Ausgrid Submission

AEMC review of the regulatory arrangements for stand-alone power systems

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Attn: Ms Sherine Al Shallah
Australian Energy Markets Commission
PO Box A2449
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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) (the review). The review is an important step in the evolution of electricity distribution networks.

Reforms flowing from the review will allow distribution networks to adapt to technological change and place downward pressure on the network prices paid by all customers. For many customers, these reforms also offer the prospect of improved service through greater reliability. Ausgrid supports the approach of focusing initially on distributor-led SAPS.

The AEMC's issues paper raises some important questions, many of which will require careful examination. This submission provides high level views on the main issues of relevance to Ausgrid, as well as answering each of the 20 questions on which views are sought.

Ausgrid is committed to working with the AEMC to develop solutions for the issues raised in its issues paper. 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

Rob Amphlett Lewis
Executive General Manager Strategy and Regulation

Overview

The AEMC review of the regulatory arrangements for stand-alone power systems (SAPS) (the review) 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. However, the current regulatory arrangements prevent Ausgrid from providing off-grid supply, even in circumstances where a SAPS or microgrid may be the most efficient solution.

Reforms flowing from the review will allow distribution networks to adapt to technological change and place downward pressure on the network prices paid by all customers. For many rural and remote customers, these reforms also offer the prospect of improved service through greater reliability.

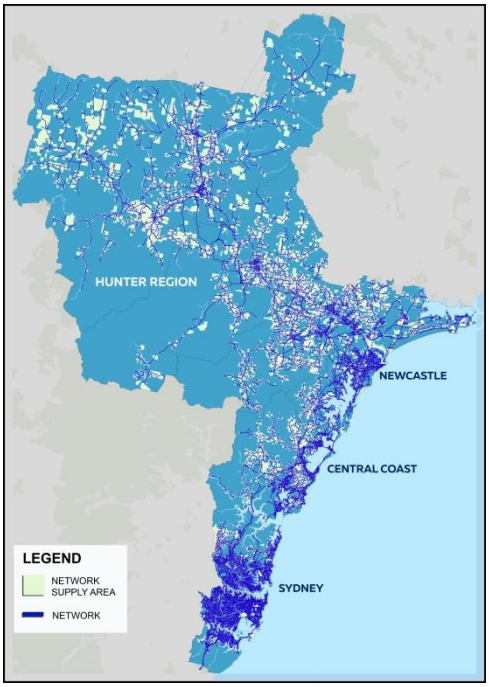

Figure 1 Ausgrid Network Area

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. This means that while our network may not have as many opportunities for stand-alone power supply as more rural networks (such as the network operated by Essential Energy) there will still be opportunities for Ausgrid to reduce network costs through off-grid supply. Ausgrid's network map shows that there are opportunities for the provision of off-grid supply in sparsely populated areas outside the Sydney basin.

Ausgrid has been considering the benefits of SAPS and microgrids as part of its Network Innovation Program. Early case studies conducted as part of the program show that off-grid projects can have a significant cost benefit. These benefits result from a reduction in capex and opex over the life of the assets, as well a significant reduction in bushfire and safety risk.

Transitioning customers to off-grid supply

Prior to any grid-connected customers moving to off-grid supply, it is important that appropriate consumer protections are put in place. This includes price protections, as well as other consumer

protections contained in national and state regulations. In NSW, many of the consumer protections that apply to grid-connected customers cease to apply when customers move off-grid.

Ausgrid agrees that there should be a suitable decision making process for moving grid-connected customers to off-grid supply. Ausgrid supports the use of the Regulatory Investment Test for Distribution (RIT-D) to determine the efficiency or otherwise of moving potential customers to a microgrid or SAPS solution where projects meet the RIT-D threshold of $5 million.

Ausgrid does not support the expansion of the RIT-D or the creation of a RIT-D 'light'. This would increase the regulatory burden on distributors, potentially delay cost saving projects, and introduce transaction costs which are not proportionate with the scale of the network need. In Ausgrid's view, the broader incentive framework provides Ausgrid with sufficient incentive to make the least cost decision for projects that don't meet the RIT-D threshold.

