go off-grid. Customers indicating a preference to be off-grid have been consistently low over the years of the survey. Despite these findings, Energy Queensland considers that where the regulatory framework supports customer protections, quality and reliability of supply, and customers are informed of the benefits, the transition to a DNSP-led SAPS solution will be championed by customers.
(c)	Where consent is considered appropriate, could incentives be offered by DNSPs to secure the consent of affected customers? What might these be (and could the benefits of a SAPS be shared)?	If the AEMC considers it appropriate to obtain consent, then incentives may be appropriate if the broader customer benefits outweigh the incentives offered to customers. This should be determined by the DNSP as part of an economic

Questions		Feedback
		assessment and individualised given circumstances may differ.
(d)	What alternative mechanism(s) could be used to ensure the long-term interests of affected customers are met?	We do not consider that alternative mechanisms are necessary, especially if appropriate consultation has occurred. However, any alternative mechanisms need to consider load growth and changes to connections. For example, impact of drought on farms; expansion of small coastal towns during holiday seasons. It may be appropriate that some individual customers are offered their own individual power system (IPS) and they are no longer a customer of the DNSP.
Question 4 – Regulatory oversight role		
(a)	Is there a need to incorporate a formal oversight and/or approval role by the AER (or other appropriate body) in relation to the transition arrangements for DNSP-led SAPS?	As Energy Queensland recommends a SAPS regulatory regime that is established in the national framework with high level principles, and a framework for detailed regulatory decisions to be made by jurisdictional regulators, oversight should be light-handed and limited to the relevant jurisdictional regulator. This aligns with the subsidiarity principle, where we push the decision-making as close as possible to the local level.
(b)	Who would be best placed to perform such a role?	Energy Queensland refers to our response in question 4(a).
(c)	If the AER is the appropriate body, what additional benefits might be provided by giving the AER additional powers in relation to SAPS, given it is already responsible for monitoring, investigating and enforcing compliance with various aspects of the energy laws and rules?	As stated in our response to question 4(a), Energy Queensland considers that jurisdictional regulators are the appropriate body for any oversight role not the AER. The principle of subsidiarity should guide the AEMC in determining the most appropriate body. Subsidiarity will drive policy and regulatory decisions to their most efficient local level, which is at a jurisdictional level not at the national level. In the context of SAPS, the subsidiarity principle can support reforms to enable policy, regulatory and industry structure decisions that affect low density parts of the network to be made as close as possible to the local level.
Question 5 – Grid-connection pre-condition		

Questions		Feedback
(a)	Should new customers or developments without an existing grid-connection be eligible for SAPS provision facilitated by a DNSP? Why or why not?	Theoretically yes. Energy Queensland strongly supports the ability for DNSPs to offer a SAPS solution, rather than just a grid-solution. This should apply equally to new customers or developments without an existing grid-connection. We see no reason to treat these customers any differently to any other connection applicant. If a DNSP-led SAPS framework is developed that allows economic and efficient SAPS solutions, for customers, then this should be utilised where appropriate.
(b)	Would new customers always have a financial incentive to obtain SAPS from the competitive market? Could implementation of a SAPS for a new customer or group of customers by a DNSP result in network savings?	This will depend upon the particular pricing structure that applies to a SAPS connection and the availability of competitively priced alternatives to a grid connection provided by the DNSP. There is little incentive if new customers can be connected to the network for a lower cost than supplied by a SAPS from a competitive market. However, the converse is true, that is, where the connection of a new customer results in augmentation to the network it may be more cost effective to supply via a SAPS solution. Energy Queensland has had significant experience with SAPS in its isolated networks, and based on this experience we consider that, network savings can be achieved by offering a SAPS solution where there are high operating costs.
(c)	Would enabling DNSPs to consider and potentially implement a SAPS solution as an efficient alternative to grid connection for new customers damage the competitive market for SAPS? In answering this question, consider new customers located in remote areas where a competitive market for SAPS may not be established.	Energy Queensland does not consider that in developing a framework where DNSPs can provide a SAPS solution as an alternative to a grid connection will damage the competitive market for SAPS. This is especially true where a DNSP becomes the provider of last resort in regions where there is no competition. Furthermore, Energy Queensland already provides SAPS solutions in its isolated networks through its integrated businesses, Ergon Energy as the DNSP, and EEQ as the retailer. This model enables enhanced flexibility and choice for customers in remote locations. Lack of competition in these areas has been highlighted by Ergon Energy on many occasions. It is extremely important, that in these remote locations where effective competition is not feasible, that DNSPs are able to provide SAPS solutions to customers.

