

Ausgrid Submission

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

February 2020



13 February 2020

Attn: Mr Rupert Doney
Australian Energy Market Commission
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Lodged online

Dear Mr Doney,

Ausgrid is pleased to provide this submission to the Australian Energy Market Commission (AEMC) draft report in its review of regulatory frameworks for distributor led stand alone power systems (Draft Report).

In the long term, the provision of stand-alone power systems (SAPS) will help place downward pressure on network costs for all customers. The complexity of the AEMC's draft framework, however, risks introducing additional costs and delays in the roll-out of stand-alone power systems.

The AEMC is committed to customers currently connected to the grid retaining access to retail competition. However, the AEMC has not demonstrated that the benefits of retail competition outweigh the additional costs being imposed through its draft framework. As recent experience has shown, attempting to establish competition in markets closely related to monopoly services may actually lead to a poorer customer experience. We therefore recommend that the AEMC focus on customer outcomes as part of its review.

We would welcome the opportunity to discuss our submission in further detail. Should the AEMC have any questions, please contact John Skinner, Regulatory Policy Manager on 02 9269 4357 or john.skinner@ausgrid.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read "Iftekhar Omar", written in a cursive style.

Iftekhar Omar
Head of Regulation

Submission

The AEMC review of the regulatory arrangements for distributor led stand-alone power systems (SAPS) 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.

Ausgrid is the largest distributor of electricity on Australia's east coast, providing electricity to almost 1.8 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 we are likely to see opportunities for SAPS emerge in our network area over time.

Our submission provides views on various issues raised in the Draft Report. While we support many aspects of the draft arrangements for distributor led SAPS, we are concerned that some of the proposed arrangements are overly complex and will slow, or even restrict, the efficient growth of SAPS in our network area.

AEMC assessment framework

We recognise the important role of competition in encouraging innovation and providing customers with greater control over how they consume, generate and store energy. However, there are instances where the promotion of competition and customer choice will not always result in the best outcomes, particularly where the services in question are closely linked to a service with monopoly characteristics. For example, being able to choose which electrician will fix a circuit breaker on a meter board may not result in the best customer outcome when the local distributor will likely be the first on site following a customer's 'no supply' call.

For this reason, we suggest that the AEMC consider revising the first of its assessment criteria to recognise that the customer outcome is just as important as greater competition and consumer choice. The AEMC's first assessment criteria could be reworded as follows:

- *Do the regulatory arrangements improve the customer experience by facilitating competition and consumer choice in energy service and products?*

A seamless customer experience must be a priority

As recent experience in NSW has shown, restricting the activities that can be undertaken by distributors can have unintended and adverse consequences and does not always lead to the best customer outcomes.

Following the introduction of the Australian Energy Regulator's (AER) ring fencing guideline in 2017, NSW distributors were no longer permitted to undertake simple repairs behind the customer meter. Such repairs, for example the replacement of a service fuse or circuit breaker, were often undertaken when Ausgrid staff were first on site following a customer report of 'no supply'. The AER subsequently recognised that its new ring fencing guideline was resulting in poor outcomes due to the extra time and cost associated with fixing simple faults. There was considerable customer frustration and disenchantment when an Ausgrid staff member had to advise the customer that he or she had to call an electrician to fix a simple fault that had already been diagnosed by the Ausgrid staff member.

In its November 2018 draft decision on Ausgrid's 2019-24 regulatory determination the AER introduced a new activity called 'rectification of simple customer fault' that will allow distributors to restore a customer's supply under certain circumstances. This was an effective relaxation of the ring fencing prohibition introduced in the 2017 guideline.

A number of aspects of the proposed SAPS arrangements raise concerns similar to those experienced in 2017. Under the AEMC's draft arrangements, SAPS generation services will not be classified as a distribution service for the purposes of economic regulation. This means that, unless granted a waiver by the AER, distributors will be prevented from providing SAPS generation services and will need to procure these services from a third party, a subsidiary or other affiliate.¹ If the SAPS provider offers to provide operations and maintenance services, the distributor will be obliged to procure services from that SAPS generation provider.

