

5 February 2019

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Dear John,

**Draft Report:  
Review of the Regulatory Frameworks for Stand-alone Power Systems – Priority 1**

AusNet Services is pleased to have the opportunity to make this submission on the Commission's draft report. We broadly support the conclusions of the Commission's analysis and endorse its draft recommendations, which would enable DNSPs to provide stand-alone power systems (SAPS) as a regulated service where this is the efficient solution to meet the DNSPs service obligations.

The ability for DNSPs to adopt SAPS in addition to grid-connected network services could enable significant cost savings, in those locations where customer density is very low, and in areas of high bushfire risk. In Victoria, DNSPs have obligations to replace bare-wire powerlines with insulated powerlines within prescribed geographical areas to mitigate bushfire risk. The cost savings from transferring customers to SAPS, where this is efficient for the on-going provision of distribution services, will benefit all of the DNSPs customers.

The remainder of this submission responds on particular aspects of the draft report where further clarification of the Commission's position may be necessary.

**Role of DNSPs**

Whilst the Commission's analysis in section 4.3.3 supports DNSP ownership of SAPS, there are ambiguities, and the Commission's draft position, in section 4.3.4 avoids making an explicit statement on ownership. It should do so.

The ability for DNSPs to own the SAPS assets is an important consideration. Below we comment in support of the Commission's key reasons and principles underlying their analysis, including:

- Where the SAPS option is only just emerging as a feasible alternative to network investment ownership, a mature competitive market for such services may not exist.

In previous submissions AusNet Services and others have made the associated critical point that it is important for networks to have the flexibility of ownership (refer page 6 of our earlier submission). Although, ultimately it is the DNSP who is accountable for the regulated SAPS service, remote customers may be concerned that the DNSP is abdicating responsibility if it outsources. If a service provider struggles to effectively provide the service and walks away, the DNSP has to pick up the pieces, and costs, and still would not have confidence it can rectify the situation (if it cannot own the assets).

The SAPS systems that DNSPs will be establishing will need to meet grid connected service reliability and power quality. The systems will be to DNSP specification, and will not be available off the shelf. The supply market is immature, and will need to develop in response to DNSP needs. Ultimately this competitive market will be the beneficiary of DNSP led SAPS,

supplying to DNSPs and developing capability to provide high quality offerings in other markets.

- SAPS support services may continue to exhibit monopoly characteristics.

This is true, and our comments on the above point are equally applicable to this.

- SAPS are located in front of the meter thence contributing to distribution services, and are an input to the provision of direct control services. Like other assets fulfilling such function, the DNSP would not be restricted from owning these assets.

This aligns with the Commission's proposed approach, set out in Section 4.1.4, to amend the NEL and NER to enable DNSPs to utilise non-network SAPS assets to provide distribution services

### **Service classification**

The success of the approach hinges on the services being classified as direct control services. The draft report considers service classification in detail, in Section 4.2, and this requirement is recognised in the Commission's draft position. This also notes that the Commission is considering whether additional guidance to the AER for service classification may be helpful.

As the circumstances in which a DNSP may deploy SAPS are intended be contained to defined circumstances, that is, the existing customer pre-condition and a set of minimum SAPS evaluation requirements, there should be no room for question as to the classification. However, the criteria for standard control services leave some uncertainty. Figure 4.1 in Section 4.2.1 of the draft report identifies these, as 'services that exhibit natural monopoly characteristics and are relied on by most (if not all) customers'. The recommendations of the final report should provide sufficient guidance on the service classification process such that the Commission's framework ensures the direct control services criteria are met by DNSP SAPS solutions for individual customers and communities.

### **Customer consent**

AusNet Services agrees with the Commission's analysis regarding customer consent, and supports the recommendation that for DNSP led SAPS, customer consent is unnecessary.

In our earlier submission we agreed this would be unnecessary but ultimately concluded in favour of a consent approach. However, as we believe the arguments for consent being unnecessary are sound, we accordingly support the Commission's position. Nonetheless, as we have previously noted, extensive consultation by the DNSP with any affected customer or community would be the practical expectation, as the draft report proposes.