Questions		Feedback
(d)	What are the potential issues associated with DNSP obligations to connect where SAPS are regulated under the national framework?	In Energy Queensland's view, establishing a national framework does not focus on different types of consumers. The outcomes for customers' needs to focus on different geographic contexts and scenarios and we believe that this cannot be achieved under a national framework. The drive for national uniformity can conflict with fit-for-purpose regulation and as such, a jurisdictional framework is preferred. The framework needs to be "reframed" to ensure that principles sit a national level, while specific detailed regulatory requirements are determined at a jurisdictional level.
Question 6 – Right of reconnection		
(a)	Should existing reconnection rights apply unchanged to DNSP-SAPS customers wishing to seek reconnection to the grid? Alternatively, should the SAPS arrangements include special rights for DNSP-SAPS customers seeking to reconnect/revert?	As a general rule, Energy Queensland does not support customer reconnection rights. This is due to the costs to reconnect. It would be economically unviable to connect many of Ergon Energy's isolated customers to the grid. Furthermore, where a DNSP has consulted and agreed that this is the most efficient solution, then it should remain unchallenged as if the SAPS performance and reliability is guaranteed. However, there may be some legitimate circumstances where a DNSP determines it appropriate to reconnect. For example, the SAPS was originally provided in a remote location, however, there is now a local network with sufficient capacity.
(b)	Should the reconnection rights of DNSP-SAPS customers who have provided consent (where applicable), or new customers, differ from the rights of customers who have not provided their consent to be moved?	As stated above in question 6(a), Energy Queensland does not support reconnection rights and this extends to customers who have provided their consent. We think that SAPS reconnections to the extent possible should be treated similarly to grid connections. DNSPs do not seek customers consent on the grid connection service provided and this approach should be similarly adopted for SAPS. It is important to note, that in saying customer consent is not required, Energy Queensland is not saying that consultation should not occur. We strongly advocate that consultation and education occurs to inform customers of a DNSP's obligation to customers provided by a SAPS connection. We support a similar approach undertaken in New Zealand where no explicit customer consent is required.

Questions		Feedback
(c)	What might a “return to grid process”, including charges, look like for DNSP-SAPS customers	Although Energy Queensland does not support reconnection rights, if the AEMC was to determine that a customer had this right, then the current standard connection arrangements should apply. The charges associated with the reconnection should be treated as an extension of the network, as opposed to an augmentation of the network. This would ensure the costs are not borne by all customers. If the costs to reconnect are prohibitively expensive then it is likely that the customer would retain the SAPS connection. A reconnection process should be no different from a “new connection”.
(d)	Would a mechanism need to be designed to avoid any potential to burden other customers with the costs of reconnection?	The costs to reconnect should be treated no differently from any other new connection and be treated as an extension of the DNSP’s network.
Question 7 – Defining the SAPS system service(s)		
(a)	Should the national framework be designed around one model of SAPS service provision which could accommodate various circumstances? What might this model look like?	As stated throughout our submission, Energy Queensland supports a national framework that sets out common overarching principles that apply to all SAPS that are authorised at a jurisdictional level. These principles would enable diverse scenarios and models to suit customers at a local level. These principles could: - allow vertical integration of SAPS activities, with regulation applied to a single accountable provider. - are high level, and enable diverse scenarios, e.g. requirements that there be: o a responsible SAPS service provider, with the necessary skills, resources and obligations to perform its role; o appropriate fall-back arrangements, in the event of a SAPS failure to supply a community as opposed to single customers SAPS; and o possibly principles for SAPS connection and expansion. - establish a common process whereby detailed regulatory content is determined by a jurisdiction’s nominated regulator, in line with the high-level principles - identify national technical standards that cannot be excluded, specifically, where benefits of uniformity outweigh costs and risks.

