

4 February 2019

Mr John Pierce
Chair
Australian Energy Market Commission
PO BOX A2449
Sydney South NSW 1235

Via online submission

Dear Mr Pierce,

**RE EMO0037 – REVIEW OF THE REGULATORY FRAMEWORKS FOR STAND-ALONE POWER SYSTEMS
DRAFT REPORT**

TasNetworks welcomes the opportunity to make a submission to the Australian Energy Market Commission's (**AEMC**) Draft Report on the Review of the Regulatory Frameworks for Stand-Alone Power Systems (**SAPS**).

As the Transmission Network Service Provider (**TNSP**), Distribution Network Service Provider (**DNSP**) and jurisdictional planner in Tasmania, TasNetworks is focused on delivering safe and reliable electricity network services while achieving the lowest sustainable prices for Tasmanian customers. TasNetworks operates a low density distribution network with a number of long radial feeders in remote, bushfire prone areas. SAPS therefore represent a powerful option for improving security and reliability outcomes as well as reducing costs for all Tasmanian customers. In this regard, TasNetworks is supportive of AEMC's efforts to review SAPS regulation so that these systems can be legitimately considered by customers as an alternative to grid connection.

TasNetworks supports Energy Networks Australia's (**ENA**) submission on the SAPS draft report and would like to make several further comments with a particular focus on the Tasmanian context. The key points in this submission are:

- TasNetworks agrees with and supports many of the Commission's draft positions for transitioning customers to DNSP SAPS. These include the development and use of a SAPS customer engagement strategy, flexibility around jurisdictional participation in a national SAPS framework and changes to the definition of network to include DNSP SAPS.
- TasNetworks also agrees with the position that no changes to the Regulatory Investment Test for Distribution (**RIT-D**) are required to support SAPS. Although supportive of the intention of the minimum SAPS project evaluation requirements in principle, TasNetworks questions whether these are viable in practice. As proposed, they risk undermining the considerable efficiency and cost savings to customers that SAPS provision might otherwise provide.

- Instead, TasNetworks suggests that more general, high level information on the SAPS opportunities within a region is identified in the Distribution Annual Planning Report (**DAPR**). Further detail could then be provided on a confidential basis to those proponents interested in providing alternative SAPS solutions in specific locations. In this manner, competitive testing of SAPS solutions would be supported whilst administrative burden and inefficiency in information provision would be minimised.
- TasNetworks considers that a DNSP-led SAPS solution should be an eligible option for both new customers and new developments in those cases where SAPS are a more efficient solution than traditional grid connection. If all applicable standards can be maintained, then all customers will benefit from reduced network expenses through the elimination of otherwise unnecessary and inefficient network augmentation.
- In terms of SAPS service classifications, TasNetworks supports the Commission's views that SAPS should be considered as in-front of the meter assets and that no further restrictions on ownership and operation of SAPS are required at this time.
- TasNetworks contends that the current standards and customer protections that grid-connections enjoy should apply for SAPS customers. TasNetworks therefore favours the National Electricity Market (**NEM**) consistency model and considers this will result in a more efficient, customer focused SAPS model of service delivery.
- TasNetworks supports the AEMC's position that a third party should compensate a DNSP for costs related to stranded assets resulting from a customer transfer to a third-party SAPS. However, TasNetworks calls for clarity on whether this compensation would extend to other DNSP costs incurred in relation to DNSP security, safety and reliability obligations. For example, from works to manage changes in characteristics such as voltage and frequency on the remaining network that might arise from a third party transition.
- Although supportive of the customer consent requirements required for third-party SAPS, TasNetworks considers that the consent of DNSPs should also be obtained. This is so the adverse technical outcomes are avoided and remaining grid-connected customers are not unfairly left paying more to remedy them.
- TasNetworks notes that the reconnection provisions for DNSP-led and third-party SAPS differ. TasNetworks considers that these should be aligned given the inefficient economic consequences that could result from forcible grid-reconnection allowable with third-party SAPS.

