

5 February 2019

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

Dear Mr Pierce,

RE: AEMC Draft Report – *Review of the Regulatory Frameworks for Stand-Alone Power Systems*

Endeavour Energy appreciates the opportunity to provide feedback to the AEMC's draft report – *Review of the Regulatory Frameworks for Stand-Alone Power Systems*. We support the framework outlined in the draft report, which enables the efficient deployment of stand-alone power systems (SAPS) as a more cost-effective alternative to maintaining a grid connection for existing customers by distribution network service providers (DNSPs).

The primary issue that is unresolved in the draft report is the service delivery model. There are advantages and disadvantages to the two models (consistency and integrated) outlined in the draft report. Essentially, the decision amounts to a trade-off between simplicity and accuracy. It will be important to consider the impact of each service delivery model over the life of a SAPS in addition to the relative strengths and weaknesses at the time of transition.

We support both models to the extent that they provide a framework for reducing existing cross-subsidies and therefore network charges. We have a preference for the integrated model as it will best facilitate the efficient use and management of SAPS over the long-term in our view and maximise the potential reduction in overall network investment costs.

We provide a more detailed response on this issue and other critical aspects of the draft report in the following sections. Overall, we will support a framework that; is customer outcome orientated, promotes efficient investment decisions, is technology neutral and preserves customer protections.

Transition

The established RIT-D process is a suitable framework through which DNSPs can demonstrate the relative efficiency of a SAPS transfer. We therefore also support new minimum SAPS evaluation requirements below the current \$6M RIT-D threshold. We note that SAPS transfers, at least initially, will likely be for single customers with relatively low project costs (i.e. below \$0.5M) and in areas with limited competition.

Any new requirements should therefore be developed that are proportionate to and commensurate with this lower level of materiality. In providing transparency it is important that the process does not become administratively burdensome. It is worth considering whether a more objectives-based framework process could apply in certain circumstances that seeks to demonstrate how the inherent principles of a RIT-D process have been satisfied.

We support no requirement for explicit consent in transitioning customers to a SAPS provided appropriate customer protections and reliability and service guarantees are in place. Similarly, we agree that as SAPS is providing an equivalent distribution service that it would be considered a grid connection with respect to a customer's right to reconnection.

On the issue of obtaining explicit, formal consent it could be difficult in some circumstances and significantly increase the likelihood that efficient investment opportunities will be missed. This will not be in the long-term interests of SAPS candidate customers and will reduce our ability to lower our costs which will benefit all customers who are currently required to disproportionately fund the maintenance and operation of existing grid connections that generate revenues below their incremental cost.

Even in the absence of a formal requirement we will be strongly committed to obtaining consent from SAPS transfer customers through the SAPS engagement strategy. It would be unlikely that DNSPs will be willing to risk the reputational damage associated with transferring customers who are strongly opposed to a SAPS. We therefore support a requirement to engage with SAPS transfer candidates in accordance with a published customer engagement strategy.

If regulatory guidance or oversight is required of this engagement for consistency, then an AER guideline would be appropriate. This could be given effect to as an addition to the demand side engagement obligations contained in cl 5.13.1(e) of the Rules.

An outstanding and related matter to the transfer of existing customers to SAPS is whether the framework should extend to new connections. We support a grid connection pre-condition that allows new customers to be connected to pre-existing SAPS.

In the absence of a pre-existing SAPS the customer should be able to choose from a competitive SAPS market (if available) and a grid connection at a cost-reflective connection cost. If there is no competitive SAPS market we believe a DNSP should be allowed to offer connection via a new SAPS, subject to the attainment of a ring-fencing waiver.

Service delivery and classification

The AEMC consider the existing classification provisions provide the AER with suitable discretion to classify SAPS as a regulated service and the services involved in providing the SAPS as perfunctory to the distribution service being provided rather than separate services. We support this position but are concerned that this new framework is somewhat dependent on the AER and AEMC being aligned on this view. We would be interested in the AER's views on the AEMC's draft report and whether further clarification of the AEMC's view is required.

