

19 August 2021

Ms Rebecca Knights
Director, Energy Policy and Projects
Department for Energy and Mining
GPO Box 320
Adelaide SA 5001

Sent via email: demsanenwg@sa.gov.au

Dear Ms Knights

Submission to consultation paper on Stand-Alone Power Systems implementation

SA Power Networks welcomes the opportunity to comment on the Department for Energy and Mining (the Department) Consultation Paper: Stand-Alone Power Systems (SAPS) – South Australia Implementation.

We have for some years now been advocating for national reforms to allow electricity distribution network service providers (distributors) to deploy SAPS, thereby increasing our available options by which to efficiently deliver energy to our customers. As such, we support the Department's intent to implement these reforms in South Australia.

Our submission in the Attachment to this letter comments on how the SAPS regulatory framework can best promote timely and efficient services for South Australian customers. Our views are that:

- implementing the SAPS regulatory framework on a state-wide basis is preferable, to provide certainty for our long-term network planning and allow full exploration of where SAPS will be the most effective means of energy supply to our customers;
- the Department should consider changes to how the regulatory framework applies in South Australia, to avoid SA Power Networks being forced to outsource SAPS supply and operations to third-parties irrespective of whether third-party sourcing is efficient and prudent. As this issue is also being examined in the Australian Energy Regulator's (AER) Ring-Fencing Guideline review, the implementation decision for South Australia should ideally wait until the AER's review has concluded and residual concerns for South Australia become clear; and
- there could be value in expanding the framework to apply to existing off-grid power systems in remote and rural areas of South Australia. We can see benefits to customers of these systems through having access to regular market offers and protections, as well as potential efficiencies enabled by bringing these systems into the national framework.

If you have any queries or require further information in relation to our submission, please contact Bruno Coelho on [REDACTED]

Yours sincerely



Mark Vincent
General Manager Strategy and Transformation

1. Geographic scope of implementation

The Consultation Paper seeks comment on whether the SAPS regulatory framework should be implemented in South Australia on a state-wide basis, or under an initial trial implementation limited to the four candidate sites identified in the paper.¹ We consider that state-wide application of the framework is preferable, on the basis that:

- this would enable SA Power Networks to fully explore potential opportunities for SAPS deployment. We intend to work with stakeholders including the SA Power Networks' Customer Consultative Panel to explore where SAPS will be feasible in the short, medium and long term. The four sites discussed in the Consultation Paper only pertained to sites that SA Power Networks was immediately aware of as potential candidates, but we have yet to undertake a broad review to explore other potential sites; and
- it provides SA Power Networks greater regulatory certainty as to the regulatory framework that will apply in South Australia to guide our distribution network planning and associated planning reports which are long-term in nature.

We recognise that a limited trial implementation would allow for the workability of the SAPS regulatory framework to be observed. However, our view is that:

- there is already sufficient available information on the expected outcomes of the framework and on potential alternative regulatory models, should the Department seek to simplify the framework's application in South Australia. While we think the framework is complex, particularly for SAPS serving single or few customers, we note the Department's view as expressed at its public forum, that it may be difficult to remove this complexity without creating additional issues; and
- the main issue with the framework's workability that we believe needs to be addressed by the Department, is the imposed requirement on distributors to outsource SAPS operations to third-parties, which will not best serve customer interests. We discuss this issue below.

2. Implementation approach

The key concern that all NEM distributors have with the workability of the SAPS framework is that while distributors will be responsible for SAPS service performance, they must outsource most SAPS operation activities to a third-party, unless a waiver is granted from the AER Ring-Fencing Guideline.² This is required irrespective of whether a third-party is willing / able to perform the services in question, and whether they can do so as effectively, safely and efficiently as the distributor.³

The AER recognised this concern for customers in its Ring-Fencing Guideline review and is considering Guideline exemptions to allow distributors to provide integrated SAPS services, subject to a threshold.⁴

¹ The four sites were ones advised by SA Power Networks, including: Kangaroo Island – Cape Du Couedic; and Cape Borda; Port Lincoln – Cape Donington; and South East, Carpenter Rocks – Cape Banks.

² This issue arose because the AEMC framework deemed the activities comprising the provision of the 'Generating System' (i.e. some combination of solar PV, battery storage, back-up generation) to be 'Generation Services', and distributors are under the AER's Ring-Fencing Guidelines prohibited from providing Generation Services.

