

13 February 2020

Andrew Truswell  
Director  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235



Dear Mr Truswell,

### **Submission to draft rules for distributor-led Stand-Alone Power Systems**

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to respond to the AEMC's draft Rules for distributor-led Stand-Alone Power Systems (SAPS).

As noted in earlier submissions to the AEMC,<sup>1</sup> PIAC supports Distribution Network Service Providers (DNSPs) being able to transfer existing customers onto SAPS supply where it is a more efficient and preferable option to retaining traditional grid-connected supply. While we support the intent of this package of reforms, there are particular issues that warrant further consideration to ensure that the option to transfer to SAPS-supply is used whenever it is efficient to do so and the customers' quality of service remains appropriate.

#### **Ring-fencing waivers**

The AEMC's draft Rules could potentially require a relatively large number of waivers. This could be in a range of instances, such as where it may be preferable for a DNSP to provide a SAPS directly rather than tendering for it, to own a SAPS via an affiliate, or to provide maintenance services on a SAPS.

PIAC sees the need for robust ring-fencing and supports the use of appropriate ring-fencing obligations for distributor-led SAPS. However, its use must be proportionate to the potential consumer harm at stake – not only in terms of unfairly stifling contestable markets if ring-fencing is too relaxed but also creating unnecessary burden and delaying otherwise prudent SAPS projects if ring-fencing is too onerous.

We also note that, currently, the maximum duration of waivers is a full regulatory control period, meaning they must be reviewed every five years.

PIAC recommends that the AER consults with stakeholders to examine opportunities to streamline the need for waivers (and reviewing existing waivers) to maintain an appropriate balance in the case of distributor-led SAPS installations. For instance, the AER could consider:

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<sup>1</sup> PIAC, *Submission to AEMC review of stand-alone power systems – priority 1 draft report*, February 2019.

- Providing longer duration waivers for distributor-led SAPS;
- Providing a single waiver for multiple SAPS in a particular area or type of installation rather than requiring DNSPs to seek multiple, independent waivers for each SAPS;
- Combining a number of similar, individual waivers into a single waiver for the purpose of reviewing and compliance; and
- Creating provider of last resort powers for DNSPs, as discussed in the following section.

### **Provider of last resort**

PIAC considers it important that a framework exist for SAPS services to be provided, or continue to be provided, where there is no viable competitive provider available.

This could occur either if no competitive provider is able to provide the full range of services or if it would only be too costly for them to do so. While this could occur for designing and installing a SAPS, PIAC considers it may be more likely in the provision of ongoing maintenance and repair services. Alternatively, the competitive provider currently providing SAPS services may cease operation.

In any of these cases, it is important that there be a clear and robust framework that allows the DNSP to act as a provider of last resort to ensure otherwise efficient SAPS opportunities are undertaken and consumers' quality of service and safety continues to meet the relevant standards.

In addition to these physical services, the DNSP may also need to act as a retailer of last resort where a suitable retailer cannot be found. In such an instance, the DNSP should be able to directly charge the SAPS-supplied customer in lieu of the retailer. While we consider it would not need to commonly be used, having such a fall-back arrangement means the efficient and prudent transition of customers to SAPS-supply is not dependent on a retailer.

### **Generation costs and settlement model**

PIAC continues to question the AEMC's proposed treatment of SAPS generation prices, as it arbitrarily links this to NEM spot prices even though there is no causal link between them. Under such a model, any alignment between NEM wholesale spot prices and cost of SAPS generation would be coincidental. While averaging across a year of wholesale prices mitigates some of the issues, this model still has three main consequences:

- It discourages retailers from taking on SAPS customers with little profit margin and relatively bespoke tariff arrangements;
- It dilutes the effectiveness of any retail tariff provided to the customer; and
- It creates an unnecessary wholesale spot price exposure (and hence hedging obligation) for the retailer.

While it may simplify the arrangements for existing retailers, it may preclude opportunities for more innovative retailers to emerge and develop more SAPS-specific retail products.

### **Customer engagement for transition**

PIAC supports the need for DNSPs to effectively engage with the customer(s) identified to be transitioned to SAPS supply. While we consider DNSPs should do this as good practice anyway, we support the AER creating a more formal framework for this. PIAC looks forward to working on this as these reform progress further.

**Continued engagement**

PIAC would welcome the opportunity to meet with the AEMC and other stakeholders to discuss these issues in more depth.

Yours sincerely,

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