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**Ms Sherine Al Shallah**  
**Project Leader**  
**Australian Energy Market Commission**

Submitted online: [www.aemc.com.au](http://www.aemc.com.au)

**6 February 2019**

Dear Ms Al Shallah

**Review of the regulatory frameworks for Stand-alone power systems, Draft Report**

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

AGL is generally supportive of the Commission's recommendations to develop a national framework to facilitate the transition of grid-connected customers to stand alone power systems (**SAPS**) supply provided by the current network businesses, as well as a mechanism for the transition of grid-connected customers to third party SAPS supply.

In the context of transitioning customers to network business led SAPS, AGL supports the Commission's draft recommendations, being:

- the efficiency pre-condition facilitated through an amended RIT-D framework;
- a new set of minimum SAPS evaluation requirements where the RIT-D threshold is not met; and
- that networks should undertake a customer engagement strategy rather than obtaining explicit informed consent. However, we consider that this process should be overseen by the AER.

We appreciate the Commission's analysis of illustrative service delivery models in the Draft Report. Nevertheless, we are still assessing the wholesale market and network implications of these models. We would welcome the opportunity to discuss these considerations further with the Commission and industry stakeholders to ensure the supply chain configuration best serves customers' interests.

In the context of transitioning customers to third party SAPS, we note that the Commission has taken a divergent view because of the different motivators for establishing SAPS, which may include regional development policy, innovation initiatives, environmental considerations and self-sufficiency initiatives. AGL supports this approach. However, we also note that economic efficiency will be the main consideration in some circumstances involving third party SAPS. Where economic efficiency is the driver, we would encourage the Commission to apply the same decision-making framework.

We provide more detailed commentary in response to the Commission's draft recommendations in the **Attachment**.



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](mailto:KWinter@agl.com.au).

Yours sincerely

A handwritten signature in blue ink, appearing to read 'K. Winter', with a long horizontal flourish extending to the right.

Con Hristodoulidis

**Senior Regulatory Strategy Manager**



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## ATTACHMENT

### Transition to DNSP led SAPS

- ***The RIT-D framework be used to assess the efficiency of transitioning customers to SAPS***

The Commission recommends that the RIT-D framework (with some amendment) should be used to assess whether transitioning customers to SAPS would meet the efficiency pre-condition. We agree with that position.

We also endorse the Commission's view that the parameters of the RIT-D may need to take into account consideration of market benefits (and costs) associated with the generation and retail aspects of SAPS as compared with the current competitive generation and retail models and that the parties who fall within the scope of the RIT-D may be broader in the context of SAPS.

- ***Where the RIT-D threshold is not met, a new set of minimum SAPS evaluation requirements would be established***

AGL agrees with the intention behind these new minimum SAPS evaluation requirements to establish basic competitive testing that network businesses must undertake before a network business can transition customers from grid-supply to a SAPS, in circumstances where that transition does not meet the RIT-D threshold. As has been stated in the Draft Report, AGL considers that it may be more appropriate for the AER to develop and publish the minimum SAPS project evaluation requirements having regard to a set of guiding principles in the NER. This approach would be consistent with the AER's obligations with respect to developing and publishing the RIT-D and may ensure that this process is able to be appropriately adapted into the future.

- ***Network businesses looking to transition grid-connected customers to SAPS would not be required to obtain explicit informed consent but would be required to develop a SAPS customer engagement strategy***

We consider that this approach strikes the right balance between ensuring that customers are given sufficient information on the risks and benefits of transitioning to off-grid supply and managing the risk that a single customer could veto a project that a network business has identified as providing net benefit to the market.

The Draft Report states that the public notification would be triggered by the outcome of a RIT-D assessment or minimum SAPS project evaluation requirements where a SAPS solution is identified as the most efficient means of addressing a need for investment on the network.

We note the Commission did not include a specific oversight role for the AER in relation to SAPS. In our view, the AER would play an important function in subjecting network businesses customer engagement to independent and transparent review. We consider that this would be an important safeguard to protect customers in the absence of explicit informed consent. As part of the Better Regulation Reform Program, the AER developed its Consumer Engagement Guidelines for network service providers. We consider that the AER's functions may need to extend further in the context of SAPS entailing certain minimum standards or targets.

