



Ausgrid Submission

AEMC review of the regulatory arrangements for stand-alone power systems – priority 2 – consultation paper

March 2019



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29 March 2019

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) priority 2 consultation paper (consultation paper). In our submission we have provided views on several issues, including the regulatory treatment of SAPS and the process for transferring network assets to third parties.

The AEMC's consultation paper for third party-led SAPS follows closely behind draft reports considering regulatory arrangements for embedded networks and distributor-led SAPS. As recent experience has shown, when regulatory arrangements diverge depending on how energy is delivered to customers, forum shopping and arbitrage opportunities result that are not in customers' long-term interests. For this reason, consistency across regulatory arrangements should be a key consideration for the AEMC as it develops a framework for third-party led SAPS.

Our network is a shared asset used by over 4 million people. It is important that our existing customers are not left worse off following the transfer of any network assets to third party SAPS providers. Similarly, our existing customers should not bear the risk of other customers going off-grid through the establishment of third party SAPS.

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 black 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.

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. We believe that our network holds the key to unlocking greater competition in the energy sector. Our network is a shared, open platform, that will support an ecosystem of new technologies and services that will empower customers with greater choice and control.

This submission provides views on various issues raised in the consultation paper. We support the AEMC's proposed position in relation to explicit informed consent and provide some suggestions in relation to the regulatory treatment of third party SAPS and provider of last resort (PORL).

Assessment criteria for a third-party SAPS framework

In its consultation paper, the AEMC considers that customers transitioning to a third-party SAPS should be able to 'trade off' consumer protections.¹ Given that a safe, reliable electricity supply has long been considered an essential service, in our view the AEMC should exercise caution in allowing customers to trade away their consumer protections.

There will very likely be a significant information asymmetry between customers and third-party SAPS providers, and therefore the AEMC should ensure that customers are not disadvantaged when being transitioned to a third party-led SAPS. It would be a strange outcome if neighbouring customers, one provided with a SAPS by their distributor and one provided with a SAPS by a third party, each had a very different set of consumer protections.

For this reason, we are of the view that consistency of approach across distributor led SAPS, embedded networks, and third-party SAPS, should be a priority. The AEMC should strive to ensure that energy suppliers operate on a level playing field, regardless of the way energy is delivered to the end customer. Not only will this avoid forum shopping and arbitrage opportunities, it will ensure that customer protections and supplier obligations are more easily determined.

¹ AEMC, *Stand-alone power systems – priority 2, Consultation paper*, 1 March 2019, p.28

Regulatory treatment of third party SAPS

A common question throughout the consultation paper is whether national or jurisdictional arrangements should apply to the regulation of third party SAPS. In our view, the AEMC should aim for national arrangements where ever possible, including in areas that remain the responsibility of state jurisdictions. In these circumstances, the AEMC could design a national SAPS framework and jurisdictions would then be free to adopt or opt in to the new arrangements as needed.

We have also considered the issue of whether there should be a licensing or registration scheme for third party SAPS. In a November 2017 submission to the NSW Government, the NSW Independent Pricing and Regulatory Tribunal (IPART) outlined a risk-based framework for the regulation of electricity supply systems.² IPART proposed three distinct categories of supply system, as follows:

- Category 1: Distribution and transmission networks
- Category 2: More complex and higher risk embedded networks and microgrids
- Category 3: Less complex and lower risk embedded networks and microgrids

Under IPART's framework, determining which category an electricity supply system would fall into would depend on a risk-based assessment considering factors such as potential customer impacts, system complexity, and the skills required to safely manage and operate the technical assets in the installation. IPART considered that low voltage embedded networks such as high rise residential towers and industrial centres would be category 2, while caravan parks and small unit blocks would more likely be category 3.

In our view, this sort of risk-based framework could be used as the basis for a licensing or registration scheme for third party SAPS, and could also inform other dimensions for regulation, such as third-party access and connection, and economic regulation. Applying IPART's risk-based approach to the regulation of microgrids could result in the following categorisation:

- Category 1: Very large third party microgrids (for example, covering an entire town)
- Category 2: Microgrids covering a large group of households or businesses
- Category 3: A SAPS serving an individual, or a microgrid with a very small number of customers

Importantly, a framework such as this could be aligned with the AEMC's recommendations in its January 2019 Embedded Networks Draft Report:

² IPART, *Submission to Discussion Paper, Protecting Consumers in a changing energy world*, December 2017

- Category 2 networks under IPART's risk-based framework align with those embedded networks that require registration
- Category 3 networks under IPART's framework align with those embedded networks that are eligible for an exemption (such as caravan parks and electric vehicle charging stations) but are required to register that exemption with the AER

While there is further work to be done, in our view, a risk-based framework such as this will ensure consistency across different supply models. Requiring the registration of category 2 and category 3 networks will also ensure that there is adequate regulatory oversight of electricity supply systems where there is an ongoing relationship between the customer and supplier.

