

Ausgrid Submission

AEMC review of the regulatory arrangements for stand-alone power systems – draft report

February 2019



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Attn: Ms Sherine Al Shallah
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Lodged online

Dear Ms Al Shallah

Ausgrid is pleased to provide this submission to the Australian Energy Market Commission (AEMC) review of the regulatory arrangements for stand-alone power systems (SAPS) draft report.

We support most of the AEMC's recommendations in the draft report. There are a number of areas, however, where suggested changes risk introducing unnecessary prescription and complexity in the rules. This prescription risks introducing additional costs and delays in the rollout of stand-alone power systems. As the cost of stand-alone power systems continues to fall, it is important that regulation is proportional to the size and cost of any investment.

The AEMC has indicated that it will give further consideration to whether distributors should be able to supply SAPS for new connections (the grid connection 'pre-condition'). It is important that any AEMC recommendation in its final report takes into account the contestability arrangements in NSW.

We will continue working with the AEMC to develop solutions for the issues raised in the draft report. Should the AEMC have any questions in relation to this submission, please contact John Skinner, Regulatory Policy Manager on 02 9269 4357 or john.skinner@ausgrid.com.au.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Iftekhar Omar", written in a cursive style.

Iftekhar Omar
Head of Regulation

Submission

The AEMC review of the regulatory arrangements for stand-alone power systems (SAPS) is an important step in the evolution of electricity distribution networks.

Changes in technology and technology costs mean that SAPS are becoming an increasingly viable option for providing electricity services to customers, particularly in rural and remote locations. However, the current regulatory arrangements prevent Ausgrid from providing off-grid supply, even in circumstances where a SAPS or microgrid may be the most efficient solution.

Reforms flowing from the review will allow distribution networks to adapt to technological change and place downward pressure on the network prices paid by all customers. For many rural and remote customers, these reforms also offer the prospect of improved service through greater reliability.

Ausgrid is the largest distributor of electricity on Australia's east coast, providing electricity to 1.7 million connected customers. While our network includes some of Australia's most densely populated areas, it also services sparsely populated areas of the Central Coast and Hunter Regions of NSW. This means that while our network may not have as many opportunities for stand-alone power supply as more rural networks (such as the network operated by Essential Energy) there will still be opportunities for Ausgrid to reduce network costs by using SAPS to provide supply.

Ausgrid's network map shows that in sparsely populated areas outside the Sydney basin, particularly in the Hunter Region, there are opportunities for the provision of off-grid supply.

Ausgrid has been considering the benefits of SAPS and microgrids as part of its Network Innovation Program. Early case studies conducted as part of the program show that SAPS projects can have a significant cost benefit. These benefits result from a reduction in capex and opex over the life of the assets, as well a significant reduction in bushfire and safety risk.

Transitioning customers to SAPS

In its draft report, the AEMC proposed minimum SAPS project evaluation requirements, as well as potential new arrangements requiring distributors to prepare and publish a SAPS customer

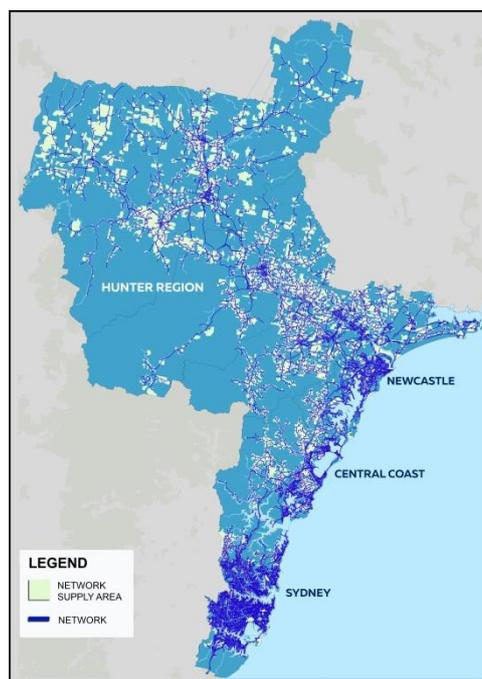


Figure 1 Ausgrid Network Area

engagement strategy.¹ We agree that light handed arrangements should be introduced to ensure that the transition of customers to SAPS is efficient and that customers are consulted as part of the process. Any new obligations on distributors, however, should be appropriate to the size of the project and not introduce any unnecessary costs or delays for distributors or customers.