For distributor led SAPS, Ausgrid does not see the need for the Australian Energy Regulator (AER) to provide its approval at any stage during the process of moving customers off-grid. Requiring the regulator to approve the moving of customers off-grid would add unnecessary costs and time to the decision making process. However, Ausgrid does support the regulator continuing to monitor compliance with the relevant law and rules to ensure that good customer outcomes are being achieved. The AER also has a role in resolving disputes under Chapter 8 of the *National Electricity Rules.*

The issue of whether customers should be provided with the right to 'veto' moving off-grid is important. As identified by the AEMC in its issues paper, a veto power could result in perverse outcomes, particularly in circumstances where a distributor has identified considerable cost savings in transitioning multiple customers to an off-grid solution. A 'veto' power would result in all Ausgrid customers paying more than necessary for network services.

However, Ausgrid recognises the importance of customer consultation in any process to move customers off-grid. Ausgrid supports a model similar to that in New Zealand where there is no customer consent requirement, but the distributor must provide six months' notice to the customers, relevant retailers and the public, provide an opportunity to submit comments, and have regard to any submissions received.[1] This will ensure that the needs of particular customers, such as life support customers, are taken into account.

Ausgrid recognises that this is a sensitive issue, and may require changes to distributor connection obligations in the *National Electricity Retail Law*. Ausgrid recommends that the AEMC flag in its draft report any potential law changes that may be required to accommodate its recommendations.

1 Section 107, *Electricity Industry Act 2010* (NZ)

Roles and responsibilities in providing SAPS

Distributors play an important role in providing customers with access to a reliable supply of electricity. Under the *National Electricity Retail Law,* distributors have an obligation to offer customers a connection to that distributor's network.[2] The distribution assets which are constructed to supply electricity to that customer become part of the distribution system and the responsibility of the distributor to operate and maintain. Where the distributor makes a capital contribution to the construction of the distribution assets, these capital contributions become part of the distributor's regulated asset base (RAB).

In rural and remote areas, many customers have a physical connection to the local distribution network. This is because the cost of connection to the local network may have been cheaper, in the long run, than the high cost of a stand-alone system, which often relied on diesel. The high cost of serving these customers is smeared across all customers in that distributor's area in the form of 'postage stamp' network pricing. This ensures affordable energy supply for customers in remote areas.

Over recent years, the cost of local energy generation and storage has fallen significantly. In the future, particularly in these high cost to serve areas, distributors will encounter situations where it is economically efficient to replace aging or damaged assets with a SAPS or microgrid solution, rather than a traditional network solution. In these circumstances, it makes economic sense for the distributor to replace its network assets with a lower cost off-grid solution, often incorporating solar and battery storage, thereby lowering costs for all customers on the network.

Ausgrid recognises that in many areas, competition in the provision of emerging energy services such as SAPS and microgrid solutions may result in the best outcome for consumers. That said, given the role played by Ausgrid and other electricity distributors in providing customers with an essential service, Ausgrid is of the view that it should be able to own and operate the assets which provide an electricity supply to its existing customers. As the local distributor, it is expected that Ausgrid will retain the service and other obligations that it has for all its customers, both on and off-grid. For this reason, Ausgrid should be able to include capital expenditure incurred in moving customers off-grid in its RAB and receive a return on its investment. All customers would see the benefit of these investments through lower costs and downward pressure on network prices.

In Ausgrid's view, it is important that the new framework caters for different possible approaches to off-grid supply. What is important is that the most efficient operating model, which results in the best outcome for all customers, develops in each circumstance.

2 Section 66, *National Electricity Retail Law*

As is the case in remote parts of the Northern Territory and Western Australia, efficient outcomes are being achieved where the local distributor provides vertically integrated supply for remote SAPS customers. That is, the local distributor provides an 'all in one' service, including generation and retail services. This vertically integrated option is preferred to the potentially more expensive option of forcing competition in the generation, distribution, metering and retail functions for these customers.

In NSW, in contrast to other states, contestability arrangements mean that new connections assets are paid for by customers in the competitive market. This will help drive innovation and competition in the delivery of SAPS and microgrid solutions. For new customers, it may be the most efficient outcome (and the preferred outcome for the customer) if the local distributor is gifted the new assets which are then operated and maintained by the distributor.[3] This is due to the economies of scale and scope that the distributor, with its dedicated and skilled resources, is able to utilise. The AEMC should consider this option as part of its review.

