

30 April 2025

Kris Funston
Executive General Manager, Network Regulation
Australian Energy Regulator

Submitted electronically

Dear Dr. Funston,

Draft Shared Asset Guidelines – Regulated SAPs Review

The Justice and Equity Centre (JEC) welcomes the opportunity to respond to the Australian Energy Regulator's (AER) Draft Shared Asset Guidelines — Regulated stand-alone power systems (SAPS) review.

The Shared Asset Guidelines should encourage the most efficient use of network assets, generating unregulated revenues that can be shared with consumers. However, it is critical that these incentives are properly aligned with the broader regulatory framework governing the deployment and operation of these assets. This is particularly so as regards SAPs.

There are elements of the SAPS regulatory and rules framework which fail to promote the long-term interests of consumers. Aspects aimed at ensuring a handful of SAPS customers have access to contestable retail add material cost and complication to AEMO's systems and corresponding industry systems. They enable no meaningful benefit to impacted consumers.

Requirements for contestable retail are based on a principle that retail competition is sacrosanct, rather than to secure the most beneficial outcomes for consumers. A better outcome for all consumers would be for SAPS customers to have the option of being charged distribution use of system (DUOS) charges directly by the Distribution Network Service Providers (DNSPs). They may not even need to be charged for energy use at all. While we acknowledge such proposals fall outside the scope of this review, we strongly encourage the AER to work with other market bodies to progress such reforms.

A more comprehensive review of the guidelines is required

The JEC support the intent of guideline to ensure that where DNSPs use regulated assets to also provide unregulated services, appropriate mechanisms exist for sharing those benefits with electricity consumers. Updates to the guidelines should help ensure that alternatives to

traditional grid connections, such as SAPS, are deployed where they are the most efficient solution.

The limited scope and expedited nature of the current review risks undermining this outcome as it does not afford opportunity to align the guidelines with the revenue sharing objectives as set out in the National Electricity Rules which state that DNSPs,

should be encouraged to use assets that provide standard control services for the provision of other kinds of services where that use is efficient and does not materially prejudice the provision of those services to maximise consumer benefits from the efficient use of distribution assets.¹

A more comprehensive review of the functions and broader policy role of the Shared Asset Guidelines is needed to promote alignment with this objective. We understand that such a review was previously proposed but not progressed. We strongly encourage the AER to revisit this commitment.

A more holistic review should also inform potential changes to ring-fencing obligations and service classifications to ensure that assets which can provide a range of services, such as SAPS, are enabled and incentivised to maximise value for all consumers.

Revise the cost reduction value to reflect associated costs of settlement

We are concerned with the definition of 'regulated SAPS net positive generation revenue' as set out in the draft guidelines. The draft defines net positive generation revenue as 'revenues received by the Australian Energy Market Operator for the production of electricity for supply in a regulated SAPS that is sold through a market.'²

This definition appears to conflate gross and net revenues and assumes that DNSPs incur no settlement-related costs associated with the sale of generation in SAPS. This is not accurate. DNSPs operating regulated SAPS are required to enter into metering contracts, ensure the provision of AEMO-compliant data, and meet various reporting, maintenance, and compliance obligations. All these requirements impose ongoing costs.

We do not consider the current definition consistent with the intent of the guidelines. We presume the drafting reflects an oversight rather than a deliberate policy position that DNSPs should be liable for all revenues generated from regulated SAPS without recognition of associated transaction costs.

Accordingly, we recommend the AER engage with DNSPs to clarify the appropriate treatment of these costs under the guidelines. We also recommend the definition of 'regulated SAPS net positive generation revenue' be amended to allow DNSPs to deduct settlement-related and other directly attributable costs from the gross revenue received from AEMO.

¹ See NER [Clause 6.4.4\(c\)\(1\)](#).

² See AER [Draft Shared Asset Guidelines Version 2 \(marked up\) March 2025](#), p. 17.

Align the SAPS Ring-fencing Guideline with the intent of the Shared Asset Guidelines

We are concerned the shared asset guidelines for SAPS are inconsistent with provisions in the ring-fencing guidelines.

Clause 3.1(d)(vii) of the ring-fencing guideline states DNSPs are not prevented from:

supplying other services as a SAPS Resource Provider, provided that the revenue the DNSP receives as a SAPS Resource Provider in a regulatory year does not exceed the generation revenue cap.³

The reference to a 'generation revenue cap' implies that, where SAPS generation revenues fall below a specified materiality threshold, DNSPs should be permitted to retain these residual revenues. This mechanism would minimise the settlement and administrative costs linked to SAPS generation revenues and may produce better outcomes for consumers through facilitating greater SAPS uptake.

We note that SAPS generation revenues constitute a relatively immaterial component of overall DNSP revenue. This is likely to remain the case. Our primary concern is that the marginal consumer benefit of capturing all SAPS generation revenues is likely to be outweighed by the administrative burden and associated costs required to do so. This may, in turn, hinder the broader deployment of SAPS and the more substantial benefits they offer all consumers through downward pressure on network costs and household energy bills.

As such, we support proposals to introduce a streamlined reporting threshold. We recommend the AER consider further aligning the Ring-fencing Guideline with the intent of the Shared Asset Guideline as relates to regulated SAPS.

We welcome the opportunity to meet with the AER and other stakeholders to discuss these issues further. Please contact Jan Kucic-Riker at jkucicriker@jec.org.au for any further inquiries.

Yours sincerely

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³ See AER [Ring-fencing Guideline Version 3 \(electricity distribution\) November 2021](#), p. 7.