For example, the proposed SAPS project evaluation requirements require distributors to issue a request for SAPS solutions from parties on its demand side register and any other parties the distributor has identified as capable of providing all, or part, of the SAPS solution. Detailed regulatory requirements such as this risk introducing unnecessary prescription or 'red tape' in the rules. This could lead to unnecessary additional costs and inefficient outcomes for customers. It may be more efficient, for example, for Ausgrid to run a tender process in order to establish a panel of suppliers that can provide SAPS in a particular area, rather than having to engage with its demand side register every time it wishes to introduce a SAPS.

It is important that any arrangements introduced by the AEMC are proportional to the size and scale of any investment and provide the distributor with the discretion to provide SAPS solutions in as efficient way as possible.

Roles and responsibilities in providing SAPS

Ausgrid supports the AEMC recommendation that SAPS should be considered as 'in front of the meter' assets, meaning that distributors would be able to own and operate these assets. This makes sense, given the role played by Ausgrid and other electricity distributors in providing customers with an essential service. As the local distributor, it is expected that Ausgrid will retain service and other obligations that it has for all its customers, both on and off-grid.

In the draft report, the AEMC indicated that it is still considering whether distributors should be able to offer SAPS for new connections. As we mentioned in our submission to the AEMC's issues paper, NSW contestability arrangements mean that new connections assets are paid for by customers in the competitive market. This will help drive innovation and competition in the delivery of SAPS and microgrid solutions. For new customers, it may be the most efficient outcome (if the customer elects for us to do so) for the local distributor to be gifted the new assets and then continue to operate and maintain them.² This is due to the economies of scale and scope that the distributor, with its dedicated and skilled resources, is able to leverage.

The AEMC is also seeking views on options for service delivery and whether a 'NEM consistency model' or an 'integrated service delivery model' is preferred. As is the case in remote parts of the Northern Territory and Western Australia, efficient outcomes are being achieved where the local

¹ AEMC, *Review of stand-alone power systems*, Draft Report, 18 December 2019, pp 50 and 55.

² This is how contestability arrangements and the Accredited Service Provider (ASP) scheme currently operate in NSW

distributor provides vertically integrated supply for remote SAPS customers. That is, the local distributor provides an integrated, ‘all in one’ service, including generation and retail services. This vertically integrated option is preferred to the potentially more expensive option of forcing competition in the generation, distribution, metering and retail functions for these customers.

However, under this model, consideration needs to be given to both price protection and tariff design. As we mentioned in our October 2018 submission, in our view a customer on a market offer must not be made worse off when moving to a SAPS. This means that the new AER default offer may not be appropriate in all circumstances. Similarly, the tariff design for customers moving to SAPS should encourage the efficient use of the SAPS. Consistent with moves towards more efficient tariffs on the main distribution network, efficient tariffs will ensure that all customers do not pay for inefficient investment in SAPS.

Consumer protections and reliability

If customers are moving to a SAPS at the initiative of their distributor, Ausgrid agrees that customers should retain access to the same set of customer protections as they had while on-grid. The issue of reliability is one that needs special consideration.

In our response to the September 2018 issues paper, we submitted that ‘customers moved to a SAPS by their distributor should expect the same or better reliability than they were currently receiving when moving to an off-grid system’.³

We agree with the AEMC that customers should continue to receive reliability, security and quality standards with *equivalent principles* (emphasis added) to those for grid connected customers. However, as noted by the AEMC, the standards and measures do not necessarily need to be exactly the same as those that apply to grid connected customers.⁴

Many potential SAPS customers will be in areas of below average reliability, and a transition to a SAPS solution may provide opportunities to improve the reliability of their supply. However, the isolated nature of these systems will present new challenges in maintaining supply, particularly during planned maintenance and replacement of systems. This means that careful consideration will need to be given when determining the appropriate jurisdictional and national reliability standards for stand-alone power systems.

The NSW distribution reliability standards do not currently cater for SAPS. The NSW Government has recently asked the NSW Independent Pricing and Regulatory Tribunal (IPART) to consult on a draft

³ Ausgrid, *AEMC review of the regulatory arrangements for stand-alone power systems – Submission*, Response to Question 17, October 2018

⁴ AEMC, *Review of the regulatory frameworks for stand-alone power systems – Draft Report*, 18 December 2018, p119