In its issues paper, the AEMC also seeks views on the applicability of the contestability of energy services rule change in the context of SAPS. That rule change was intended to limit a distributors' ability to impact competition across the entire energy sector by valuing network benefits at the expense of other parts of the electricity system.

In Ausgrid's view, assets purchased for providing a SAPS, because they are not visible to the market, cannot provide value across other parts of the supply chain (such as the wholesale market). For this reason, Ausgrid is of the view that the prohibition on it owning assets 'behind the meter' may not be applicable.

Consumer protections

If customers are moving off-grid at the initiative of their distributor, Ausgrid is of the view that customers should retain access to the same set of customer protections as they had while on-grid. Customers should also expect the same or better reliability than they currently receive when moving to an off-grid system provided by their distributor.

Ausgrid supports arrangements that will provide SAPS customers with access to retail competition. Should retail competition not be economically viable, it will be necessary to introduce new retail price protections for customers receiving off-grid supply. These protections should mirror those in place for on-grid customers, but will need to be adjusted to recognise the special nature of off-grid supply. For example, a customer on a market offer must not be made worse off when moving to a SAPS. This means that the pricing condition from the AER's retail exempt selling guideline to not charge more than the standing offer price may not be appropriate.

[3] This is how contestability arrangements and the Accredited Service Provider (ASP) scheme currently operate in NSW

Transitioning to third party stand-alone systems

The decision making process for transitioning customers to a third party SAPS or microgrid is significantly different to that for distributor led project. In the case of a distributor led SAPS, the motivation for moving a customer(s) to a SAPS or microgrid is that it is economically efficient to do so and will help reduce costs, and therefore network prices, for all customers.

In the case of a third party led projects, however, it may not be economically efficient to move these customers off the distribution network, and therefore a decision making process is appropriate. In Ausgrid's view, economic efficiency and the long term interest of customers should be the primary motivation for moving customers off-grid. Ausgrid therefore supports an efficiency pre-condition for third party led SAPS or microgrids. It is important that if customers transition to a third party SAPS that remaining network customers are not disadvantaged.

An efficiency pre-condition will help lower the risk of third parties 'cherry picking' low cost to serve customers from a distributors' network and moving them off grid. This form of 'cherry picking' would not be in the best interest of all customers on a distribution network. This is because while the cost to serve might fall for customers in the SAPS or microgrids, the postage stamp price paid by all other customers on the network would likely increase due to the increase in average system costs resulting from the removal of these low cost customers from the customer base. This would impact on the distributors' ability to provide universal, low-cost network services for all network customers.

Ausgrid supports an independent regulator approving the transition of customers off-grid. However, the independent regulator should only be required to approve the process above a certain number of customers.

In NSW, Ausgrid views the Independent Pricing and Regulatory Tribunal (IPART) as an appropriate decision maker and arbitrator for moving customers to a third party SAPS or microgrid. This is because IPART already has licensing and safety obligations for the three NSW distribution networks and has similar responsibilities under the *Water Industry Competition Act 2006* (NSW) (WIC Act). Under the WIC Act, IPART licenses, audits, and monitors compliance of private water utilities in NSW. IPART also oversees the water access regime and is the arbitrator of disputes over access to infrastructure.

While IPART will be the decision maker and arbitrator for moving customers to a third party SAPS, the AER will retain the role of approving the value of any assets removed or stranded in a distributor's RAB.

Feedback on individual questions

Questions		Feedback
Question 1 – Jurisdictional opt-in provisions		
(a)	Should the arrangements supporting the transition to off-grid supply include an explicit mechanism to enable jurisdictions to determine when the national framework for SAPS would come into effect for DNSPs in their jurisdiction?	Ausgrid supports, as far as possible, a nationally consistent framework for the provision of SAPS. In NSW, there is a need to ensure that jurisdictional arrangements for issues such as safety and reliability are in place for stand-alone systems. As a result, Ausgrid expects that there will be a requirement for states to formally adopt the national framework in order for it to come into effect.
(b)	Should this mechanism provide jurisdictions with the flexibility to opt-in to the national framework on a more bespoke basis e.g. on a regional or distribution area basis, rather than state or territory wide?	Ausgrid does not see the need for there to be flexibility to adopt the national framework on a more bespoke basis.
Question 2 – Efficiency pre-condition		
(a)	Is the RIT-D and supporting consultation process appropriate in the context of SAPS, including in respect of the different models of SAPS supply (that is, microgrids and IPS)?	Ausgrid supports the use of the RIT-D and supporting consultation process to determine whether a SAPS or microgrid is a more efficient option than network investment.

