

COAG ENERGY COUNCIL BULLETIN/RESPONSE
AUSTRALIAN ENERGY MARKET COMMISSION REVIEW OF THE
REGULATORY FRAMEWORKS FOR DISTRIBUTOR-LED STAND-ALONE
POWER SYSTEMS- PRIORITY 1
FINAL REPORT

THIS DOCUMENT PRESENTS THE COAG ENERGY COUNCIL'S RESPONSE TO THE AUSTRALIAN ENERGY MARKET COMMISSION'S FINAL REPORT FROM ITS REVIEW OF THE REGULATORY FRAMEWORKS FOR DISTRIBUTOR-LED STAND-ALONE POWER SYSTEMS - (PRIORITY 1) PUBLISHED ON 30 MAY 2019.

COAG Energy Council welcomes the Australian Energy Market Commission's (AEMC) work on the regulatory frameworks for stand-alone power systems – priority 1.

This work considered the provision of stand-alone power systems (SAPS) by distribution network service providers (DNSPs) to their existing customers, where these offer a lower cost substitute to investing in, and maintaining, traditional network solutions. New technologies have the potential to deliver energy services to customers through alternatives to traditional grid connection at a lower cost and with improved reliability, and with other benefits such as reduced bushfire risks.

Further, the Council thanks all stakeholders who have participated in this review for their time and input into this process.

The Council notes that the traditional centralised electricity supply model may be complimented by emerging products and services and that SAPS have the potential to benefit consumers. However, with the exception of Queensland, these systems are not captured under the national electricity frameworks and are subject to jurisdictional frameworks that vary in their comprehensiveness.

The Council also notes that the need for changes to the regulatory framework to include SAPS were highlighted in the *Independent Review into the Future Security of the National Electricity Market* (the Finkel Review) and the Australian Competition and Consumer Commission (ACCC) in its *Retail Electricity Pricing Inquiry*.

The Council notes that the recommendation of the AEMC's review was that DNSPs should only seek to transition customers to SAPS supply where it would lower total system costs. Benefits from lower total system costs should flow through to all users of the distribution network, through lower network prices.

The Council appreciates the AEMC's Final Report as a significant input into the ongoing National Electricity Market (NEM) reform process.

Planning and engagement

The Council notes the AEMC found that the existing distribution network planning and investment framework is largely appropriate and fit-for-purpose to encourage DNSPs to make efficient planning and investment decisions for SAPS. To further support DNSPs to achieve efficient planning and investment outcomes for SAPS, the AEMC recommended a small number of changes to the existing network planning arrangements to increase transparency around both the opportunities for, and decisions made in respect of, SAPS. These include:

- Amending and clarifying the Distribution Annual Planning Report (DAPR) reporting provisions in schedule 5.8 of the National Electricity Rules to enhance DNSPs reporting on SAPS;
- Amending the Regulatory Investment Test for Distribution National Electricity Rules (NER) provisions to mandate that DNSPs must quantify all classes of market benefits applicable to a credible option, where these may be material or likely to alter the selection of the preferred option;
- Introducing a new set of SAPS customer engagement obligations in chapter 5 of the NER requiring DNSPs to develop a SAPS customer engagement strategy which must be documented and published on their websites. The new obligations will also require DNSPs to undertake a formal consultation process whereby formal, public notice must be provided to affected parties in respect of a DNSP's intention to proceed with a SAPS solution.

The Council supports the improvement of the existing distribution network planning and investment framework and agrees in principle to the AEMC's recommendations. The Council will work with the AEMC as it considers the detailed drafting of amendments to the relevant energy rules (Rules)

New connections and reconnection

The AEMC's final report found that the driver for the provision of SAPS by regulated DNSPs is that current DNSP customers have a financial incentive to maintain their grid connection, even where a stand-alone system would be lower cost. However, new customers without an existing grid connection are generally likely to have appropriate financial incentives to obtain off-grid supply where this would be a lower cost solution than a grid connection as they will be directly exposed to these cost differences.

The AEMC considered whether DNSP's should be permitted to provide new connections via SAPS, and whether customers who have been transitioned by a DNSP to a SAPS should be allowed to reconnect to the interconnected grid. In considering these matters the AEMC has made the following recommendations:

- DNSPs should be prohibited from fulfilling their connection obligations by providing a connection offer for a new connection to a new SAPS in chapter 5A of the NER;
- DNSPs will be able to fulfil their connection obligations by providing a connection offer for a new connection to a pre-existing SAPS;
- To capture matters relevant to the augmentation of DNSP SAPS, DNSPs' connection policies, including capital contribution thresholds, should be extended to apply to SAPS customers in the same way they apply to grid customers;
- Customers transitioned to SAPS by a DNSP will have no special right of reconnection to the interconnected grid.

While the Council agrees in principle with the AEMC's recommendations, it will continue to work with the AEMC on how the framework will manage new connections in remote/regional areas where there may be limited competition. This will include consideration of the Australian Energy Regulator's ability to provide waivers for ringfencing requirements to DNSPs providing electrical services in remote/regional areas.