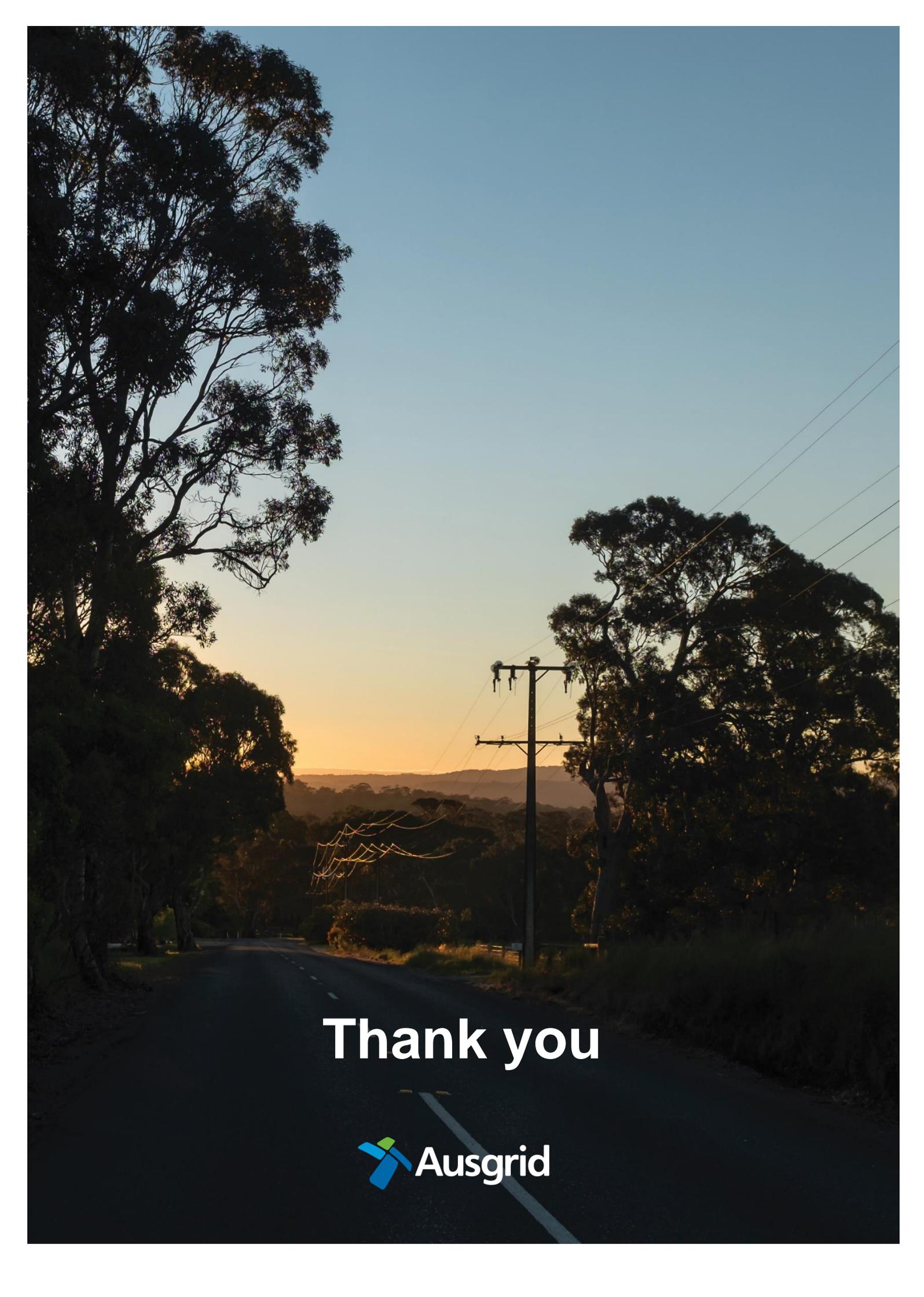
Terms of Reference for a review of the distribution reliability standards. This is a good opportunity for IPART to consider how the reliability standards need to evolve to cater for new technologies, including SAPS.

Transitioning to third party stand-alone systems

Ausgrid supports the AEMC's draft position that explicit informed consent is required from all relevant customers, in written form, to transition them to a third party microgrid.

The AEMC draft report also sets out recommendations for asset transfers and stranded assets. We support the AEMC's view that commercial negotiations between the distributor and third party should be the key driver for the valuation of transferred and stranded assets. We also agree that third parties should compensate distributors for the efficiency losses that result from asset stranding.

The AEMC's September 2018 Issues Paper sought views on whether a dispute resolution framework is needed for asset transfers and stranded assets. This is important, as the valuation of transferred assets, the identification of stranded assets, and the calculation of efficiency losses are likely to be contentious. It would be helpful if the AEMC could clarify the role of the AER in any dispute resolution process.

A scenic landscape at sunset. A paved road curves through a lush, green area with large trees on both sides. In the distance, rolling hills are visible under a sky transitioning from a warm orange glow near the horizon to a clear blue above. A utility pole with power lines stands prominently in the middle ground. The overall mood is peaceful and serene.

Thank you

