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Dear Secretariat,

Ausgrid is pleased to provide this submission to the COAG Energy Council's stand-alone power systems (SAPS) legislative consultation package.

As we have submitted to previous consultation processes, SAPS offer significant customer benefits. These benefits include improved customer reliability and safety, reduced bushfire risk and lower network costs, which in turn will place downward pressure on network prices for all customers. The complexity of the proposed framework, however, risks introducing additional costs, delays and uncertainty in the roll-out of SAPS. As outlined below, there is also the risk that restricting the activities that can be undertaken by distributors could have unintended consequences and may not always lead to the best customer outcomes.

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 and remote 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 the consultation package published by COAG Energy Council, as well as broader issues relating to the proposed framework.

### **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. 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 when an Ausgrid staff member had to advise the customer

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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 allows 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.

Several aspects of the proposed SAPS arrangements raise concerns similar to those experienced in 2017. Under the AEMC's proposed arrangements, SAPS generation services must be obtained from competitive markets. For distributor led SAPS, there is a risk of poor customer outcomes if the distributor is not able to repair SAPS generation equipment when first on site at a customer outage. Consistent with the experience of simple behind the meter faults, if a customer must wait for a third party to undertake SAPS generation repairs there is a greater risk of extended outages, customer frustration and inefficient outcomes when customers have to pay for costly 'emergency call out' fees for SAPS repairs in remote locations.

### **Service classification and waivers**

Given that SAPS generation services must be obtained from competitive markets under the proposed SAPS framework, ring fencing waivers will need to be utilised in instances where distributors are unable to find SAPS generation providers that can provide the non-distribution component of the regulated SAPS. Potential arrangements were outlined in the AER's June 2020 *Supplementary explanatory note: ring fencing interaction with distributor led stand alone power systems*.

The reliance on waivers will increase uncertainty in the delivery of SAPS, because the AER has indicated that the maximum duration of a waiver is a full regulatory control period, which is five years. Not only could the waiver process slow down the roll out of SAPS, the uncertainty created by potentially needing to reapply for a waiver every five years could act as a barrier to their efficient deployment.

The AER is currently reviewing its electricity distribution ring fencing guideline. We encourage the AER to consider how it can implement a waiver exemption process that will provide distributors with certainty and facilitate the efficient and timely roll-out of SAPS.

### **SAPS tariff arrangements**

In its *Updating the regulatory frameworks for distributor-led stand-alone power systems review Final Report*, the AEMC maintained the view that SAPS customers should not be reassigned to a new tariff class and should effectively be treated the same as network connected customers with a similar load profile.

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 generator 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.

### **Changes to the National Electricity Rules**

The AEMC's *Updating the regulatory frameworks for distributor-led stand-alone power systems* review Final Report contained a comprehensive package of proposed changes to the *National Electricity Rules* and *National Electricity Retail Rules*.

The COAG Energy Council's consultation package does not provide any details on how these proposed rule changes will be implemented, or if any changes will be made. We encourage COAG Energy Council to provide advice on these issues as soon as possible.

### **Post implementation review**

For the reasons outlined above, there is a risk that the proposed SAPS reforms may not deliver the maximum customer benefits. This risk is particularly acute if a customer's SAPS is facilitated by the local distributor, but a third party is responsible for the ongoing operation and maintenance of a significant part of a customer's new SAPS. There is also a risk of customer and industry confusion if jurisdictions deviate from a nationally consistent set of arrangements for the roll-out of SAPS. National consistency is an issue also being considered as part of the Energy Security Board's distributed energy resources standards governance review.

For this reason, we suggest that COAG Energy Council mandate a post-implementation review several years after enactment of the proposed changes. This will ensure that the SAPS framework is helping improve reliability and safety, reducing network costs, and delivering the best outcome for customers.

We appreciate the AEMC's consultative approach on these issues to date. If you have any queries in respect of this submission, please contact me on (02) 9269 4367 or [john.skinner@ausgrid.com.au](mailto:john.skinner@ausgrid.com.au)

Regards,



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