



18 July 2017

Mr John Pierce
Chair
Australian Energy Market Commission
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Dear Mr Pierce

John,

***RE: ERC0215 – Submission on Consultation Paper: National Electricity Amendment
(Alternatives to grid-supplied network services)***

Ausgrid welcomes the opportunity to provide comments in response to the AEMC consultation paper on Alternatives to grid-supplied network services.

The proposed Rule change, submitted by Western Power, seeks to remove barriers to distributors deploying alternative technologies and methods of providing distribution services, where efficient. These alternatives include, for example, stand-alone power systems (SPS) for edge-of-grid customers where it could be more costly to replace existing network infrastructure that is reaching the end of its useful life.

Ausgrid's Position

Ausgrid is generally supportive of Western Power's proposal. We agree that the National Electricity Rules (the Rules) currently present a barrier to efficient outcomes for consumers and have not kept pace with advances in technology. As a consequence, they do not currently recognise alternative, potentially more efficient, solutions that now exist that allow distribution network service providers (DNSPs) to deliver the same services at lower cost.

We also agree with Western Power's concern that there is an inconsistency between chapter 5 and chapter 6 regarding both the difference between asset provision and service provision and the scope of "non-network options" to be evaluated under regulatory investment tests. The practical consequence of this inconsistency is that DNSPs are not able to offer choices in different technologies to its customers. Rather, DNSPs are limited to traditional network asset options, even where that solution could result in more expensive replacement expenditure.

Therefore Ausgrid welcomes the opportunity provided by this proposal for the AEMC to clarify the range of options which can be classified as a distribution service.

The proposal put forward by Western Power reasonably contemplates network situations that apply to edge of grid or 'remote' connected customers. Ausgrid's distribution system is a complex, highly dense and highly meshed network and as such, the existence of more 'remote' connected customers is

uncommon. Nevertheless, we consider it is important for the Rules to facilitate efficient investment and allow the benefits of new technology to be evaluated. Therefore, even if only a small proportion of customers across the National Electricity Market are likely to be impacted at this stage, we support addressing the issues identified by Western Power in its rule change request.

The issues raised by Western Power are not easily resolved within the current Rules framework and the AEMC's Consultation Paper raises important issues regarding competition and consumer protections. In respect of competition, the AEMC identifies concerns relating both to the installation of SPS (which we discuss further below) as well as the retail supply of electricity once a customer moves off-grid.

In respect of consumer protections, we agree with the materiality and complexity of the issues regarding the reliability requirements that would apply to off-grid customers, restrictions on DNSPs moving customers to off-grid supply, the application of the National Energy Retail Law and National Energy Retail Rules to off-grid customers and the application of other consumer protections. Engaging with the customer and ensuring that they are fully informed of all consequences before the SPS is installed will be crucial.

This includes the issue of the appropriate retail tariffs to apply to the customer connected to the SPS, in the absence of retail competition. Ausgrid notes that the Western Power proposal for distribution network installation of SPS has the advantage of enabling the tariff to be regulated through the network arrangements and the Tariff Structure Statement. Under this proposal, the charge levied by the networks would encompass the efficient costs of providing the energy through the SPS and therefore could have both a network and retail component.

Ausgrid considers that these are all valid issues that will need to be considered in addressing the problem identified by Western Power.

Impact on competition

The AEMC notes that "the lack of location-specific pricing by distributors for standard control services and the subsidies paid to retailers serving remote customers (in some jurisdictions) mean that many remote customers are not currently paying the full cost of providing electricity to them via the grid."¹ The AEMC goes on to note that entities that do not receive such subsidies or are not the local distributor may not be able to compete to supply off-grid services, and that if the rule change is made then non-distributors may be prevented from competing with distributors to provide SPS for the same reasons.

Regarding the impact on competition, it is important to distinguish between new connections and existing grid connected customers. New remote connections are likely to be required to pay the full costs of connection, including augmentation and therefore may not benefit from the cross-subsidies that exist under common network tariffs. The proposal does not apply to new connections and therefore does not impact on competition for third party SPS providers in this market.

