



Review of stand-alone power systems

The AEMC has published the draft report for its review of regulatory arrangements to support the efficient delivery of stand-alone power systems by distributors while preserving consumer protections

The draft report sets out the Commission's analysis, including a number of draft recommendations, to develop a national framework aimed at facilitating the provision of stand-alone power systems by distribution businesses to their existing customers where these provide an efficient alternative to traditional poles and wires investment.

Context for this review

Changes in technology and technology costs are creating new opportunities for distribution businesses to pursue more efficient alternatives to traditional electricity supply arrangements. In particular, stand-alone power systems are becoming an increasingly viable option for providing electricity services to customers, particularly where the costs of providing a grid-connected service might be high (for instance, in remote locations).

Facilitating the use of the most efficient technological solutions to supply some customers has benefits for the entire community by reducing all customers' distribution charges. To realise these benefits, the regulatory frameworks must adequately support the use of stand-alone power systems and the transition of grid-connected customers to stand-alone solutions.

The Commission's stand-alone power system review is a core part of its work to promote efficient investment in the grid of the future. While stand-alone power systems could potentially be used in a range of situations in the future, the first priority for this review is to make sure that the regulatory frameworks: support distribution businesses in the use of stand-alone power systems as an economically efficient alternative to standard grid supply; and preserve consumer protections comparable to those afforded to customers supplied via the interconnected grid.

The review builds on work undertaken by the Commission in 2017 following a rule change request from Western Power. It also addresses recommendations made by the Independent Review into the Future Security of the National Electricity Market, and the Australian Competition and Consumer Commission (ACCC) in its retail electricity pricing inquiry, in respect of the need to review the regulatory frameworks to ensure they are able to support the efficient provision of stand-alone power systems.

Overview of the draft report

This draft report sets out the Commission's analysis undertaken over the course of the review to date. It explains the Commission's developing views on mechanisms for transitioning customers to off-grid supply, the regulatory and commercial arrangements that would then apply on an ongoing basis, and the consumer protections that should be put in place.

The draft report presents, for stakeholder feedback, proposed positions on issues associated with off-grid transition and consumer protections. With regards to the arrangements for ongoing supply to off-grid customers after they have been transitioned away from grid supply, the report includes two illustrative service delivery models as options for consultation. The Commission welcomes stakeholder input to refine these models or to identify further options.

Facilitating transparent decision-making

The provision of information by distribution businesses is critical to achieving efficient planning and investment outcomes. To supplement the existing distribution network planning and expansion arrangements, the Commission is proposing two new measures to increase transparency around distribution businesses planning and investment decisions in respect of stand-alone power systems.

For projects which are not subject to the regulatory investment test for distribution (RIT-D), the Commission is proposing the development of a set of minimum SAPS project evaluation requirements which will support the competitive testing of potential SAPS solutions by distribution businesses. The new requirements largely focus on the process of ensuring that all SAPS solutions which are credible options and available in the competitive market are identified and considered by distribution businesses.

In addition, an obligation on distribution businesses to undertake a comprehensive program of information provision and engagement with parties, including customers, that would be affected by a stand-alone power system solution will support the efficient planning of, and decisions on, investment in respect of a distribution system.

Arrangements for the ongoing supply of electricity to off-grid customers

The Commission recommends that the national electricity law and rules be amended to remove existing barriers to distribution businesses providing stand-alone power systems as a regulated service. The AER will then have discretion to classify (and therefore economically regulate) the activities and services associated with stand-alone power systems using current frameworks.

To facilitate further discussion and illustrate how the ongoing supply of electricity to customers could work, the draft report presents two illustrative options for SAPS service delivery. The SAPS service delivery arrangements govern the relationship between the distribution service provided by the distribution business and all the other activities required to provide an electricity service to end consumers. The two options have been included to stimulate discussion around the trade-offs involved in providing for customers transitioned to a stand-alone power system to continue to access the benefits of the competitive retail market now and into the future.

Given that the suitability of either of the two options presented is somewhat dependent on the level of adoption of SAPS by DNSPs, and that both have advantages and disadvantages, the Commission intends to consider these, and potential alternative, models further in the next stage of the review. As such, stakeholder views and input in this regard would be welcome.

Preserving consumer protections

Customers should not be disadvantaged as a result of being transitioned to a stand-alone power system. Therefore, if the model of SAPS service delivery does not enable customers to access retail competition, new retail price protections will be required to make sure the price paid by SAPS customers is as close as possible to what the customer would have been able to access under retail competition. However, designing any form of price regulation with the aim of mirroring the benefits of the competitive market will be difficult.

SAPS customers should also continue to receive other existing national energy specific consumer protections (to the extent these remain relevant). This would be achieved by retail activities being performed by entities in possession of a retail authorisation from the AER, consistent with standard supply arrangements.

In addition, SAPS customers should receive reliability protections equivalent to grid-connected customers. On the basis that network reliability standards are a jurisdictional responsibility, jurisdictions may need to review legislative instruments for reliability standards and guaranteed service level schemes, and make any changes required to cater for SAPS supply. While reliability frameworks do not prescribe outcomes for specific customers, trials undertaken to date suggest that SAPS customers in remote areas are likely to experience significantly improved reliability as compared to grid supply.

Finally, the Commission considers that other jurisdictional consumer protections, including safety and technical regulation, access to concessions and rebates and access to independent dispute resolution, should also be extended to customers being supplied by stand-alone power systems. In general, once any required definitional changes are made, these protections are likely to automatically apply in instances involving existing distributors and authorised retailers.

Jurisdictional participation in the national framework

The Commission has given further consideration to the issues associated with jurisdictional participation in the national framework raised in the terms of reference. The draft report outlines a potential process whereby there would be a coordinated program to implement changes to national frameworks, and to jurisdictional instruments in those jurisdictions wishing to proceed. The national rules would apply uniformly, but would include a restriction on DNSPs using SAPs solutions in each jurisdiction until such time as the Minister in the relevant jurisdiction has given notice that the national arrangements for SAPS are applicable there.

Next steps

Written submissions from stakeholders commenting on the analysis and positions outlined in the draft report are welcomed by **5 February 2019**.

Following receipt of submissions, the Commission intends to consider the extent to which further consultation is required on these matters, particularly in respect of the service delivery options. The Commission may make use of stakeholder workshops and/or roundtable meetings to facilitate further consultation in preparation for delivery of the final report by 31 May 2019.

Given the breadth of issues across the review as a whole, a separate consultation will be undertaken on the further issues associated with the provision of stand-alone power systems by parties other than existing distributors, commencing with the publication of a consultation paper in early 2019.

For information contact:

Executive General Manager, **Richard Owens** (02) 8296 7810

Director, **Andrew Truswell** (02) 8296 0637

Media: Communication Director, Prudence Anderson 0404 821 935 or (02) 8296 7817

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