For distributor led SAPS, there is a risk of poor customer outcomes if the distributor is not responsible for the maintenance and repair of SAPS generation equipment. Consistent with the experience of simple behind the meter faults, if a customer has to wait for a third party to undertake SAPS generation repairs there is a greater risk of extended outages, frustration and customer losses. In the early stages of SAPS adoption, with just a few companies covering a wide geographic area, there is a risk of lengthy response times for outages.

SAPS tariff arrangements

In its Draft Report, the AEMC stated that it does not envisage distributors reassigning SAPS customers to a new tariff class.² The AEMC proposed a new clause 6.18.4(a)(4) which states that retail customers connected to a SAPS should be treated no less favourably than retail customers with a similar load profile.

¹ AEMC, *Updating the regulatory frameworks for distributor-led stand-alone power systems*, Draft report, p.43

² AEMC, *Updating the regulatory frameworks for distributor-led stand-alone power systems*, Draft report, p.46

These arrangements create the likelihood of a significant mismatch between a user's consumption profile and the onsite generation. For example, a SAPS user could choose a retail plan from a retailer that offers very cheap electricity between midnight and 4am for the purpose of charging electric vehicles, which, for instance, does not overlap with the solar generation used within the SAPS.

This possibility would mean that the distributor would need to significantly oversize the SAPS battery or back-up generation to run overnight at much greater cost, thereby reducing the cost competitiveness of SAPS solutions compared to traditional network alternatives and removing cost-reflectivity as a possible tool to deliver efficient outcomes. There is also the risk that the introduction of a new retail tariff after the installation of the original SAPS might require significant investment in the generation system.

Service classification and waivers

The AER's December 2019 Explanatory Note on the ring fencing interaction with distributor led SAPS (Explanatory Note) explains the circumstances in which distributors will be able to provide SAPS generation services, subject to the AER granting a ring fencing waiver.

In the Explanatory Note, the AER has indicated that it does not propose changing its current practice which is to maintain the five-year maximum for ring fencing waivers. One of the reasons for this is the alignment with the service classification review that takes place prior to the five-year regulatory determination process.

We support the AER view that the service classification process is appropriate for determining which distribution services can be provided by means of a SAPS. The AEMC also agrees that the service classification process is appropriate and fit for purpose.³ Given there is broad support for this process, it is not clear why the AEMC needs to provide the AER with 'additional guidance' on how SAPS should be classified and 'lock in' a particular classification in the rules. Given the SAPS market is still immature, locking in particular classifications will create inflexibility and reduce the ability of the AER to reflect changes in the way services are delivered.

'Locked in' service classifications will also lead to long term reliance on waivers, which was not the intent in providing the waiver framework. This is because the AER will not have the flexibility to change SAPS service classification according to changing circumstances. For example, consistent with the AER's approach to the 'rectification of simple customer faults', it may be appropriate for the

³ AEMC, *Updating the regulatory frameworks for distributor-led stand-alone power systems*, Draft report, p.44

AER to classify simple SAPS repairs as a distribution service. This will not be possible under the AEMC's approach.

Operator of last resort

In the absence of a waiver, distributors will be unable to own and maintain SAPS generation assets. The reliance on the competitive market means that there is a much greater likelihood of distributors being required to 'pick up the pieces' if SAPS generation providers fail.

Distributors, and ultimately customers, should not bear the risk, and potential costs, of being the operator of last resort. We support the development of arrangements to protect existing grid-connected customers from bearing the risk of SAPS generation providers failing. As we have outlined in previous submissions, these arrangements could take the form of indemnity arrangements similar to those in the NSW Accredited Service Provider (ASP) scheme.⁴

Cost recovery of SAPS generation expenditure

The Draft Report acknowledges that activities related to the provision of SAPS generation can be considered as a common distribution service, much like 'shared asset facilitation'. However, the Draft Report does not explain how capital expenditure related to the provision of SAPS generation should be treated, given that the SAPS generation is not a distribution service and cannot be included in the distributor's regulatory asset base. The AEMC should clarify how this issue will be resolved in its Final Report.

⁴

Ausgrid submission: AEMC review of SAPS – priority 2 – consultation paper, March 2019

A scenic photograph of a road at sunset. The road is dark and curves into the distance. On the left, there are large, dark trees. On the right, there are more trees and a utility pole with power lines. The sky is a mix of blue and orange, indicating sunset. The overall mood is peaceful and serene.

Thank you