Ausgrid considers that, under current network tariff designs, existing customers are not likely to seek to disconnect and absorb the full cost of SPS themselves as distributor-provided SPS would effectively be cross-subsidised by other network users. This situation will not change in the near future and therefore there is likely to be no competition impact under the rule change as existing customers will not be entering the market and contracting with third parties to provide SPS.

¹ AEMC, Alternatives to grid-supplied network services, Consultation Paper, 14 June 2017, Sydney, p23.

We also note that there is reluctance by customers to move towards locational-based pricing. Recent customer research conducted on behalf of Ausgrid by Newgate Research suggests that our customers do not support rural and remote customers paying more for their electricity, even where this would be more cost reflective and reduce their own electricity bills.² Our Customer Consultative Committee have indicated similar views. Consequently, existing connected remote customers will continue have a financial disincentive to absorb the costs of installing an SPS for some time. This issue should be appreciated in evaluating the competitive impacts of the Western Power proposal given that the intention of Western Power proposal is to only apply to such customers who have not decided to voluntarily self-supply and disconnect from the grid.

It would not be correct to interpret this rule change as delineating the boundary between a competitive service and a regulated service, as it is primarily about promoting efficient investment in network services. The rule change has the benefit of reducing overall costs for DNSPs, and therefore the level of cross-subsidy required from other network customers would reduce, benefiting all customers.

Advantages of a DNSP solution

Ausgrid interprets the rule change as enabling DNSPs to have the appropriate choice of which technology solution to use in the provision of regulated services. The model proposed by Western Power whereby DNSPs are able to invest in SPS under appropriate regulatory safeguards could be a workable solution to the ensuring that technology innovation delivers lower network costs. Further it has a number of benefits, including:

- Provides better flexibility to explore all valid technologies rather than artificially restricting solutions in contradiction to the underlying philosophy of the Rules to be technology neutral.
- A regulated approach, rather than competitively provided SPS, would enable greater (and appropriate) control regarding the tariffs that can be charged to off-grid customers, as well as the customer protections to be imposed.
- Provides important safeguards where the AER can evaluate the potential efficiency benefits of such technology options for remote customers.
- Competition for SPS technology providers would be promoted under a regulatory model as DNSPs would have an incentive under existing Rules to procure the lowest cost solution.
- Consumer protections can be supported by defining the provision of Standalone Power Systems for existing customers as a Standard Control Service and including an integrated tariff in DNSP's TSS.

Additional comments

There may be instances under the rule change where the distribution SPS applies to a community of customers. In such situations, there could be customers within that proposed SPS who have either already invested in embedded generation or wish to contribute to the provision of generation. In these cases, it may be appropriate for these parties to be paid a 'feed in' amount reflective of the value provided.

² Ausgrid's customer research program, "Customers at the Centre", is still in progress and we have not yet published the results of our research. However, we would be pleased to share an early version of our initial findings from our qualitative research with the AEMC if this would be useful.

The AEMC should consider the real possibility of a customer (or a community) deciding that they want to revert back to a grid supply following installation of a SPS. This would likely be treated as a new connection by DNSP's and, as such, would attract the associated costs of a new connection. The new rule, if implemented, must accommodate provision for such an event and describe how it is to be treated.

In addition, the AEMC will need to consider the inter-action between this proposal and the AER ring-fencing guidelines.

In its assessment, the AEMC may also consider whether the benefits of maintaining retail choice for remote customers outweighs any network cost efficiencies. Regarding this, the AEMC should clarify on what basis it considers whether the benefits of retail competition in remote areas outweighs the network cost savings that would accrue to consumers.

We look forward to the opportunity to discuss these issues with you further during the consultation process. If you have any queries or wish to discuss this matter in further detail please contact Murray Chandler, Head of Asset Management Strategy, Performance & Innovation on (02) 9269 7210 or via email murray.chandler@ausgrid.com.au.

Yours sincerely



TREVOR ARMSTRONG
Acting Chief Executive Officer