Third party access and connections

Consistent with proposed new arrangements for embedded networks, third party SAPS providers should generally have obligations to connect new generation facilities and offer to connect new customers. However, in small third-party SAPS (serving only a small number of customers) it may be difficult or inefficient to offer a connection, and an individual power system for the new customer may be the most appropriate option.

For larger SAPS, particularly those closer to the main distribution network, it may be more efficient to connect a new customer to the main distribution network, rather than the local microgrid. In these instances, negotiation between the customer, local distributor and microgrid operator should determine the most efficient option. Appropriate dispute resolution processes will need to exist for circumstances where the parties are unable to reach an agreed outcome.

Provider of last resort

Distributors such as Ausgrid are likely to be best placed to become the POLR for customers being supplied by a third-party SAPS in their distribution area. This makes sense because most distributors are likely to have SAPS that they own and operate on behalf of customers that were previously connected to their distribution networks.

However, distributors, and therefore their customers, should not bear the risk, and potential costs, of being POLR. We support the development of arrangements to protect existing grid-connected customers from bearing the risk of third-party SAPS providers failing. This should include both minimum design standards and appropriate insurance/indemnity arrangements.

One option is to introduce indemnity arrangements similar to the NSW Accredited Service Provider (ASP) scheme. Under the NSW scheme, ASPs must provide Ausgrid with a bank guarantee when

performing contestable connection works on behalf of a customer. These arrangements are set out in section 6 of the ASP Level 1 Authorisation Agreement.³ Ausgrid may call for payment under a bank guarantee in certain circumstances, including when the ASP fails to rectify any defects in the connection work or is responsible for any loss or damage.

Similar arrangements could be set up to cater for POLR. Third party SAPS providers could be required to provide a bank guarantee or take out an appropriate level of insurance to cover any costs incurred by Ausgrid if it becomes responsible for a SAPS that was once operated by a third-party SAPS provider. The details of such a scheme would have to be investigated in further detail.

Consumer protections

In our view, the AEMC should exercise caution in allowing customers to trade away their customer protections. There are likely to be significant information asymmetries between customers and third-party SAPS providers, meaning the customer may not be well positioned to make these decisions. Installing an individual power system with a lower level of service (and potentially fewer customer protections) could well have unforeseen consequences, such as a lowering of property value.

Furthermore, in our view, the fact that a customer is receiving supply from an individual power system compared to a microgrid should not, of itself, determine the level of consumer protections a customer receives. Consistent with other areas of the regulatory framework, the AEMC may also wish to consider whether small customers should be entitled to a standard level of consumer protections, while businesses above a certain consumption threshold can conduct their own needs assessment.

Reliability, technical and safety standards

Licensed distributors (including Ausgrid) are required to maintain a safety management plan to ensure a safe and reliable electricity supply for their customers. Maintaining public safety when moving customers from distributor supply to third party supply is therefore of critical importance.

Technical and safety standards are currently the responsibility of jurisdictions. While there is merit in identifying a minimum base set of national security and technical standards, in our view jurisdictional instruments should outline these arrangements for SAPS.

As part of its connection agreements, Ausgrid requires solar and battery installers to be accredited by the Clean Energy Council (CEC). Safety is a key component of the CEC accreditation schemes. The

³ <https://www.ausgrid.com.au/-/media/Documents/ASP/Authorisation/ASP1-Authorisation-Agreement-August-2017.pdf>

CEC could offer accreditation of stand-alone systems and installers should be required to have received this accreditation as part of jurisdictional requirements.

Reliability standards are also a jurisdictional responsibility. IPART will be reviewing the NSW distribution reliability standards during 2020 and will consider how reliability standards need to evolve to cater for new technologies and delivery models, including SAPS.