Questions		Feedback
		Jurisdictional regulation would give effect to the national principles, and provide targeted, proportionate, innovative, and effective measures to achieve the underlying policy objectives.
(b)	If the answer to the previous question is no, should this review focus on establishing a framework that allows DNSPs to pursue a variety of approaches to SAPS service provision, depending on the circumstances at hand? Why or why not?	Energy Queensland refers you to our response in question 7(a).
(c)	In what circumstances (if any) might it be appropriate for a DNSP to own/operate a vertically integrated SAPS solution?	In cases where access to the site is limited and logistics are challenging, one provider can manage the entire network, generation, distribution, metering and billing. This may be especially relevant, where the SAPS solution services one customer. This will create efficiencies and reduce costs for customers. From a customer perspective they may only want to "deal" with one entity, rather than multiple, it becomes a bundled solution for them. Furthermore, it may be appropriate to provide a vertically integrated SAPS solution where there is an immature market of SAPs providers or where customers are unlikely to voluntarily install a SAPS. Similarly, Ergon Energy's isolated networks represent a positive example of where a vertically integrated SAPS solution works for multiple customers.
(d)	When (that is, at what stage point in the process) would contestability in the provision of SAPS be tested and by who?	Regulation is appropriate where there is little or no competition or a natural monopoly. In Energy Queensland's view, the ongoing support and delivery model of SAPS solutions are very much in their infancy; therefore it is difficult to comment on contestability. Despite these views, contestability could be tested during a modified RIT-D consultation process. If the DNSP consults for a market SAPS solution, and it meets all the relevant criteria (technical and economic) and provided at a lower cost than a DNSP-led solution, then it should be the favoured solution.
Question 8 - Role of the distributor		
(a)	Are the issues identified in the contestability of energy services rule	Energy Queensland considers that the intent behind the contestability of energy

Questions		Feedback
	change applicable in the context of SAPS?	services rule change does not align with the intent triggering this Issues Paper. The contestability of energy service rule change focused on restricting a DNSP's ability to earn a regulated return on assets located behind the customers' connection point. This was because of a concern that DNSPs could distort competition in contestable markets as new technologies are expanding the choices consumers have to meet their energy and manage their energy needs. While, this Issues Paper is focused on developing a framework for customers that move from a grid-connected supply to a SAPS solution provided by a DNSP, the terms of reference contemplate that SAPS could be regulated on an ongoing basis. The inference is that the market for SAPS especially in remote areas is not yet contestable and is still in its infancy.
(b)	Is it necessary and appropriate to restrict the ability for DNSPs to earn a regulated return on behind-the-meter and/or in-front-of-the-meter assets specifically associated with the provision of SAPS? Why or why not?	Energy Queensland considers that no form of restriction should be placed on a DNSP in their ability to earn a regulated return on behind the meter and/or in front of the meter assets associated with a SAPS solution. This is especially where the SAPS solution is providing a positive benefit to the customer. This Issues Paper focuses on a DNSP-led SAPS solution with the primary focus on a DNSP investing in a SAPS solution as an alternative to a grid-connection where it is the most efficient solution. Any proposal to impose restrictions on DNSPs will undermine the NEO and is not the most practical approach to cater for outcomes focusing on customers of different geographic contexts and scenarios.
(c)	In what circumstances (if any) might it be appropriate for a DNSP to own/operate a vertically integrated SAPS solution (that is, to seek an exemption (where relevant) from restrictions on asset ownership)?	Energy Queensland refers to our response to question 7(c).
Question 9 – Provision of retail services		
(a)	Is it likely to be feasible to design arrangements to provide SAPS customers with access to retail competition? What might these arrangements look like?	Energy Queensland considers that until a SAPS competitive market is established, it is unlikely to be feasible to provide for a competitive market in generation and retailing, and the potential for the exercise of market power by a regulated vertically integrated entity that controls a particular SAPS is limited.

Questions		Feedback
		It will also depend on the geographic context and scenario. For example, a single customer, or a town. Therefore, the "practical" aspects of having different providers will determine the best model to suit the customer's needs. In regional Queensland, retail competition is restricted; therefore, it is appropriate for the jurisdictions to determine what level of competition is appropriate based on a range of criteria, for example, location, remoteness/accessibility. If vertically integrated entities can provide economic efficiencies for consumers then this should be sought. For example, Energy Queensland's 34 isolated networks (including 33 generators) are owned by Ergon Energy and these supply communities across Queensland which are not connected to the national grid.
(b)	What specific retail services would need to be provided to customers supplied via a SAPS model of supply?	In Queensland, the National Energy Retail Law's standard retail contract applies in isolated networks with some modifications for EEQ. Energy Queensland would support a similar regulatory approach with modifications where relevant. The AEMC should also note the New Zealand model, where a SAPS solution services one customer and the customer no longer has a retailer. The DNSP bills the customer a fixed connection charge.
(c)	Is there a need for a separate retailer role (distinct from the provision of other services) within the SAPS model of supply? Why/why not?	Again, it will depend on the different geographic context and scenario. Therefore, the regulatory framework to be developed by the jurisdictions, should contemplate different scenarios that may include a separate retailer role or not.
(d)	Should retail services be managed by an authorised retailer?	This will depend on the scenario. However, as a general rule, if retail services are provided, then the retail authorisations/exemptions framework should apply with modifications as relevant.
Question 10 – Other roles/responsibilities specific to stand-alone power system provision		
	Who are the key stakeholders within a SAPS model of supply (other than the DNSP and the retailer) and, specifically, what would be their key roles and responsibilities?	Key stakeholders include: - Existing network customers who are suitable to be supplied by a SAPS