Further detail on these and other points are provided below and we welcome the opportunity to discuss this submission further with you. Should you have any questions, please contact me via email (tim.astley@tasnetworks.com.au) or by phone on (03) 6271 6151.

Yours sincerely,



Tim Astley
Team Leader NEM Strategy and Compliance

TRANSITION TO DNSP-LED SAPS

Evaluating SAPS Opportunities

TasNetworks strongly supports the AEMC's position that no change is required to the existing RIT-D framework to support SAPS. Implementation of SAPS in Tasmania are likely to be bespoke, small-scale projects. The cost in time and resourcing required to apply a RIT-D to all of these projects would be prohibitive and likely meaning that these projects could not be undertaken. Beyond depriving specific SAPS customers of an alternative supply solution, it would be to the detriment of all customers in failing to reduce overall network costs and unlock the full economic potential that SAPS represent.

With this consideration in mind, and although supportive of the intention of the minimum SAPS project evaluation requirements in principle, TasNetworks questions whether these are viable in practice. Providing an in-depth description including technical information on the identified need, location and the other credible network and non-network options being considered by the DNSP for every single proposed SAPS installation would be an extremely onerous undertaking. It is also one that would reduce the considerable efficiency benefits that SAPS provision might provide. This is particularly relevant for those jurisdictions such as Tasmania where there is, or is likely to be, limited competitive SAPS service options.

Instead, TasNetworks suggests that more general, high level information on the SAPS opportunities within a region is clearly and transparently identified in the DAPR. Further detail could then be provided on a confidential basis to those proponents interested in providing alternative SAPS solutions in specific locations. In this manner, competitive testing of SAPS solutions would be supported whilst administrative burden and inefficiency in information provision would be minimised.

SAPS Engagement Strategy

TasNetworks strongly supports the Commission's draft position not to require DNSPs to obtain Explicit Informed Consent (EIC) from customers identified for SAPS transition. This preserves the consistency with current frameworks whereby networks are obliged to efficiently deliver network services to customers, not simply operate pre-defined classes of assets. This approach also obviates the major disadvantages with consent provisions. That is, situations where a minority could negate the benefits to all customers from reduced network expenditure resulting from economically efficient SAPS installations.

Despite this, and as noted in TasNetworks' response to the SAPS issues paper, TasNetworks considers it critical that early, consistent and transparent customer engagement occurs with any SAPS implementation. TasNetworks' existing Customer Engagement Framework is a critical component of our stated customer strategy - 'we care for our customers and make their experience easier'. TasNetworks therefore also strongly supports the Commission's position to obligate DNSPs to develop, publish and comply with a SAPS customer information and engagement strategy.

Jurisdictional Participation and Regulatory Oversight

TasNetworks supports the Commission's position that DNSP participation in the national SAPS framework is restricted until such time as the Minister in the relevant jurisdiction decides when the national arrangements for SAPS will be applicable in that jurisdiction. There are already several different jurisdictional frameworks for SAPS with each at a differing level of maturity. As such, it will be easier for some jurisdictions to make the move to a national SAPS framework than others. Allowing flexibility in when the new framework will apply will ensure that customers are fully engaged, informed and supported throughout the SAPS transition process.

Similarly, TasNetworks also supports the Commission's initial view that no additional review obligation is placed on the Australian Energy Regulator (AER) to assess DNSP SAPS proposals. As

noted in the draft report, additional regulatory oversight specific to SAPs is not required given the AER's powers, current customer protections and service standards along with national planning and investment frameworks. Adding a further review process to SAPS implementations would only slow the timeframes, and increase the costs, of SAPS transitions. Neither of which are in the long-term interests of customers.