Transitioning to third party stand-alone systems

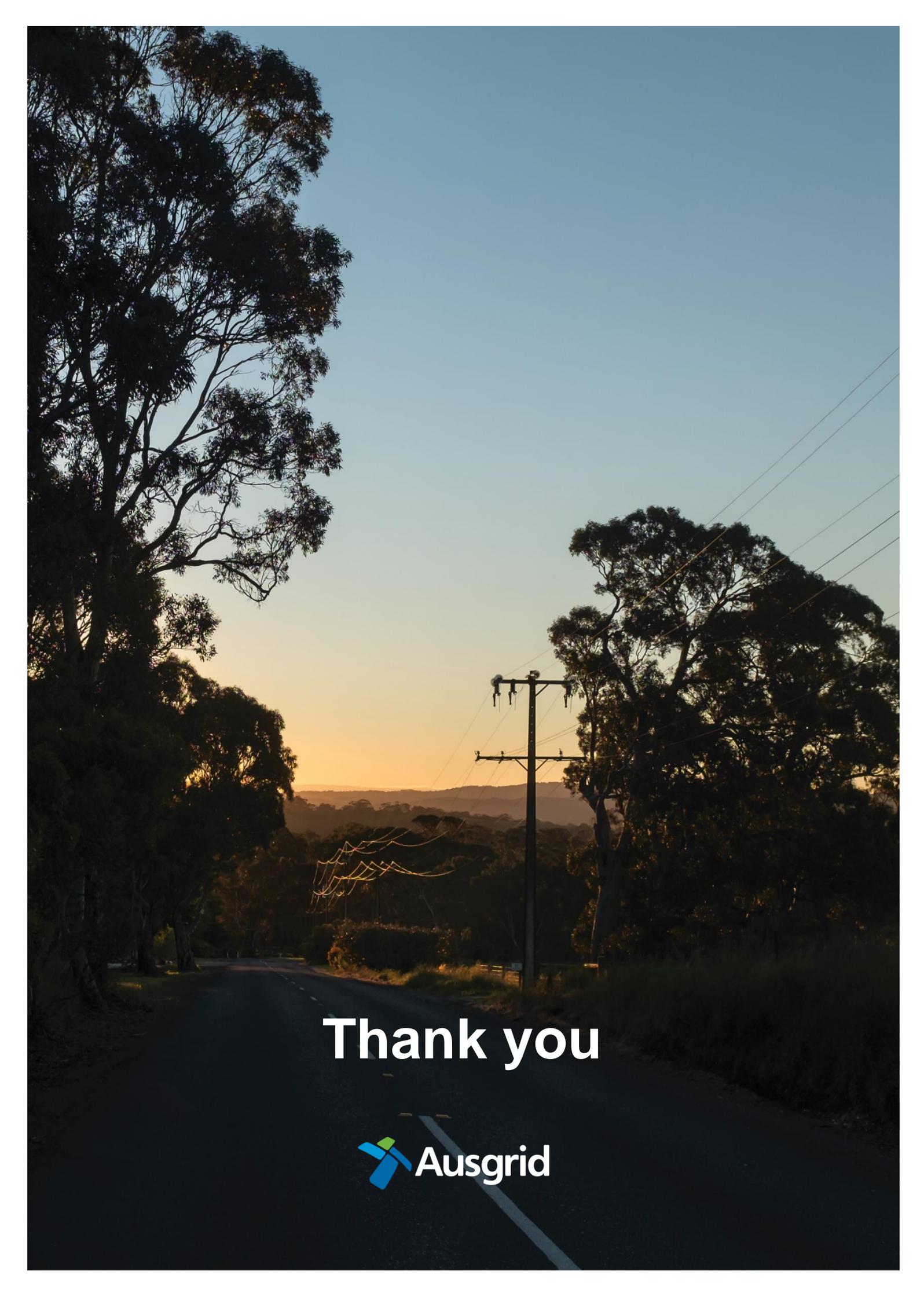
Ausgrid supports the AEMC's proposed position that explicit informed consent is required from all relevant customers, in written form, to transition them to a SAPS.

In its priority 1 draft report, the AEMC also set out recommendations for asset transfers and stranded assets. We support the AEMC's view in its priority 1 draft report that commercial negotiations between the distributor and third party should be the key driver for the valuation of transferred and stranded assets.⁴

The AEMC also indicated that in priority 2 of the review it would consider the mechanism to account for compensation paid to the distributor for any efficiency losses.⁵ However, in its consultation paper the AEMC has not provided any detail on how this would work in practice, nor what the role of the AER would be in resolving disputes or accounting for any asset transfers, re-allocation or stranding. 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 outline proposed arrangements in its priority 2 draft report.

⁴ AEMC, *Review of stand-alone power systems, Draft Report*, 18 December 2018. p135

⁵ AEMC, *Review of stand-alone power systems, Draft Report*, 18 December 2018. p135

A scenic landscape at sunset. A paved road curves through a wooded area. Large trees are silhouetted against the bright orange and yellow sky. A utility pole with power lines stands in the middle ground. The overall mood is peaceful and serene.

Thank you

