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18 July 2017

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

Submitted electronically

Dear Mr Pierce,

Re: National Electricity Amendment (Alternatives to grid-supplied network services) Rule 2017

Red Energy (Red) and Lumo Energy (Lumo) welcome the opportunity to respond to the Australian Energy Market Commission's (Commission) on the alternatives to grid-supplied network services consultation paper (the consultation paper).

Western Power (the proponent) lodged a rule change to remove certain barriers to Distribution Network Service Providers (DNSPs) deploying alternative technologies and methods of providing distribution services (such as transitioning to off-grid supply) where it is efficient.

Distribution services as stand alone power systems

The consultation paper considers the status of Stand Alone Power Systems (SAPS), which we firmly believe are non-distribution services that should be delivered through the market. Red and Lumo consider that solar, storage and embedded generators should be supplied through competitive markets and not considered monopoly assets.

As a general principle, we are opposed to the idea that competitive assets like solar, storage and embedded generation be provided to consumers as a regulated distribution service as proposed in this rule change. Furthermore, the Australian Energy Regulator's service classification definitions in the Ring Fencing Guideline would classify solar, storage and embedded generation as non-distribution services.¹

However, the existing regulatory arrangements provide cross-subsidies between consumers in distribution networks, therefore, it is uneconomic for the market to supply SAPS to remote consumers. As such, in some very specific circumstances it makes economic sense for a DNSP to supply the remote consumers through a SAPS as a regulated distribution service. This would only be the case where:

- the market does not provide a solution for the affected consumers; and
- the impacted consumers were remotely located; and
- provisions of the relevant SAPS would be cheaper when compared to a traditional network solution.

Proposed rule

As noted above, Red and Lumo understand the proponent would want the rules to allow a DNSP to build SAPS via a regulated solution as a distribution service in some very limited circumstances.

However, the current drafting applies to both replacement and augmentation capital expenditure across all distribution assets in the NEM. Unintended consequences of the drafting results in its application regardless of whether the assets were located remotely or in the city. This would give DNSPs across the NEM the sole right to build SAPS for all

¹ As defined in Chapter 10 of the NER, 'non distribution services' are those services which would not be provided by means of, or in connection with, a distribution system.

replacement and augmentation assets via regulated solutions as a distribution service potentially crowding out the market in the long term.

This was not the proponent's original intention. As such, the rule change needs a tailored, more targeted solution to the problem it is trying to solve. Therefore, we oppose the rule change in its current form.

Principles for a targeted solution

Should the Commission choose to make a preferred rule, it needs to amend this rule so that it only applies to the specific circumstances it was intended to. That is, for remote consumers that have the potential to be supplied in a more cost efficient manner through a SAPS.

While we are in principle opposed to the idea of treating non-distribution services like solar, storage and embedded generators as distribution services and regulated as monopoly services, we would not object to this in the specific circumstances envisaged in this rule change.

In order for the rule change to satisfy these conditions, it would need to be amended to specifically address the problem it was intended to resolve.

If the Commission decides that there is a problem to be solved, then it should apply the following principles to support the development of a test that a DNSP would need to comply with before it was given the right to build a SAPS as a distribution service:

Principle 1: A SAPS could only be built by a DNSP as a regulated distribution service in a remote area.

We expect the Commission to work with its stakeholders to develop an appropriate definition for a remote area. The Commission may also need to make adjustments to the definition of a remote area for DNSPs that primarily have a rural asset base.

Principle 2: The DNSP would be required to go to market to supply a SAPS before having the right to build the relevant assets through a SAPS as a regulated distribution service.

We would expect the DNSP to go out to the market for tender for the relevant remote asset in response to the network problem before having any right to build a SAPS as a distribution service. If the DNSP was unable to obtain the sufficient interest from the market for the remote asset then it would have the right to build the SAPS as a regulated distribution service.

About Red and Lumo

Red and Lumo are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria and New South Wales and electricity in South Australia and Queensland to approximately 1 million customers.

Should the Commission wish to discuss this submission or have any further enquiries, please call Con Noutso, Regulatory Manager on 03 9976 5701.

Yours sincerely

A handwritten signature in black ink, appearing to read "Ramy Soussou".

Ramy Soussou

General Manager Regulatory Affairs & Stakeholder Relations

Red Energy Pty Ltd

Lumo Energy Australia Pty Ltd