Questions		Feedback
(b)	To ensure they remain fit-for-purpose in the context of SAPS, what (if any) amendments may be required to: • the RIT-D test (including to the classes of market benefits and costs) • the RIT-D consultation process and information requirements (including in relation to the non-networks options report), and • the AER's application guidelines?	It is critical to avoid further complexity that will increase the regulatory burden, and therefore cost, of network services. At this stage, Ausgrid does not see the need to amend the RIT-D in the context of SAPS. However, it would be useful if the RIT-D guidelines could include an example of a microgrid cost benefit analysis.
(c)	Is there a need to develop a light handed, targeted test to apply where the RIT-D is either not applicable or not proportionate? What might this test and/or assessment process look like?	Ausgrid does not support the expansion of the RIT-D or the creation of a RIT-D 'light'. For projects that do not meet the RIT-D threshold, Ausgrid is of the view that the broader incentive framework provides Ausgrid with sufficient incentive to make the least cost decision.
Question 3 – Consumer consent provisions		
(a)	Is a requirement for customer consent necessary? If existing consumer protections can be maintained for SAPS customers, is consent necessary? If so, should this be based on a unanimous or majority consent model? What are the implications and issues associated with each model?	Ausgrid does not consider that customer consent is necessary. Requiring customer consent could result in customers having an effective veto over going off-grid and all customers paying more than necessary for network services. However, customer consultation is essential in any proposal to move customers off grid. Ausgrid supports the New Zealand model where there is no customer consent requirement, but the distributor must provide six months' notice to the customers,

Questions		Feedback
		relevant retailers and the public, provide an opportunity to submit comments, and have regard to any submissions received.
(b)	Are customers equipped to make informed decisions, particularly with respect to understanding what they are agreeing to in terms of reliability and security, and potentially price, outcomes? Should explicit informed consent be required before DNSPs transition customers from the grid to supply via a SAPS?	For distributor led SAPS, Ausgrid is of the view that customers should continue to receive energy specific consumer protections equivalent to those received under grid supply. For this reason, explicit informed consent is not necessary.
(c)	Where consent is considered appropriate, could incentives be offered by DNSPs to secure the consent of affected customers? What might these be (and could the benefits of a SAPS be shared)?	Ausgrid does not consider that incentives should be offered to secure the consent of affected customers. The basis for moving customers to a SAPS is that it lowers costs for all customers in the distribution network area. Should incentives be offered, a SAPS customer could end up receiving reliability and service *better* than that of nearby on-grid customers, at a lower price. This would be an inequitable outcome.
d)	What alternative mechanism(s) could be used to ensure the long-term interests of affected customers are met?	The process by which customers are moved to a SAPS system could be spelt out clearly in the *National Electricity Rules.* This could include all necessary customer consultation and notice requirements.
Question 4 – Regulatory oversight role		

Questions		Feedback
(a)	Is there a need to incorporate a formal oversight and/or approval role by the AER (or other appropriate body) in relation to the transition arrangements for DNSP-led SAPS?	In Ausgrid's view there should be no formal approval of a distributor led SAPS transition by the AER (or other body). This will add unnecessary red-tape and costs.
(b)	Who would be best placed to perform such a role?	N/A
(c)	If the AER is the appropriate body, what additional benefits might be provided by giving the AER additional powers in relation to SAPS, given it is already responsible for monitoring, investigating and enforcing compliance with various aspects of the energy laws and rules?	Ausgrid supports the regulator continuing to monitor compliance with the relevant law and rules but does not consider it necessary for the AER to have additional powers in relation to SAPS.
Question 5 – Grid-connection pre-condition		
(a)	Should new customers or developments without an existing grid-connection be eligible for SAPS provision facilitated by a DNSP? Why or why not?	There may be situations where a SAPS facilitated by a distributor is the most efficient option. This should be considered by the AEMC in its review. Electricity is an essential service and the *National Electricity Retail Law* places an obligation on the local distributor to offer a connection to the local distribution network. For new customers, electricity supply via a SAPS could offer a more efficient solution than a new connection to the network. In NSW, the contestability framework for connection services means that a new