### **Minimum SAPS project evaluation requirements**

The Commission's analysis and draft position proposes that before transitioning customers to a SAPS solution the DNSPs must satisfy a requirement to engage with all potential SAPS proponents to seek out the most efficient SAPS solution. AusNet Services supports this approach, and this is consistent with existing NSP practice of identifying the most cost effective proposal.

However, we are uncertain about the effectiveness of the process for engaging with the SAPS providers proposed in the draft report, which is via the RIT-D, or equivalent phase for smaller projects, indicated by the example in Box 8 on page 50 of the draft report. If the objective is to identify the cost of the SAPS solution in comparison to network solutions, there is high potential for this approach to understate the cost to achieve a service with reliability and power quality levels equivalent to the network service. The phase is an options evaluation phase, with no commercial commitment by potential SAPS providers. The DNSPs own experience and research into commercial and purpose designed solutions to derive the relative costs of options should provide reliable reference costs for this phase.

In our view, the costs for an equivalent SAPS solution to provide the solution determined by the DNSP would be a better representation for the purposes of comparison with network and other solutions. There does not seem to be risk of over-investment in this approach. Transparency around the performance requirements of the SAPS, and the capital cost allowed for in the assessment would be preferable. This would enable proponents to respond and serve as a basis for subsequent engagement with the DNSP when a decision is taken and commercial arrangements for the solution are negotiated. In addition, DNSPs may be reluctant to contract a different SAPS for each occurrence, as this may increase the need for spares holdings, maintenance expertise etc. Flexibility for the DNSP, similar to its management of the network, is necessary for the management of the DNSPs SAPS services.

### **Jurisdictional participation in the national framework**

Consistent with our earlier submission, AusNet Services supports the Commission's draft position that an approach to DNSP led SAPS that should take effect consistently across all relevant jurisdictions at the same time, i.e. jurisdictional opt-in appears unnecessary. In our submission we also recognised that jurisdictional instruments may need to be updated before DNSPs are able to deploy SAPS.

The Commission proposes to encourage jurisdictions to review laws and regulations that apply to SAPS customers. We suggest that jurisdictional review is required in a timely manner, and therefore the appropriate priority should be applied to this task. The Commission could facilitate this by:

- Obtaining advice from jurisdictions on what amendments to instruments are necessary, and seeking advice on the process and time to do this;
- Recommending that the framework for implementation of DNSP led SAPS, including changes to jurisdictional instruments, is established in advance of finalising the SAPS regime for 3<sup>rd</sup> party provider services, as the considerations are independent.

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

The terms of reference for the priority 1 report for the review includes advice on a mechanism for transition of customers to a third party SAPS. As part of this advice, the Commission considers the matter of the accounting of and compensation for the efficiency loss resulting from DNSP asset transfers to a 3<sup>rd</sup> party SAPS, and the stranding of regulated network assets as a result of disconnection.

The Commission's draft recommendation does not require the 3<sup>rd</sup> party provider to demonstrate and implement its service based on demonstrated and implemented efficiency, and we agree that this would not be relevant to an unregulated service decision. However, as provided for in the draft recommendation, consideration and accounting for the sunk investment of the DNSP to serve those customers is relevant.

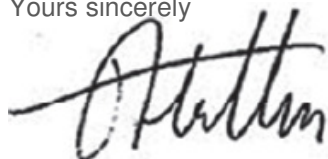
Accounting for sunk investment should have the appropriate effect of signalling relative efficiency of services. We support the draft recommendations as an important step in aligning incentives for 3<sup>rd</sup> party service providers with costs embedded in the energy supply chain.

It is also noteworthy that in time, in the event that such transitions arise, there would be value in a role for DNSPs advocating the value proposition of retaining the regulated network service which is being competed out. This would facilitate the targeted customers' understanding of the cost and reliability relativities of the alternative services.

Finally, AusNet Services agrees with the Commission's reasoning that explicit informed consent from customers is necessary in these circumstances, where the customer becomes subject to a different electricity service offering. The most similar circumstances are embedded networks, but where the underlying distribution network obligations remain. We note that, increasingly, access to retailer of choice and other protections are being put in place in the regulatory framework]for embedded networks.

We look forward to continuing to work with the Commission in the next stage of this important review. If you have any queries regarding our submission please contact Kelvin Gebert.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tom Hallam', written in a cursive style.

Tom Hallam  
**General Manager Regulation**