³ A different regulatory model has been applied successfully and at significant volume in Western Australia, which allows distributors to provide fully integrated SAPS services – distributors are not forced to outsource to third-parties, but instead have discretion to determine when outsourcing to third-parties is efficient and prudent.

⁴ The exemption the AER is exploring is a threshold based on the total generation revenue earned as a percentage of a distributor's total revenue. That is, distributors would be able to deploy and operate SAPS until the number of SAPS, and the generation revenue collected from these SAPS, reaches the revenue threshold.



Until this review concludes, implications for South Australia cannot be determined. We therefore recommend that:

- the Department delay its implementation decision until the AER review concludes; and
- if the AER's approach still poses residual concerns, that the Department should consider directly addressing these via changes to the framework's application in South Australia. These changes should seek to allow SA Power Networks the discretion to choose when outsourcing to third-parties will produce the best service and efficiency outcomes for customers.

Our recommendations are on the basis that:

- SA Power Networks' involvement in SAPS services over the next decade will provide the best outcome for customers with respect to the cost efficiency and performance of these services where we are permitted to source these services as flexibly as possible. Over this period of time, there is unlikely to be effective competition in South Australia for providing SAPS services, noting that:
 - candidate sites for SAPS supply will likely be geographically dispersed throughout our state-wide distribution network;
 - under the AEMC framework, SAPS energy supply must conform to distribution network service standards so that customers experience no deterioration in their current service levels. Service providers will also need to put in place quite complex commercial constructs involving multiple parties. The willingness of third-parties to establish such arrangements and comply with stringent technical and service requirements is unlikely to occur until the market is of sufficient size and scale; and
 - with these factors combined, we expect it will be unlikely that a third-party can install and provide ongoing maintenance / support for SAPS as efficiently as ourselves, given that we can draw on our existing regional field crews and economies of scale and scope.
- regulatory framework changes that would have the effect of providing exemptions from the Ring-Fencing Guideline would:
 - avoid unnecessary administrative costs and delays associated with the cumbersome waiver process, where it is clearly preferable for SA Power Networks to be involved in SAPS supply;
 - ensure energy supply to customers is restored as quickly as possible, in cases where SAPS may be provided following an emergency event such as a bushfire or storm damage;
 - provide greater regulatory certainty for SA Power Networks to invest, train staff and purchase inventory for SAPS supply, also avoiding delays in SAPS deployment;
 - represent a practical way of recognising that it cannot be presumed that SAPS services will always be efficiently and prudently provided by a third-party; and
 - not present any harm to long-term prospects for competition, noting that an exemption does not provide SA Power Networks with exclusivity in SAPS service provision and there are already a broad range of existing regulatory safeguards for competition.⁵

⁵ Harm to emerging competition in South Australia will be avoided by: exemptions not providing SA Power Networks with exclusivity in SAPS services over third-parties; the largest market for SAPS will likely remain the unregulated market for greenfield applications (third-party led); SA Power Networks will be guided by incentive regulation (in the National Electricity Rules) to use third-parties if efficient; minimising barriers to SA Power Networks' deployment of SAPS will increase the size of the market; and SA Power Networks deployment of SAPS can be publicly reported, audited and reviewed by the AER.



3. Existing remote-area sites

A number of regional and remote communities in South Australia have for some time already been supplied energy from SAPS, mainly in the form of small-scale micro-grids, operated by parties which include local councils.⁶ We consider there could be value in the Department considering:

- the potential value in transitioning these sites from current jurisdictional regulation into the national SAPS framework under the National Electricity Rules (NER) and National Energy Retail Rules (NERR); and
- the potential to deem that these sites form part of the distribution network / system and distribution services,⁷ where this is supported by the existing service providers / councils at these sites. This would provide customers on these systems with expanded choice as well as full coverage and protections of the national regulatory framework.

⁶ These sites are identified in reports prepared by the Essential Services Commission of South Australia (ESCoSA). ESCOSA, *Off-grid Energy Networks Regulatory Performance Report 2019-20*. Accessible on: www.escosa.sa.gov.au

⁷ Defined as distribution services for the purposes of the NER and National Electricity Law (NEL).