Grid Connection and Reconnection

TasNetworks understands the AEMC's concern with the development of competitive SAPS markets in relation to new grid connections. However, TasNetworks urges the AEMC to draw pragmatic lessons from recent experiences associated with the introduction of competition in metering rule changes. Customer outcomes have deteriorated substantially with the moves to a competitive market model to the point that new regulations have been required to mandate service standards and meter installation timeframes.

To avoid further tarnishing customer's perceptions of the electricity industry in general, TasNetworks considers that a DNSP-led SAPS solution should be an eligible option for both new customers and new developments. That is, in those cases where SAPS are a more efficient solution than traditional grid connection. If all applicable standards can be maintained with a SAPS implementation, then all customers will benefit via reduced network expenses through the elimination of otherwise unnecessary and inefficient network augmentation.

In other situations where there is no potential for an eligible existing grid-connection, and/or there is no obligation on DNSPs to provide one, TasNetworks considers that competition in SAPS provision would be appropriate. Notwithstanding such support, in those areas where competition is immature and/or unlikely to develop further, there is a risk that no SAPS service offering would be provided to customers at all. In these cases, TasNetworks strongly suggests that allowing DNSPs to proffer solutions on a negotiated basis should be considered.

In terms of grid reconnection, TasNetworks supports the Commission's draft view that the definition of a DNSP network is amended to incorporate DNSP SAPS. This represents a novel way of getting around the problems associated with inconsistency between SAPS disconnection and reconnection provisions. For example, avoiding having to forcibly re-establish a grid connection that resulted in a loss of economic efficiency due to differences in the regulatory treatment of disconnection and reconnection rights. As noted in the issues paper, and highlighted in TasNetworks' earlier submission to the issues paper, it is imperative that open and robust customer consultation occurs so that customers are aware there is no right of reconnection back to the interconnected grid.

SAPS SERVICE CLASSIFICATION AND DELIVERY

Service Classification and the Role of the DNSP

TasNetworks agrees with the Commission's view that SAPS assets should be considered as in-front of the meter assets. Given the technological differences between SAPS and grid connections, DNSP ownership and operation of what might otherwise be considered behind the meter assets makes economic sense. TasNetworks therefore supports the Commission's recommendation that the National Energy Law (NEL) and National Energy Rules (NER) be amended to enable DNSPs to utilise non-network SAPS assets to provide distribution services and with SAPS provision considered a standard control service.

TasNetworks also agrees with the AEMC that there is no need to place any further restrictions on DNSPs provision of SAPS services and ownership of SAPS assets. As noted in the draft report, and highlighted in TasNetworks' earlier submission to the issues paper, effective safeguards on the supply and ownership of such services and assets are already provided by the ring fencing obligations. This includes provisioning for appropriate cost allocation, the sharing of staff and resources along with exemption classifications.

Options for Service Delivery

In principle, TasNetworks considers that the existing reliability, security and quality standards applicable to grid connections should be retained and applied to SAPS where possible. Aside from avoiding any extra regulatory and administrative burden with the implementation of SAPS rules, it will provide customers with enhanced confidence that SAPS represent a viable and consistent service experience when compared to grid connections. By leveraging existing NEM processes, and maintaining retail competition, a more efficient, customer focused SAPS framework is likely to result under the NEM consistency model. TasNetworks therefore considers this model would be preferable to the Integrated Service Model of SAPS provision at this stage.

As noted both in the draft report and TasNetworks' earlier submission to the issue paper, there may be changes required to the practical aspects of how existing standards are reflected for SAPS under a NEM consistency model. TasNetworks will respond to these issues as they are identified as the consultation progresses. In the interim, TasNetworks notes the application of regulatory sandboxes, on which the AEMC is also currently deliberating, may be useful in trying to decide amongst alternative approaches.

APPLICATION OF CUSTOMER PROTECTIONS

As noted above, TasNetworks considers that consistency with current NEM arrangements is to be preferred where possible. This extends to retail pricing protections and would see the existing jurisdictional retail pricing arrangements for grid-connected customers applying for SAPS customers in Tasmania. TasNetworks therefore agrees with and supports the AEMC's draft view that customers who transition to a DNSP-led SAPS should continue to have access to any regulated rate in line with current jurisdictional arrangements.

