

Our ref: 46578982

9 October 2018

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

Dear Mr Pierce,

Response on Issues paper on Review of the regulatory frameworks for stand-alone power systems

Western Power welcomes this opportunity to provide a response to the Issues paper *Review of the regulatory frameworks for stand-alone power systems* (issues paper) from the Australian Energy Market Commission (AEMC).

Western Power commends the AEMC on this exciting initiative and looks forward to the draft report once all the responses have been submitted.

While Western Power operates in the WA Wholesale Electricity Market (WEM) it takes a keen interest in developments in the National Electricity Market (NEM), particularly those that may influence future developments Australia wide.

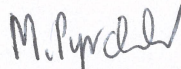
As noted in our 2016 Rule Change Proposal to the AEMC, Western Power is a strong advocate for the many benefits of stand-alone power systems. The success of our microgrids, stand-alone power systems (SPS) and other alternative technology pilot projects shows that new grid solutions are effective and provide real results for customers. If legislative limitations are removed, then these new grid solutions (and associated benefits for customers) can be effectively implemented on a large scale both in the WEM and the NEM.

Western Power supports maintaining adequate customer protections and hopes that current protections can be readily modified to safeguard existing customers in a stand-alone electricity supply arrangement.

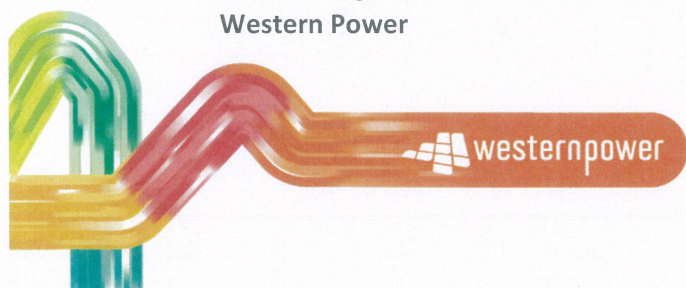
Our responses to the questions raised in the issues paper are included in the attached.

Should you have questions or require additional information relating to our comments, please contact Senior Regulation Specialist Miles Jupp at Miles.Jupp@westernpower.com.au or 08 9326 4570.

Yours sincerely



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Western Power responses:

| Questions | | WP Feedback |
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| 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? | Western Power is not under any of the jurisdictions in the NEM but would support a framework to allow for jurisdictions to opt-in. |
| (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? | |
| 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)? | The RIT-D process is used for network augmentation and includes alternatives to be considered to network augmentation. This would seem an appropriate mechanism. |
| (b) | To ensure they remain fit-for-purpose in the context of SAPS, what (if any) amendments may be required to: <ul style="list-style-type: none">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), andthe AER’s application guidelines? | As per the above, no change should be needed. |
| (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? | Western Power does not believe this would be necessary as the regulations already contain mechanisms for connections where the RIT-D is either not applicable or not proportionate. |
| 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? | <p>If consumer protections can be maintained for SAPS customers, then consent should not be necessary.</p> <p>Western Power would support the provision of information and customer consultation.</p> <p>If consumer protections were changed then a majority consent model would seem to be the only workable solution when compared with a unanimous consent model.</p> |

| Questions | | WP Feedback |
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| (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? | As above, Western Power would support the provision of information and customer consultation so that the customers understand the service they would be receiving. |
| (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)? | Where consent is considered appropriate incentives offered by the relevant DNSP could be appropriate if the network savings, including these incentives, still result in the most efficient outcome to all users of the network. This would be better assessed on a case by case basis. |
| (d) | What alternative mechanism(s) could be used to ensure the long-term interests of affected customers are met? | As above, Western Power would support the provision of information and customer consultation so that the customers understand what service they are getting. Existing customer protections should be kept as much as possible to ensure that the long-term interests of the customers are retained. |
| 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? | If SAPS were part of a regulated network service, there would be no additional role required as the investments would be subject to standard regulatory control. |
| (b) | Who would be best placed to perform such a role? | |
| (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? | |
| Question 5 – Grid-connection pre-condition | | |
| (a) | Should new customers or developments without an existing grid-connection be eligible for SAPS provision facilitated by a DNSP? Why or why not? | Only in the context of a competitive market, the customer could still approach a DNSP for provision of services and compare this to the cost and service provided by a third party SAPS provider |
| (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? | As above. |