Questions		Feedback
		solution identified by a DNSP. - Communities where they are driven by the community. - Industry partners, such as component/system manufacturers. The current market is not mature. - Distributed generators – opportunities to create SAPS where local generation already exists or could be installed. - Local governments – coordinate community interest, asset ownership, long term servicing and maintenance. - Maintenance providers.
Question 11 – Treatment of existing market participants		
(a)	Which existing market participants (if any) may be impacted by a DNSP's decision to transition a customer (or group of customers) to a SAPS model of supply?	Potential impacted market participants may include: - Generators; - TNSPs; and - Retailers.
(b)	Should DNSPs be required to consider the impact of transitioning a customer (or group of customers) to a SAPS on these participants? Why or why not? Via what mechanism?	At a high level, they should not be directly consulted with as under the NEO, the overall objective is to promote economic efficiency in the long-term interests of consumers. However, that is not to say that we do not support consultation occurring generally. We envisage that if a modified RIT-D applies for SAPS, consultation would occur with impacted parties. We note the importance of ensuring the integrity of the national grid, therefore, any proposal by a DNSP to move a significant number of customers to a SAPS solution would require consultation.
(c)	Is it necessary to put in place special arrangements for market participants, including embedded generators or retailers, who may be affected by a DNSP's decision to transition customers to a SAPS model of supply? What might these arrangements involve?	No. We consider that a modified RIT-D for SAPS would determine the economic and network impacts through its consultation process.
Question 12 – Roles of AEMO and the AER		
(a)	What role could/should the AEMO play within the framework for SAPS provision by a DNSP?	Once the national metering identifier (NMI) is no longer connected to national grid and is established as a SAPS, AEMO has no market role. However, AEMO would likely

Questions		Feedback
		play a small role in the transition of a NMI/Customer to a SAPS to facilitate the transition from the grid via specific B2B and or CATS transaction for the Retailer and DNSP.
(b)	What role could/should the AER play within the framework for SAPS provision by a DNSP?	Energy Queensland does not support the AER having an oversight role for SAPS. As stated throughout our response, we strongly advocate that the regulatory framework has high level principles at a national level, while the detail, bespoke regulatory requirements are determined by the jurisdictions. Therefore, it would be appropriate to have a jurisdictional regulator rather than the AER.
Question 13 – Retail price protections		
(a)	If retail competition is not possible in SAPS, what alternative protections may be appropriate (e.g. retail price controls) for customers receiving supply via SAPS?	Existing price regulation mechanisms and policies, such as UTP should apply.
(b)	Would applying the pricing condition from the AER's retail exempt selling guideline to not charge more than the standing offer price that would be charged by the local retailer be appropriate for SAPS, if retail competition does not apply? Is there an alternative price control that would be more appropriate?	This should be determined by the relevant jurisdiction during the development of the detailed regulatory framework.
(c)	In the areas that currently have price regulation, is extending that price regulation to customers in SAPS an appropriate approach?	It is reasonable to apply existing jurisdictional price regulation mechanisms and policies.
Question 14 – Other national energy-specific consumer protections		
(a)	The Commission has suggested a general principle that energy-specific consumer protections for customers being supplied via a DNSP-led SAPS should be equivalent to those for grid-connected customers. Are there any significant provisions that wouldn't apply, or would require amendment for customers under a DNSP-led SAPS model of supply?	Energy Queensland supports the AEMC's general principle that customer protections should be equivalent to those for grid-connected customers. As we have suggested that the regulatory framework including the detailed bespoke regulatory requirements are developed by the jurisdictions, we suggest that the AEMC's focus is on developing high level principles that would sit at the national level. However, similarly to the existing National Energy Customer Framework modifications that apply to Ergon