- ***Illustrative service delivery models: NEM consistent versus integrated service delivery***

The Draft Report illustrates that different service delivery models are located along a competition continuum. In principle, we would support a model that:



- facilitates competition to the extent that this is workable in the context of SAPS; and
- is least disruptive to current energy market arrangements.

The Draft Report presents two potential SAPS service delivery models to illustrate how arrangements might work:

- The NEM consistent model seeks to preserve customers' access to the competitive retail market, allowing SAPS customers to retain their current retail offer and relationship with their existing retailers in order to make the transition to SAPS service delivery as seamless as possible. This option also utilises the current wholesale energy market arrangements, including the settlement system, in order to minimise the need for, and cost of, new systems
- the integrated service delivery model assumes that existing NEM arrangements are not optimal for SAPS supply and that the arrangements for SAPS providers should reflect any efficiency benefits available through services being provided by specialised, integrated service providers. The arrangements under this model diverge from current NEM retail and wholesale settlement arrangements with the implication that SAPS customers would no longer be able to access the benefits of the competitive retail market and it would be necessary to develop and implement a new process for the determination of a regulated price.

While we appreciate the Commission's analysis on these two models, we are still assessing the wholesale market and network implications of these two models. We would welcome the opportunity to discuss these considerations further with the Commission and industry stakeholders to ensure the supply chain configuration best serves customers' interests.

- ***Consumer protections for SAPS customers should be equivalent to those for grid-connected customers and jurisdictional consumer protections should be extended to them***

AGL agrees with the Commission's in-principle view that customers who are transitioned to SAPS supply should not be any worse off than if they were supplied by the interconnected grid and, importantly, their current retailer on their current offer. We also endorse the view that if there is no access to retail competition under the SAPS model of supply, alternatives in the form of retail price controls will be required.

- ***SAPS customers should receive reliability protections equivalent to grid connection customers***

AGL supports the Commission's view that reliability, security and quality standards with equivalent principles to those for grid-connected customers should apply. Accordingly, we would also support the Commission's draft recommendation that jurisdictional Guaranteed Service Levels (**GSLs**) for unplanned outages, and jurisdictional reliability standards including System Average Interruption Duration Index (**SAIDI**) and System Average Interruption Frequency Index (**SAIFI**), are extended to cover network-led SAPS. In addition, the national service target performance incentive scheme (**STPIS**) should also be extended to include network-led SAPS in the calculation of DNSPs' targets.

- ***The proposed national framework for SAPS would be designed as an opt-in framework***

As we noted in our previous submission, this approach is better placed to expedite the introduction of a nationally consistent regulatory framework. An approach that would allow jurisdictions to opt in on a more bespoke basis could lead to poor customer outcomes as customers in some distribution networks may be subject to less robust customer protection and reliability standards.



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### **Transition to third party SAPS**

- ***The decision-making framework for customer transition to a third-party SAPS***

The Commission's draft recommendations for the decision-making framework for customer transition to a third party SAPS include that:

- an efficiency pre-condition for transitioning DNSP customers to a third party SAPS is not required, and the risk that the transition could impose costs on remaining customers will be addressed through the asset transfer and stranded assets mechanisms proposed
- the third party should obtain the Explicit Informed Consent of all relevant customers in written form to transition them from the DNSP grid to a third party microgrid (subject to jurisdictional exemptions), and the AER will have a role in the asset transfer process
- consent to transition customers to third party off-grid supply should be based on a set of Explicit Informed Consent requirements that include detailed information about the third party, SAPS solution, and additional conditions related to service delivery and outcomes under a third party SAPS supply model.

We note that the Commission's view on transition to third party SAPS diverges from the framework that would apply to DNSP led transition to SAPS, in part due to the fact that some of the drivers for the decision by a third party to establish a SAPS may be different to the economic efficiency objective associated with DNSP led transition. Third party SAPS may be motivated for example by environmental and community considerations. Nevertheless, we consider that in a number of circumstances, economic efficiency will remain an important consideration, including in the context of regional development policy, innovation initiatives and self-sufficiency initiatives.

Where economic efficiency is a relevant consideration, we would encourage the Commission to consider whether it is justified to apply a different decision-making framework to transition to third-party SAPS rather than aligning the decision-making processes. From a customer perspective, unless a community has explicitly (and unanimously) agreed to transition to SAPS on the basis of non-efficiency grounds, their experience in being transitioned to off-grid supply should be consistent with DNSP led transition and they should arguably expect the same standard of supply.