Questions		Feedback
		customer pays (in full or part) for a grid connection that requires an extension of the existing network. The distribution assets constructed as part of this connection become the responsibility of the distributor to operate and maintain. In NSW, SAPS provision could be managed in a similar way. A new customer would pay for the initial SAPS installation (in full or part) equivalent to a new grid-connection. The initial SAPS purchase would be from the competitive market similar to a new connection to the grid. The ongoing operation and maintenance of the assets would then become the responsibility of the distributor. In many instances this may be the preferred (and more efficient) option for the customer. However, there are risks associated with allowing all customers to have a SAPS provided by the local distributor. SAPS will provide customers with the ability to generate an affordable and reliable power supply in locations far more remote than is currently the case. The cost associated with maintaining a SAPS in very remote or difficult to access locations could place upward pressure on a distributor's network prices. The risk associated with this outcome should not be borne by the distributor and its customers, and therefore it may be appropriate for a distributor to only maintain a SAPS for new customers where it does not lead to an increase in costs for others.
(b)	Would new customers always have a financial incentive to obtain SAPS from the competitive market? Could implementation of a SAPS for a new customer	New customers may not always have a financial incentive to obtain a SAPS from the competitive market. For example, it may be much more efficient for groups of customers who have no special relationship with each other to procure SAPS from the

Questions		Feedback
	or group of customers by a DNSP result in network savings?	local distributor who will then provide this service as a standard control service. This will ensure that all the SAPS are compatible and capable of connection to the main network, or to each other, at a later stage if necessary. This could result in network savings for all customers.
(c)	Would enabling DNSPs to consider and potentially implement a SAPS solution as an efficient alternative to grid connection for new customers damage the competitive market for SAPS? In answering this question, consider new customers located in remote areas where a competitive market for SAPS may not be established.	In NSW, if the provision of SAPS for new customers uses similar contestability arrangements as new grid connections (as outlined in Question 5a), a new customer would be required to procure a SAPS from the competitive market. This will help drive competition and innovation in the delivery of SAPS and microgrid solutions. For the ongoing operation and maintenance of SAPS solutions it may be efficient and not detrimental to competition for the local distributor to offer a vertically integrated service in certain circumstances. This will be the case where the cost of competition outweighs the benefits. For example, where SAPS or microgrid is established with a small numbers of customers, and/or in very remote locations, establishing an effective competitive market for key elements such as generation, metering and retail services may be impractical or uneconomic and deliver poorer customer outcomes than if the local distributor is able to act as a vertically integrated provider.
(d)	What are the potential issues associated with DNSP obligations to connect where SAPS are regulated under the national framework?	As mentioned above, if the local distributor is required to maintain SAPS in very remote locations this could place upward pressure on a distributor's network prices.

Questions		Feedback
Question 6 – Right of reconnection		
(a)	Should existing reconnection rights apply unchanged to DNSP-SAPS customers wishing to seek reconnection to the grid? Alternatively, should the SAPS arrangements include special rights for DNSP-SAPS customers seeking to reconnect/revert?	In Ausgrid's view, there should be no special reconnection rights for SAPS customers wishing to reconnect to the grid. There may be exceptions to this rule. For example, it may be appropriate for the customer to be reconnected to the grid if the environmental circumstances mean that a SAPS is unable to deliver the reliability required.
(b)	Should the reconnection rights of DNSP-SAPS customers who have provided consent (where applicable), or new customers, differ from the rights of customers who have not provided their consent to be moved?	In Ausgrid's view consent should not be required, and therefore this question is not applicable.
(c)	What might a "return to grid process", including charges, look like for DNSP-SAPS customers	The connection process should not be different from the normal connection process to Ausgrid's network.
(d)	Would a mechanism need to be designed to avoid any potential to burden other customers with the costs of reconnection?	In NSW the contestability requirements mean that the customer pays the full cost of connection.
Question 7 – Defining the SAPS system service(s)		

