AUSTRALIAN ENERGY COUNCIL

Australian Energy Market Commission
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Lodged online: www.aemc.gov.au

29 March 2019

Review of Regulatory Arrangements for Stand Alone Power Systems – Priority 2

The Australian Energy Council welcomes the opportunity to make a submission to the AEMC draft report and recommendations to develop the regulatory framework for the provision of stand-alone power systems by distribution businesses.

The Australian Energy Council (AEC) is the industry body representing 23 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

The AEC recognizes the role that the stand alone power system may take in efficient investment in the grid of the future. We agree that the regulatory frameworks must support stand-alone power systems as an economically efficient alternative to standard grid supply. We also broadly agree that the regulatory arrangements should ensure consumer protections comparable to those afforded to customers supplied via the interconnected grid.

Our detailed responses the key areas of the report are provided below.

Registration and licensing

Regulations can create barriers to entry which may inhibit new entrant products and services that have the potential to benefit consumers and increase productivity and living standards across the economy. Regulatory burdens fall disproportionately on the economy's many small businesses, which lack the resources to deal with them.[1] Tailoring regulation to limit the impact on small business and keeping regulatory costs down generally are essential if the 'engine room' of employment and economic growth is to prosper.[2] Our view is that these smaller businesses will continue to be significant providers of Individual Power Systems (IPS), and the regulatory regime should not unintentionally impede this.

[1] Regulation Taskforce 2006, Rethinking Regulation: Report of the Taskforce on Reducing Regulatory Burdens on Business, Report to the Prime Minister and the Treasurer, Canberra, January.
[2] Ibid.

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Individual Powers Systems generally have a different ownership structure in the form of either owning or leasing physical plant. Even where agreements exist for the servicing and maintenance of IPS it is in a different context to third party SPS or microgrids and the Australian Consumer Law provides for considerable consumer protection coverage of consumer contracts for purchase or lease in this regard. The activities of connections, billing, collections and disconnections covered under the NERL or NERR or jurisdictional regulation are not required where the IPS is not subjecting its consumers to a sale of consumed energy. Where the consumers are subject to the sale of consumed energy it is better considered as a third party SAPS. For these reasons we do not support the coverage of IPS in the regulation under consideration here.

Third Party Access and Connections.

Microgrids can range from a few grid connected homes with residential solar power systems and/or batteries that generate, store, and provide network support for and share renewable electricity with each other over their local powerlines, to much larger isolated power systems serving over 1000 people[3]. The common theme with microgrids is that whether assets are owned by either individuals, or groups or utilities, the users on the microgrid are billed for energy consumed and/or paid for energy exported. The AEC view is that where the customer is subject to an agreement for the supply of billed for consumed energy then a consistent, though not necessarily uniform[4], approach is required to customer protection[5].

There is a difference between SAPS that are owned and operated by, or on behalf of, regulated networks and those funded through regulated revenues and those owned and operated by merchant businesses. One difference is the cross subsidy. The AEC has previously submitted that when DNSPs supply and/or own the power system assets, competitive neutrality in the provision of these services to customers is compromised.[6] This is because across a short period, this could allow DNSPs to dominate the market for SAPS in their own service area, which would deny customers the dynamic benefits of effective competition. The AEC has also previously contended[7] that these dynamic benefits will outweigh any short-term gains to customers from obtaining DNSP provided SAPS slightly more conveniently in the near term but that over time the dynamic efficiency benefit would be expected to overtake the DNSP provision benefit.

For these reasons there needs to be two potential models for third party access. For a DNSP provided SAPS there is a need to remove the option of the vertically integrated model, and to enable the presence of a retailer/s in the provision of delivered energy to customers. This approach is consistent with and is for the same reasons that access to the competitive retail market was regulated for the customers of embedded networks; that is to strengthen protections and improve access to competitive retail offers for customers who are billed for energy use.[8]

Another key consideration in the need for two models for third party access stems from what the SAPS is provided as an alternative to in the first place. What problem is it solving; a regulation

[3] This example is Ergon Energy's 264 kilowatt solar farm at remote Doomadgee in north-west Queensland

[4] Our view is that there is a difference between DNSP SAPS and Third Party SAPS in this regard.

