

28 March 2019



Sherine Al Shallah  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Dear Ms Al Shallah

**EMO0037 Review of the Regulatory Arrangements for Stand-alone Power Systems – Priority 2**

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comments to the Australian Energy Market Commission (AEMC), on its consultation paper related to the Regulatory Arrangements for Stand-alone Power Systems (SAPS) – Priority 2 (herein referred to as the consultation paper). This submission is provided by Energy Queensland, on behalf of its related entities Energex Limited (Energex), Ergon Energy Corporation Limited (Ergon Energy Network), Ergon Energy Queensland Limited (Ergon Energy Retail) and Yurika Pty Ltd (Yurika) and is available for publication.

***About Energy Queensland***

Energy Queensland is a Queensland Government Owned Corporation that operates a group of businesses providing energy services across Queensland, including:

- Distribution Network Service Providers (DNSPs), Energex and Ergon Energy Network;
- a regional service delivery retailer, Ergon Energy Retail; and
- an affiliated contestable business, Yurika, which includes Metering Dynamics Pty Ltd.

Energy Queensland's purpose is to "safely deliver secure, affordable and sustainable energy solutions with our communities and customers" and is focussed on working across its portfolio of activities to deliver customers lower, more predictable power bills while maintaining a safe and reliable supply and a great customer service experience.

Our distribution businesses, Energex and Ergon Energy Network, cover 1.7 million km<sup>2</sup> and supply 37,208 GWh of energy to 2.1 million homes and businesses. Ergon Energy Retail sells electricity to 740,000 customers.

The Energy Queensland Group also includes Yurika, an energy services business creating innovative solutions to deliver customers greater choice and control over their energy needs and access to new solutions and technologies.

### **Key Messages**

A key challenge in developing a national framework for third-party SAPS is protecting current and future customers, including vulnerable customers, who may find it difficult to engage generally, with the energy sector and its ongoing developments. This will be especially relevant for a market-led SAPS solution, where a SAPS has monopoly characteristics. This is even more relevant as energy is considered an essential service.

Energy Queensland is therefore keen to ensure that in developing a third-party SAPS framework, customers have the knowledge and information to transition to a third-party SAPS as an alternative to a DNSP regulated network service. While we support innovation, it needs to be balanced to ensure positive customer outcomes, continue to meet expectations and provide minimum customer protections. Furthermore, once a SAPS is established it exhibits natural monopoly characteristics which warrant regulatory oversight. Moreover, customers connected to a third-party SAPS should have the same minimum protections as a regulated supply solution.

Energy Queensland has contributed to Energy Networks Australia's response to the consultation paper and accordingly supports the views represented in that submission. In addition, Energy Queensland has focused on a number of issues that we consider warrant further consideration by the AEMC and these are detailed below.

- **Efficiency pre-condition** – The AEMC in its Draft Report for priority 1 recommended that an efficiency pre-condition is not required for transitioning DNSP customers to a third-party SAPS provider. Energy Queensland repeats its view, expressed in our response to the Draft Report for priority 1, that prior to transitioning to a third-party SAPS provider, the SAPS provider must undertake an efficiency pre-condition similar to that proposed for DNSPs prior to commencing negotiations to transfer assets. This will ensure that the drivers for going 'off-grid' are based more on economic decisions.

Alternatively, if the AEMC considers that it should purely be a commercial decision, with no efficiency pre-condition, then the AEMC needs to make it clear that DNSPs have the right to refuse the offer made by a third-party, similar to any commercial transaction, and that there are no consequences following the refusal. However, we consider there is a risk in this approach as infrastructure may be duplicated, resulting in an uneconomic outcome and customers paying more over the longer term. Furthermore, market providers may use a 'loss leader' approach to buy a business with a long term view of increasing customers' prices.

- **Monopolies** – Some areas of the energy system are natural monopolies, including, transmission and distribution networks. In addition, there is an argument that once a SAPS is installed it creates a natural monopoly as an incumbent SAPS provider has the advantage of existing sunk capital which provides a natural advantage for future supply. This is demonstrated in existing SAPS where changes to existing providers occurs very irregularly.
- **Individual Power Systems (IPS)** - In our view, an IPS provides an opportunity for light handed regulation in appropriate circumstances. Such circumstances may be defined where, for example, the IPS is not selling energy or involved in the provision of energy across property boundaries, is not subject to strata title arrangements or is owned and operated by the property owner. Consumer protections in these cases could be provided by other instruments, such as existing Australian Consumer Law or the developing 'Behind-The-Meter-Code'. To support this approach, the definition of an IPS must be clear, such that it does not cause any unintended consequences. In addition there must be some oversight to ensure that where circumstances change, these are captured. For example, another customer connects to the IPS and therefore becomes a microgrid.
- **Provider of last resort scheme** – While we support in principle having a provider of last resort scheme, Energy Queensland at this stage does not have a position on whether a DNSP should be appointed as a provider of last resort in the event of failure of a third-party SAPS provider/operator. This is primarily because the detail and level of regulation to apply is still unknown. Of concern is the regulatory risk faced by DNSPs if they are appointed as the provider of last resort where the level of regulation, including the technical solution to apply may vary depending on the size and scale of the SAPS. For example, an IPS may have no or light handed regulation, as opposed to a microgrid the size of a small town, which may be regulated similarly to a DNSP. In these scenarios the technical solution may not be adequate or regulatory compliant for acquisition under these circumstances by a

DNISP. In addition, we have concerns about the long term implications of supply in this manner especially if there are market failings. This may create a situation where customers are without access to energy due to the market failure of a third-party SAPS provider. Due consideration needs to be given to ensure the adequate provision of customer protections in the long term under a range of situations for SAPS customers. Moreover, grid-connected customers should not bear the risks of other customers electing to go off-grid with a third-party SAPS provider that fails.

Lastly, Energy Queensland strongly supports a level regulatory playing-field for both third-party (microgrids only) and DNISP-led SAPS. This is primarily based on the following factors, including:

- SAPS, once established, exhibit natural monopoly characteristics; and
- Customer protections are necessary as energy is an essential service.

Energy Queensland looks forward to continuing to work with the AEMC on this review. Should you require additional information or wish to discuss any aspect of this submission, please do not hesitate to contact myself or Alena Christmas on (07) 3851 6784.

Yours Sincerely



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