Questions		Feedback
(a)	Should the national framework be designed around one model of SAPS service provision which could accommodate various circumstances? What might this model look like?	In Ausgrid's view, the national framework will need to be flexible to cater for different circumstances across different jurisdictions and different businesses. For example, the NSW contestability arrangements mean that the provision of SAPS for new customers is likely to be different compared to other states.
(b)	If the answer to the previous question is no, should this review focus on establishing a framework that allows DNSPs to pursue a variety of approaches to SAPS service provision, depending on the circumstances at hand? Why or why not?	Yes, the review should consider a variety of approaches to SAPS service provision, taking into account the many possible models of service provision. For example, one business may favour capex solutions while another business may favour opex solutions.
(c)	In what circumstances (if any) might it be appropriate for a DNSP to own/operate a vertically integrated SAPS solution?	As the local distributor, Ausgrid has service and other obligations for customers connected to its network. Ausgrid expects that once a customer is moved to a SAPS, these obligations will continue. For this reason, Ausgrid is of the view that it should be able to own and operate the assets which provide an electricity supply to these customers. As discussed in the overview, it may be more efficient for off-grid systems to have vertically integrated supply than attempting to force competition in the generation, distribution, metering and retail functions.
(d)	When (that is, at what stage point in the process) would contestability in the provision of SAPS be tested	The AER is likely to have a key role in establishing contestability arrangements in the provision and operation of SAPS. This will take place when classifying services as part

Questions		Feedback
	and by who?	of the Framework and Approach.
Question 8 - Role of the distributor		
(a)	Are the issues identified in the contestability of energy services rule change applicable in the context of SAPS?	The contestability of energy services rule change was intended to limit the distributors' ability to impact competition across the entire energy sector by valuing network benefits at the expense of other parts of the electricity system. Assets purchased for providing a SAPS are not visible to the market and therefore cannot provide value across other parts of the supply chain (such as the wholesale market). For this reason, Ausgrid is of the view that the prohibition on it owning assets 'behind the meter' in SAPS may not be applicable.
(b)	Is it necessary and appropriate to restrict the ability for DNSPs to earn a regulated return on behind-the-meter and/or in-front-of-the-meter assets specifically associated with the provision of SAPS? Why or why not?	For customers that are currently connected to the distribution network, Ausgrid considers that it is not appropriate to restrict the ability of distributors to earn a return on either behind or in front of the meter assets associated with the provision of SAPS. This is because assets purchased for providing a SAPS cannot provide value across other parts of the supply chain thereby distorting competition in other markets. For customers that are not currently connected to the distribution network, it may be efficient for the distributor to provide these services in certain circumstances. In remote areas, the lack of competition may mean that the local distributor is the only party able to provide installation and support services.

Questions		Feedback
(c)	In what circumstances (if any) might it be appropriate for a DNSP to own/operate a vertically integrated SAPS solution (that is, to seek an exemption (where relevant) from restrictions on asset ownership)?	The distributor should be able to own and operate a vertically integrated SAPS solution where the customer was previously connected to its network. As discussed in Question 5 above, there may be circumstances in which new customers would prefer a SAPS provided and maintained by the local distributor, and where this would be the most efficient outcome. This possibility should be considered by the AEMC in its review.
Question 9 – Provision of retail services		
(a)	Is it likely to be feasible to design arrangements to provide SAPS customers with access to retail competition? What might these arrangements look like?	Ausgrid supports SAPS customers having access to retail competition. However, as recognised in the issues paper, this may be difficult to provide. This aspect of the review is likely to need a detailed examination of possible options. Both the AusNet and PIAC options look viable.
(b)	What specific retail services would need to be provided to customers supplied via a SAPS model of supply?	Should retail competition be available, Ausgrid expects that most, if not all, retail services would be available.
(c)	Is there a need for a separate retailer role (distinct from the provision of other services) within the SAPS model of supply? Why/why not?	If retail competition is found not to be practical or efficient, there may be a need for a separate retailer role. This role could be responsible primarily for the provision of billing and customer facing services. Similar to the model adopted in remote parts of Western Australia and the Northern Territory, the local distributor could be responsible for providing retail services as part of a vertically integrated supply model. This may be the most efficient solution in many cases.