| Questions | | WP Feedback |
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| (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. | As above |
| (d) | What are the potential issues associated with DNSP obligations to connect where SAPS are regulated under the national framework? | SAPS would be treated as a network connection and should not differ from any of the current connection options a DNSP may employ. |
| 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? | More information is required to provide consideration to this question. |
| (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 above |
| (c) | What might a “return to grid process”, including charges, look like for DNSP-SAPS customers? | |
| (d) | Would a mechanism need to be designed to avoid any potential to burden other customers with the costs of reconnection? | |
| 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? | No, see below. |
| (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? | Customers and DNSPs would both benefit from establishing a framework that allows DNSPs to pursue a variety of approaches to SAPS service provision, depending on the circumstances. |
| (c) | In what circumstances (if any) might it be appropriate for a DNSP to own/operate a vertically integrated SAPS solution? | Where it is most cost effective to do so and improves customer outcomes. |
| (d) | When (that is, at what stage point in the process) would contestability in the provision of SAPS be tested and by who? | By the regulator when the cost of the technology becomes economic for third parties to deliver supply to existing grid customers. |
| Question 8 - Role of the distributor | | |
| (a) | Are the issues identified in the contestability of energy services rule change applicable in the context of SAPS? | No response. |

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| (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? | Restrictions on the ability of DNSPs to earn a return on the provision of SAPS would seem contrary to the reasons for changing the ability for DNSPs to add SAPS to their RAB in the first place, that is for SAPS to be included as a potential least cost network solution. |
| (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)? | Where it is most cost effective to do so and improves customer outcomes. |
| 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? | There should be no barriers to the way that the retail market currently operates if there are sufficient customer protections in place. |
| (b) | What specific retail services would need to be provided to customers supplied via a SAPS model of supply? | |
| (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? | |
| (d) | Should retail services be managed by an authorised retailer? | |
| 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? | No response |
| 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? | No response |
| (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? | No response |
| (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 response |
| 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? | This would depend on the size of the system. The AEMO may play a role where the system size becomes a transmission network. |

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| (b) | What role could/should the AER play within the framework for SAPS provision by a DNSP? | Economic regulation. |
| 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? | No response |
| (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? | No response |
| (c) | In the areas that currently have price regulation, is extending that price regulation to customers in SAPS an appropriate approach? | No response |
| 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? | Western Power would support this in principle. |
| Question 15 – Consumer protections specific to SAPS customers | | |
| (a) | Are there any additional consumer protections that may be necessary for SAPS customers? | Consumer protection should remain as close as possible to what is currently in place for grid connected customers. |
| (b) | In relation to detailed product information for the SAPS, what are the minimum provisions that should apply (if any)? | No response |
| 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 jurisdictional Acts adopting the NERL, as well as amending the NERL and NERR? Is there an alternative approach which may be more effective? | No response |
| 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? | Reliability, security and quality standards should remain the same. |
| (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. | SAIDI and SAIFI would remain suitable measures |
| (c) | Should GSLs be determined for DNSP-led SAPS? If so, should the same standards apply as for grid-connected customers (why/why not)? | No response |

| Questions | | WP Feedback |
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| 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)? | No response |
| (b) | Should any of these issues be examined in greater detail in relation to DNSP-led SAPS? | No response |
| 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? | In the very least, this would require consideration of an efficiency pre-condition and customer protection. This is a complicated issue that would seem to be the focus of priority 2 of the review. |
| (b) | What should be the grounds for deciding to transition customers to a third party SAPS? | |
| (c) | Which mechanisms should be employed to seek approval and/or consent? | |
| (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? | |
| (e) | Should transitioned customers, either individually or collectively (in the case of a microgrid), retain the right to reconnect to the grid? | |
| 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? | This will be an important area for equitable allocation of costs and requires detailed consideration. |
| (b) | How should asset transfers be treated in the DNSP RAB? | |
| (c) | How should stranded assets be treated in the DNSP RAB? | |
| (d) | Should corresponding fees be charged to the transitioned customers and customers left behind on the grid? | |
| (e) | Is a dispute resolution framework design required for asset transfer and stranded assets? 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? | |