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		Energy as the nominated distributor, an equivalent process should be undertaken taking into the geographical context and scenario applied.
Question 15 – Consumer protections specific to SAPS customers		
(a)	Are there any additional consumer protections that may be necessary for SAPS customers?	Transparency and adequate consultation are paramount in transitioning customers to an off-grid solution. Depending on the geographic location and the scenario (e.g. single customer), more targeted education campaigns may be required to protect the customer and the assets. For example, information relating to: - Quality of supply and performance standards; - Safety issues; - Remote communications functions; and - Interaction with other customer owned technology assets, e.g. solar PV. Other important considerations are the impacts on land valuations in being able to connect to a grid supplied energy network. Queensland's statutory land valuation systems take into account services to the land such as water, sewerage, electricity and access to transport. The removal of electricity networks in rural areas may have adverse impacts on land valuations.
(b)	In relation to detailed product information for the SAPS, what are the minimum provisions that should apply (if any)?	Detailed product information may include: - level of redundancy based on customer usage; - guaranteed performance under different conditions; - operational support models for failure; - outages and questions; - things the customer themselves may be able to do, for example, if there is some equipment failure.
Question 16 – Options for providing electricity-specific consumer protections		
	To provide equivalent protections for consumers receiving electricity supply via SAPS, is the most efficient approach to amend the	Energy Queensland would support this approach. However, we would also recommend going further as it applies to the regulation of SAPS. As we support the

Questions		Feedback
	jurisdictional Acts adopting the NERL, as well as amending the NERL and NERR? Is there an alternative approach which may be more effective?	development of a detailed jurisdictional regulatory framework with high level principles that sit in the national framework, the approach should be targeted, proportionate and fit-for-purpose. For example, customer protections and obligations may be different depending on number of customers being supplied via a SAPS solution, customer's usage requirements and the geographic location. The framework needs to be flexible so that decision-making can be as close to the local level and if these needs are different locally, then the framework needs to allow for these differences.
Question 17 – Reliability, security and quality		
(a)	What reliability, security and quality standards are appropriate for DNSP-led SAPS? Should the same reliability and service quality levels apply as for grid-connected customers?	SAPS can offer very different outcomes for reliability depending on circumstances system design and customer usage. In our view, although SAPS technologies have been available for some time, they are still immature and serviced by niche market providers and subject to technology change. It is our expectation that customers will receive the same experience as if they were still grid connected. In fact, some will receive an improvement from their grid connection experience. Similarly to our approach in developing the detailed regulatory framework by the jurisdictions, the same applies in respect of technical standards. We consider at the minimum standards should cover the following: - Surge and redundancy capability, to enable motor starts; - Demand, to meet customer peak demand (which may only be 2 or 3 times a year); - Power quality, flicker, voltage level/range; - Outages, frequency, time, duration; - Response time; - Sustainable energy delivery; and - Environmental impacts, fuel storage and delivery, noise, foot prints It is also important to highlight that it may not be reasonable to impose the same reliability levels for SAPS as grid connected customers, and some may not want or need grid parity, for example, a bore pump does not need the same service as a

Questions		Feedback
		dwelling SAPS are likely to be established for (geographically) remote customers, where restoration/repairs are likely to be impacted by availability of (specialised) crews, distance to sites, access issues during adverse weather condition etc. These considerations must be factored when defining reliability/service standards. Finally, the framework should allow for different reliability standards between planned and unplanned SAPS performance and possibly exempt planned outages (where customers have been given adequate notice) from measured performance.
(b)	Are there any existing network reliability, security and quality standards that would be difficult to comply with for SAPS? For example SAIDI and SAIFI requirements may have equivalent principles, but the practice for determining them may be different in SAPS.	It is important that network reliability, security and quality standards are applied appropriately and factor into account customers' needs. For example a residential customer has very different needs to a bore pump customer. In addition to our comments in response to question 17(a), Energy Queensland notes the following: - Most power quality parameters/standards applicable to grid connected customers in theory may apply to a SAPS. However, some power quality requirements can be challenging due to system impedance of SAPS. For example, harmonic voltages, frequency operating band, operating voltage limits, neutral current, load control (AFLC) and power factor. - SAIDI/SAIFI 'calculation' principle can be same as the grid connected customers. However, targets need to be developed based on historical failure rates/restoration time for SAPS where available. - Some exemptions should be allowed to normalise the measured performance (e.g. cyclones, safety related outages etc.). - Planned performance could be exempted from performance measures for SAPS. - Outage Management Systems for SAPS would require development at additional cost to the DNSP.
(c)	Should GSLs be determined for DNSP-led SAPS? If so, should the same standards apply as for grid-connected customers (why/why not)?	Energy Queensland supports in principle the introduction of a GSL framework for DNSP-led SAPS. However, we note that GSLs should reflect the technical or service delivery challenges involved in supplying customers via a SAPS model of supply and operating environment. The GSL framework should be reflected through the feeder