Questions		Feedback
(d)	Should retail services be managed by an authorised retailer?	In Ausgrid's view having retail services managed by an authorised retailer would have advantages. For example, retailers already have specific obligations under the *National Energy Retail Law* in relation to issues such as the provision of government rebates to customers.
Question 10 – Other roles/responsibilities specific to stand-alone power system provision		
	Who are the key stakeholders within a SAPS model of supply (other than the DNSP and the retailer) and, specifically, what would be their key roles and responsibilities?	Ausgrid has not identified any other specific roles and responsibilities.
Question 11 – Treatment of existing market participants		
(a)	Which existing market participants (if any) may be impacted by a DNSP's decision to transition a customer (or group of customers) to a SAPS model of supply?	Ausgrid has not identified any other market participants impacted by a decision to transition a customer to a SAPS.
(b)	Should DNSPs be required to consider the impact of transitioning a customer (or group of customers) to a SAPS on these participants? Why or why not? Via what mechanism?	As part of the consultation process prior to transitioning a customer to a SAPS, the distributor should be required to consider the views of other stakeholders, including market participants.

Questions		Feedback
(c)	Is it necessary to put in place special arrangements for market participants, including embedded generators or retailers, who may be affected by a DNSP's decision to transition customers to a SAPS model of supply? What might these arrangements involve?	Ausgrid does not consider that special arrangements need to be put in place.
Question 12 – Roles of AEMO and the AER		
(a)	What role could/should the AEMO play within the framework for SAPS provision by a DNSP?	Ausgrid does not have any other suggestions on what role AEMO could play.
(b)	What role could/should the AER play within the framework for SAPS provision by a DNSP?	As discussed previously, Ausgrid does not see the need for the AER to provide its approval at any stage during the process of migrating a customer to a SAPS. The AER will continue to have a role in monitoring compliance with the rules, and will continue its economic regulatory functions such as classification of services and building block assessment. The AER may also have a role in SAPS price regulation (see Question 13)
Question 13 – Retail price protections		
(a)	If retail competition is not possible in SAPS, what alternative protections may be appropriate (e.g. retail price controls) for customers receiving supply via	If retail price competition is not possible in a SAPS, price controls and other consumer protections will be necessary.

Questions		Feedback
	SAPS?	
(b)	Would applying the pricing condition from the AER's retail exempt selling guideline to not charge more than the standing offer price that would be charged by the local retailer be appropriate for SAPS, if retail competition does not apply? Is there an alternative price control that would be more appropriate?	In Ausgrid's view, a customer on a market offer must not be made worse off when moving to a SAPS. This means that the pricing condition from the AER's retail exempt selling guideline to not charge more than the standing offer price may not be appropriate.
(c)	In the areas that currently have price regulation, is extending that price regulation to customers in SAPS an appropriate approach?	In Ausgrid's view, it may be appropriate for the AER to have a role in establishing a default SAPS price as part of its new pricing functions.
Question 14 – Other national energy-specific consumer protections		
(a)	The Commission has suggested 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. Are there any significant provisions that wouldn't apply, or would require amendment for customers under a DNSP-led SAPS model of supply?	Ausgrid has not conducted a detailed assessment of the energy specific consumer protections for customers being supplied by a distributor led SAPS. A detailed assessment will need to be conducted as part of the review.

Questions		Feedback
Question 15 – Consumer protections specific to SAPS customers		
(a)	Are there any additional consumer protections that may be necessary for SAPS customers?	No comment
(b)	In relation to detailed product information for the SAPS, what are the minimum provisions that should apply (if any)?	No comment
Question 16 – Options for providing electricity-specific consumer protections		
	To provide equivalent protections for consumers receiving electricity supply via SAPS is the most efficient approach to amend the jurisdictional Acts adopting the NERL, as well as amending the NERL and NERR? Is there an alternative approach which may be more effective?	No comment
Question 17 – Reliability, security and quality		
(a)	What reliability, security and quality standards are appropriate for DNSP-led SAPS? Should the same reliability and service quality levels apply as for grid-	In Ausgrid's view, customers moved to a SAPS by their distributor should expect the same, or better, reliability than they were currently receiving when moving to an off-grid system.