We note some stakeholders have expressed concerns about the potentially adverse impacts classifying SAPS as a distribution service (and thereby allowing DNSPs to add SAPS assets to their regulated asset base (RAB)) may have on the competitive SAPS market. We do not share these concerns and support the AEMC's position that SAPS assets be considered as in-front of the meter assets thereby allowing DNSPs to choose the most efficient option between purchasing assets and contracting for services from third parties. Moreover, any increased volume in the take-up of SAPS is likely to support greater competition upstream at the R&D and manufacturing levels of the value chain. This in turn will support an environment with increased potential for innovation and disruption at all levels of the value chain delivering long term benefits to all customers.

As a regulated service, and one that will potentially be subject to the RIT-D, DNSPs will have to demonstrate that they have selected the most efficient option, which they are also incentivised to do by the regulatory framework. To date, DNSPs have shown a reliance on third parties in the provision of demand management solutions. In our view, this new framework will increase the market for SAPS and its component parts by providing access to a customer base that are highly unlikely to consider, or access, the SAPS market under prevailing conditions.

As aforementioned, the service delivery option is the key outstanding issue discussed in the draft report. We have a preference for the integrated model but are supportive of either approach being adopted in the interests of expeditiously removing existing barriers to the deployment of efficient SAPS options. We accept that the consistency model will be easier to administer in the short term and less disruptive to customers while maintaining their access to the competitive retail market. However, continuing to charge an off-grid customer for components of the supply chain that are no longer valued or utilised by the customer may reduce the benefits that can be realised by SAPS and/or be difficult for customers to accept.

The integrated model allows for more tailored pricing arrangements that will better signal the efficient use of the SAPS and allow for higher price reductions by reducing the supply chain. It also provides the customer with a single contact that is best placed to manage any SAPS issues. However, compared to the consistency model this approach would require additional regulatory

changes like price protection and jurisdictional changes to ensure consumer protections remain in place.

We do not consider the additional disruption this model creates to be a prohibitive disadvantage, in the context of transitioning a customer off-grid. While initially more challenging this framework is more scalable and should result in positive customer experiences and outcomes in the longer term while ensuring that the maximum value chain savings can be passed on to end customers.

Consumer protections

As noted above, the AEMC notes that customers, under the integrated model, will no longer have access to the benefits of the competitive retail market.

We also support the principle of ensuring that customers should at least be no worse off when transitioned from a grid connection to a SAPS, and we support price protections being in place if an integrated model is adopted. To ensure that customers on SAPS are able to realise the benefits of the competitive retail market in a more simplified form, we would be supportive of the default market offer (DMO) acting as a price ceiling.

In addition to price protection we agree that other specific protections in the NERL and NERR should continue to apply to the extent they remain relevant and equivalent grid connection reliability standards should apply. When considering the package of risks and customer protections, other statutory protections such as those offered by the Competition and Consumer Act in respect of product warranties and guarantees. The full range of such protections should also be reviewed to ensure that this review addresses only those areas where gaps exist to avoid overlapping obligations which would result in higher cost solutions.

Transition to third party

We support explicit and informed consent being a requirement for customers transitioning to a third party SAPS provider. In this scenario it is more likely that the third party would be initiating the transfer and unlike the DNSP led framework the customer would be at a greater risk (noting this will be examined further under priority two of the review).

We also support an AER administered mechanism to account for asset transfers and stranded assets. It is important that a cost-reflective price signal is provided to the third party electing to transition customers to a competitively provided SAPS. The remaining grid connected customer base should not cross-subsidise an individual customers' SAPS transfer, noting that a DNSP led SAPS is aimed at reducing the cost of any existing cross-subsidy for supply for less economic supply connections.

If you have any queries or wish to discuss this matter further please contact Patrick Duffy, Regulatory Strategy Manager at Endeavour Energy on (02) 9853 4375 or via email at patrick.duffy@endeavourenergy.com.au.

Yours sincerely,



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Endeavour Energy