[5] In South Australia, ESCOSA already licences those selling energy to end use customers and this licensing includes obligations relating to the connection, sale and supply of electricity.

[6] Rule Change Proposal: Amendments to Chapters 5, 6, 6A and 7 of the National Electricity Rules In the implementation of Demand Response and Network Support Services, AEC, 13 October 2016

[7] Ibid

[8] Updating the Regulatory Frameworks for Embedded Networks, AEMC, January 2019 Draft

problem or a market problem? This difference is important because for DNSP provided SAPS where the alternative is grid connection; it is more economically efficient to build SAPS than to augment or extend the grid.[9] This efficiency is a regulatory (efficiency) imperative. In other cases SAPS may be initiated as market based options for, or as alternatives to remote area power supply, and as such an alternatives to other fuels (such as liquid fuels), an alternative to a customer/s own capital, or even an alternative to no electricity at all.

There are further differences in other market driven circumstances. For example market driven or merchant SAPS may also be an alternative where the quantum of any customer contribution to the DNSP makes grid connection an uneconomical or unattractive alternative. For example, SAPS or microgrid options may also be desirable to a developer as an alternative to capital contributions to subdivisions, or major developments, where grid connection is readily accessible but not the least cost alternative. Such microgrids may even be able to be connected to the grid but spend a substantial time islanded from it.

Consumer protections are required in each case, regardless of the size or purpose of the microgrid. But distinctions between the two models (merchant or regulated) can reasonably be made. Everyone should have comparable rights and protections no matter who they buy their electricity from.[10] However these rights and protections can be reasonably excised from the price and reliability tradeoffs that are made in the case of SAPS where the alternative arrangements are, for example, the absence of supplied electricity. In such cases price can, indeed must if a merchant project is to proceed, be determined by the market, and reliability standards varied by negotiation. In contrast, it is difficult to imagine that in the example of grid connected microgrids (or those that could be islanded from the grid, implying that they are edge of grid projects[11]) that price or reliability standards that did not provide comparable levels to those of grid connected customers would be a compelling consumer proposition, or that such a proposition is commercially realistic.[12]

In summary, distinctions can and will need to be made because a DNSP SAPS can be cross subsidised, whereas a non DNSP SAPS requires a stand-alone commercial business case. Part of that stand-alone business case will be the cost of alternatives to the consumer and the price that the consumer will be prepared to pay for the levels of service and reliability they receive *compared to their current arrangements* which may have included no electricity supply at all.

Consumer Protection

In extension to the consumer protection issues highlighted above, establishing minimum standards applicable to microgrids or third party SAPS, the AEC submission to the 2017 AEMC Review of Regulatory Arrangements for Embedded Networks contended that regulators should look to the minimum required:

- Standards in the National Energy Retail Law (NERL)[13];
- Technical and quality of supply standards; and,
- Safety Standards.

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[9] Ausgrid Submission AEMC review of the regulatory arrangements for stand-alone power systems October 2018, p.5
[10] Updating the Regulatory Frameworks for Embedded Networks, AEMC, January 2019 Draft
[11] It is also not entirely clear how such arrangements would differ materially from an embedded network.
[12] Reliability Panel, Reliability standard and settings review 2018, final report, 30 April 2018
[13] Section 34(2) (3) of the NERL, Section 36 of the NERL

Large customers excluded from the consumer protection standards specific to the NERL in normal arrangements would logically not, for consistency, meet eligibility criteria for the matters under consideration here. We note that the Commission is closely coordinating and considering linked policy and legal issues between the SAPS Priority 1, SAPS Priority 2 and Embedded Networks work streams.

Any questions about our submission should be addressed to David Markham by email to david.markham@energycouncil.com.au or by telephone on (03) 9205 3107.

Yours sincerely,

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