SAPS service delivery model

The Council notes that the SAPS service provided to a customer (or group of customers) incorporates a suite of activities and services including local generation services, network services and retail services, as well as supporting services such as metering.

The AEMC has considered options for arrangements to support the delivery of these SAPS activities and services to SAPS customers.

The AEMC has recommended arrangements be implemented which provide for the delivery of the SAPS service to customers using the existing wholesale energy market arrangements, including the Australian Energy Market Operator's settlement system. This includes retailers being charged an administered settlement price (rather than the spot price) for that energy.

The Council agrees in principle with the AEMC's recommendations, in particular allowing SAPS customers to maintain their relationship with existing retailers, and to maintain their existing retail offers.

However, the Council notes that the Rules and associated guidelines need to ensure that there are efficient processes in circumstances where there isn't competitive supply. Further, there may also be specific circumstances that will require jurisdictional derogations from the Rules. Such issues will be considered as part of the implementation process.

SAPS service classification

The Council notes the AEMC's recommendation of regulatory amendments to enable DNSPs to utilise SAPS to provide regulated distribution services where it is economically efficient to do so.

The AEMC has also recommended regulatory amendments to clarify that the appropriate classification of the distribution service provided by means of SAPS is as a standard control service.

The Council agrees in principle with these recommendations, however, notes that the regulatory frameworks need to ensure that there are efficient processes in circumstances where there isn't competitive supply.

Application of consumer protections

The AEMC's final report finds that the existing energy-specific consumer protection framework, including national consumer protections in the National Energy Customer Framework and jurisdictional consumer protections, are appropriate for, and should apply to, DNSP-led SAPS.

The Council notes the AEMC has followed a general principle that energy-specific consumer protections for customers being supplied via a DNSP-led SAPS should be equivalent to those for grid-connected customers because, in transitioning customers to a SAPS, DNSPs will not be required to gain the consent of customers. The AEMC's recommendations are:

- Extend the application of the full suite of energy specific consumer protections in the National Energy Retail Law (NERL) and National Energy Retail Rules (NERR) to SAPS customers (in addition to grid customers);
- Extend the application of jurisdictional protections, including safety and technical regulation, as well as DNSP land access rights, to DNSP SAPS.
- Extend the application of jurisdictional reliability standards, Guaranteed Service Level (GSL) payments and the Service Target Performance Incentive Scheme (STPIS) to DNSP SAPS and SAPS customers. The amendments should aim to treat SAPS consistently with the grid.

The Council considers appropriate consumer protections are an essential part of the regulatory framework and agrees with the principle that consumer protection for customers being supplied via a DNSP-led SAPS should be equivalent to those for grid-connected customers. While the Council agrees in principle to the application of jurisdictional reliability standards, GSL payments and the STPIS to SAPS customers at a level equivalent to grid-connected customers, it is noted that further consideration by individual jurisdictions is required as these standards reside in jurisdictional instruments.

The Council therefore agrees in principle to the AEMC's recommendations on the application of consumer protections. This would contribute to ensuring that customers are no-worse-off following transition to a DNSP-led SAPS.

The Council also notes that while Victoria has not implemented the National Energy Retail Law (NERL) or National Energy Retail Rules (NERR), it will review its relevant local instruments and make the necessary amendments to ensure a consistent national approach to consumer protections.

Transition to third-party SAPS

The Council notes that the AEMC has made recommendations in relation to the transition to third party SAPS, in particular regarding customer consent requirements and compensation for the DNSP in relation to stranded assets.

The Council considers that these are best considered in conjunction with the package of recommendations to be made by the AEMC in relation to SAPS – Priority 2.

Implementation

The Council notes that, in-line with its terms-of-reference for the review that asked the AEMC to consider arrangements that would allow jurisdictions to choose how SAPS would be regulated within their jurisdiction, the AEMC has recommended a restriction on DNSP participation in the national arrangements until the relevant jurisdiction has opted in.

Further, the Council notes the regional diversity inherent in the NEM and therefore there is likely to be benefit in providing flexibility in jurisdictional application of the AEMC's framework. Consideration of the flexibility of such arrangements will be considered as part of the implementation process.

Implementation considerations will also include any necessary transitional arrangements required, as the introduction of the framework may fall within a regulatory control period for some DNSPs.

Next steps

The Council will commence drafting of the necessary legislative amendments to implement the AEMC's framework consistent with this response, with an aim to have the legislative amendments made in 2020.

The Council notes that the AEMC has already started developing advice on a package of rule changes to enable DNSPs to supply their customers with SAPS where it is cheaper than maintaining a connection to the grid.

It is expected that a draft report will be provided by the AEMC in December 2019, followed by a final report by May 2020.

It is expected that the South Australian Minister would make the initial Rules in 2020, subject to the endorsement of the Council.