TasNetworks' support also extends to retaining existing customer protections for SAPS customers in relation to:

- national energy-specific customer protections such as those enshrined in the National Energy Customer Framework (**NECF**),
- national reliability incentive schemes such as the Service Target Performance Incentive Scheme (**STPIS**), and
- jurisdictional reliability standards such as Guaranteed Service Level (**GSL**) schemes.

TasNetworks will provide further commentary on SAPS-specific consumer protections in the next stage of the review once the SAPS model of supply has been determined.

TRANSITION TO THIRD PARTY SAPS

Efficiency Pre-Condition, Asset Transfers and Stranded Assets

TasNetworks notes that the Commission considers an efficiency pre-condition for transitioning grid-connected customers to a third party SAPS is not required. This is on the basis that the risks the transition could impose costs on remaining customers will be addressed through the asset transfer and stranded assets mechanisms. In this regard, TasNetworks supports the AEMC's position that a third party should compensate a DNSP for costs related to stranded assets as a result of the transition. Further, that the framework for deciding this should also set out provisions for how these are accounted for in DNSP regulatory accounts.

However, it is not clear from the draft report whether this compensation would extend to costs to DNSPs in relation to their network security, safety and reliability obligations that might arise from such a transition. For example, from works to manage changes in voltage and frequency characteristics on the remaining network that are not directly related to any stranded or transferred assets. If compensation does not extend to these costs, then remaining network customers would effectively cross subsidise the new SAPS customers. This would be a highly inequitable customer

outcome and one TasNetworks would not support. As such, TasNetworks considers that clarity on this point is required.

Beyond this, TasNetworks considers that third party SAPS should be held to the same standards as DNSP-led SAPS. This includes reliability, security and quality standards, customer protections and incentive schemes along with consideration of other required services such as street lighting. This is so a level field in service provision is created. The risk is that without this protection SAPS customer outcomes will be worse than their grid-connected counterparts. For example, it should be a requirement that third parties possess the necessary capability to support SAPS in remote areas of Tasmania, particularly in relation to the timely restoration of supply in the event of an outage.

Alternatively, if it is decided that third party SAPS could allow for lower standards of service, then the same freedom should be extended to DNSPs. That is, where customers are willing to sacrifice service quality to obtain a cheaper third party SAPS solution, the DNSP should be able to also tender for the service on a negotiated basis, without being hamstrung by existing service standards.

Customer Consent and Reconnection Provisions

TasNetworks supports the intent behind the AEMC's recommendation that the EIC of all customers be obtained in written form before they can be transitioned to a third-party SAPS. Further, that EIC requirements include detailed information about the proposed SAPS solution. These recommendations are vital components required for customers to adequately assess the supply solution that is in their best interests.

However, TasNetworks reiterates its contention that considerations consistent with current obligations need to be reflected. That is, by acting in their existing role to address network security, safety and reliability concerns, the EIC of DNSPs should also be obtained for any third party SAPS implementation. This is so any adverse technical network impacts resulting from the proposed third-party solution can be avoided and remaining grid-connected customers are not left paying more to remedy them.

As noted above, TasNetworks considers it crucial that there is consistency between SAPS disconnection and reconnection provisions. This is to avoid situations where a grid connection has to be forcibly re-established post a SAPS implementation and thereby resulting in a loss of economic efficiency. It is striking that the AEMC agrees with this in respect of DNSP SAPS but considers that this should differ for third-party SAPS when the potentially deleterious economic consequences are the same. TasNetworks therefore suggests that, as with DNSP SAPS, there should be no automatic right of reconnection to the grid for those customers transitioned to a third-party SAPS. Aside from avoiding the economic impacts, this would also act as an incentive on third-party SAPS suppliers to provide robust, high quality SAPS solutions to customers.