Questions		Feedback
	connected customers?	For distributor led SAPS, Ausgrid is of the view that residential customers should not be able to trade reliability for a lower price.
(b)	Are there any existing network reliability, security and quality standards that would be difficult to comply with for SAPS? For example SAIDI and SAIFI requirements may have equivalent principles, but the practice for determining them may be different in SAPS.	Reliability standards are set out in Ausgrid's licence conditions and the Service Target Performance Incentive Scheme (STPIS). SAPS customers will need to be given a classification which aligns with the licence conditions and/or STPIS feeder definitions (urban, short rural, long rural, CBD). SAPS will not be connected to a feeder but their performance will be measured against the performance standards of a feeder definition. It will also be necessary to conduct power quality monitoring to demonstrate compliance with relevant power quality standards including AS61000.3.
(c)	Should GSLs be determined for DNSP-led SAPS? If so, should the same standards apply as for grid-connected customers (why/why not)?	The same GSLs that currently apply to grid connected customers should be applied to distributor led SAPS.
Question 18 – Other jurisdictional consumer protection considerations		
(a)	Are the other jurisdictional issues presented in section 5.6 less likely to be a concern for DNSP-led SAPS (why/why not)?	No comment
(b)	Should any of these issues be examined in greater detail in relation to DNSP-led SAPS?	No comment

Questions		Feedback
Question 19 – Third party stand-alone power systems – decision making framework		
(a)	Which party should make the decision to transition customers to a SAPS and which party/ies should approve the decision	The decision making process for transitioning customers to a third party SAPS is significantly different to that for a distributor led SAPS. There are many difficult issues to consider here. In Ausgrid's view, an independent regulator is best placed to approve the transitioning of customers off-grid. However, the independent regulator should only be required to approve the process above a certain number of customers In NSW, Ausgrid views the Independent Pricing and Regulatory Tribunal (IPART) as an appropriate decision maker. This is because IPART already has licensing and safety obligations for the three NSW networks, and is well placed to adjudicate on the appropriateness of moving NSW customers off-grid. IPART also has similar obligations administering the water access regime in NSW.
(b)	What should be the grounds for deciding to transition customers to a third party SAPS?	In the case of a distributor led SAPS, the motivation for moving a customer(s) to a SAPS is that it is economically efficient to do so and will help reduce costs, and therefore network prices, for all customers. In the case of a third party led SAPS, however, there may be a variety of reasons for wanting to move to a SAPS. In Ausgrid's view, economic efficiency should be the primary motivation for moving customers off-grid and customers remaining on the grid should not be worse off as a result. Ausgrid therefore supports an efficiency pre-condition for third party led SAPS.

Questions		Feedback
(c)	Which mechanisms should be employed to seek approval and/or consent?	A detailed mechanism will need to be established to support the transition of customers to a third party SAPS.
(d)	If the consent of transitioned customers is sought, what is the proportion of customers that should provide their consent? Should consent factors be defined, and what should they be?	Ausgrid agrees that the consent of customers is needed prior to moving to a third party SAPS. Given the similarities with the AER process for seeking a network exemption, Ausgrid is of the view that 85 per cent approval should be minimum level of consent required. It may be that 100 per cent is required in certain circumstances.
(e)	Should transitioned customers, either individually or collectively (in the case of a microgrid), retain the right to reconnect to the grid?	Transitioned customers can apply to reconnect to the grid in accordance with normal connection processes.
Question 20 – Third party stand-alone power systems –asset transfer and stranded assets		
(a)	Is there a role for the AER, jurisdictional regulator or other body in setting or approving asset values and pricing methodologies as a result of the transfer?	Ausgrid is of the view that there should be a role for an appropriate regulator in approving the value of any assets removed or stranded in a distributor's RAB. In Ausgrid's view, the AER should have responsibility for approving these values.
(b)	How should asset transfers be treated in the DNSP RAB?	In Ausgrid's view, asset transfers should be treated in the same way as asset disposals.
(c)	How should stranded assets be treated in the DNSP RAB?	Customers left behind on the grid should not be worse off as a result of customers transitioning to a third party SAPS. This means that customers moving off grid should

Questions		Feedback
		be required to pay for the cost of any stranded assets. In this case, assets would be removed from the RAB in the same way as asset disposals.
(d)	Should corresponding fees be charged to the transitioned customers and customers left behind on the grid?	Customers left behind on the grid should not be worse off as a result of the transition.
(e)	Is a dispute resolution framework design required for asset transfer and stranded assets? What are the key elements of the design?	There does not seem the need for a new dispute resolution framework. Existing dispute resolution arrangements already exist (for example, under Chapter 8 of the *National Electricity Rules*) and Ausgrid views these arrangements as suitable.
Other comments on the review or consultation paper		
	Do you have any other comments on the rule change request or the consultation paper?	


Thank you
Ausgrid