Questions		Feedback
		type.
Question 18 – Other jurisdictional consumer protection considerations		
(a)	Are the other jurisdictional issues presented in section 5.6 less likely to be a concern for DNSP-led SAPS (why/why not)?	Other jurisdictional issues less likely to be a concern for DNSP-led SAPS include: - DNSPs have access rights that other commercial entities do not have; - Depending on the model, EEQ receives community service obligation (CSO) payments in support of its delivery of the Queensland Government's UTP. This payment from the Queensland Government represents the difference between the cost to supply customers in regional Queensland and the prices charged to customers under the UTP.
(b)	Should any of these issues be examined in greater detail in relation to DNSP-led SAPS?	Energy Queensland has no comments.
Question 19 – Third party stand-alone power systems – decision making framework		
(a)	Which party should make the decision to transition customers to a SAPS and which party/ies should approve the decision	We consider that DNSPs are best placed to transition customers through this complex process and therefore, from an operational, technical, and practical perspective, the DNSP should make the decision to transition customers to a SAPS even if it is supplied and driven by third parties. A similar modified RIT process should be similarly undertaken as an efficiency pre-condition. The importance of the DNSP's role cannot be overlooked. The DNSP will be impacted, including through the stranding of assets. As such, a prudent approach would be to develop an economic and efficiency test with a supporting consultation process that determines whether this approach meets the NEO. The jurisdictional regulator should approve the decision. This is especially so where the decision to move will have a negative impact on economic efficiency.
(b)	What should be the grounds for deciding to transition customers to a third party SAPS?	Economic efficiency which is in the long term interests of all consumers and do not result in an increase in costs to other customers.

Questions		Feedback
(c)	Which mechanisms should be employed to seek approval and/or consent?	Energy Queensland has no comments.
(d)	If the consent of transitioned customers is sought, what is the proportion of customers that should provide their consent? Should consent factors be defined, and what should they be?	Energy Queensland considers that it will be difficult in obtaining unanimous consent. We also suggest that if consent is required and a voting process occurred, then this would have to be anonymous/secret ballot. It would be best practice to develop a series of consent factors. However, the consent factors need to be flexible based on the different communities/customers impacted.
(e)	Should transitioned customers, either individually or collectively (in the case of a microgrid), retain the right to reconnect to the grid?	Any request by a customer to reconnect should be treated no differently from a new connection. Additionally, if the DNSP considers that a SAPS solution is appropriate, then, the DSNP should be entitled to offer this as a connection service.
Question 20 – Third party stand-alone power systems –asset transfer and stranded assets		
(a)	Is there a role for the AER, jurisdictional regulator or other body in setting or approving asset values and pricing methodologies as a result of the transfer?	Yes.
(b)	How should asset transfers be treated in the DNSP RAB?	Asset transfers should be treated the same way as disposals are currently treated in the RAB.
(c)	How should stranded assets be treated in the DNSP RAB?	Stranded assets should be treated in a manner consistent with any other stranded assets (i.e. not optimised from the RAB). Alternatively there may be a requirement for the third-party SAPS provider to meet the cost of the stranded assets, particularly where the DNSP can directly attribute to the stranded assets to the transitioning customers i.e. for 'dedicated' assets.
(d)	Should corresponding fees be charged to the transitioned customers and customers left behind on the grid?	Energy Queensland would support a fee to be paid by the SAPS provider or transitioned customers to the DNSP.
(e)	Is a dispute resolution framework design required for asset transfer and stranded assets?	Yes.

Questions		Feedback
	What are the key elements of the design?	
Other comments on the review or consultation paper		
	Do you have any other comments on the rule change request or the consultation paper?	