

31 July 2020

Shaun Sullivan
Chair of the Senior Officials
National Federation Reform Council Energy Committee

Submitted via email to demsaenwg@sa.gov.au

Dear Mr. Sullivan,

Energy Networks Australia submission to Stand-Alone Power Systems Priority 1 Legislative Amendments

Energy Networks Australia appreciates the opportunity to provide feedback on the draft amendments to the National Electricity Law and National Energy Retail Law to allow for the Australian Energy Market Commission's final recommendations on distributor-led stand-alone power systems (SAPS).

Energy Networks Australia is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

We have engaged extensively with the Australian Energy Market Commission (AEMC), Australian Energy Regulator (AER) and other stakeholders throughout the SAPS consultation process.¹ Energy Networks Australia is supportive of a change in the regulatory framework that allows distribution network service providers (DNSPs) to supply their customers using SAPS where it is more cost efficient than maintaining a connection to the grid. Our members recognise the opportunities that SAPS could bring to the electricity network and to customers.

However, throughout the process we have noted concerns about the proposed framework that we consider may risk the efficient roll-out of SAPS to customers that would otherwise benefit from their installation.

We are therefore strongly supportive of the AER undertaking a review of the Distribution Ring-fencing Guideline to ensure that it is fit-for-purpose for the AEMC's final SAPS recommendations. In addition, we consider that there is value in including a review requirement to ensure that over time the framework is delivering the right outcomes for customers.

¹ For example, refer to Energy Network Australia's submission to the AEMC's draft report and rules, Energy Networks Australia, *Regulatory frameworks for distributor-led stand-alone power systems: Response to Draft Rules*, 13 February 2020.

Proposed framework requires further work to be fit-for-purpose

Energy Networks Australia considers that the key focus of the regulatory framework must be on delivering customer outcomes, not competition outcomes. The regulatory framework needs to be robust to an outcome where competitive markets for the provision of SAPS generation services do not develop in the short to medium term. However, the AEMC's proposed framework has been developed with the expectation that the majority of SAPS generation services would be obtained from competitive markets. If this assumption is not correct, the result could lead to customer detriment through a non-responsive regulatory framework.

Under the AEMC's final recommendations, DNSPs are unable to provide an integrated SAPS solution, including both SAPS generation and distribution services, without first applying for a ring-fencing waiver from the AER. Only once a waiver is granted can the DNSP then begin the process to roll out an integrated SAPS to customer/s.

The risk is that the DNSP-led roll-out of SAPS will be slower and there will be fewer SAPS in the market than under a regulatory framework that poses fit-for-purpose requirements on DNSPs. Fewer SAPS in the market would mean that providers of competitive SAPS assets and services have less incentive to enter the market and competition could stagnate, delaying the possible benefits of competition to consumers.

In the shorter term, without significant AER guideline reform, Energy Networks Australia anticipates that there will be a very large number of applications to the AER seeking a waiver exemption as the competitive market is not best placed to provide SAPS services efficiently.

Therefore, Energy Networks Australia is strongly supportive of the AER's proposed Distribution Ring-fencing Guideline review, and will be actively engaging with the AER's upcoming consultation to design and implement waiver exemptions to ensure that the waiver process is fit-for-purpose and is in the best interests of customers.

A post-implementation review should be mandated

To mitigate against the potential for outcomes that are not in the long-term customer interest, Energy Networks Australia recommends that the National Federation Reform Council Energy Committee mandate a requirement to perform a post-implementation review that would ensure that the implemented framework is delivering outcomes in line with the National Electricity Objective.

Specifically, the post-implementation review would consider:

- » the state of SAPS roll-out and whether the competitive market is delivering efficient outcomes for customers,
- » whether jurisdictions have opted-in to the national framework or chosen to develop their own, including the reasons for their decision, and
- » the experiences of each jurisdiction operating under the national framework.

The AEMC or other appointees of the Energy Committee would undertake the post-implementation review and would consider whether outcomes arising from the application of the national SAPS framework had met the expectations of the AEMC,

other stakeholders and notably, customers. If required, the review would then recommend changes to the national framework to ensure that the expected outcomes from the proposed framework are being realised.

Mandating a post-implementation review will ensure that the SAPS framework is being operationalised as intended and will protect against the risk of delivering adverse customer outcomes.

If you wish to discuss any of these matters raised in this letter further, please contact Lucy Moon, Head of Regulation, at lmooon@energynetworks.com.au.

Yours sincerely,



Andrew Dillon
Chief Executive Officer