



4 October 2016

COAG Energy Council Secretariat  
GPO Box 9839  
Canberra ACT 2601

via email: [energycouncil@environment.gov.au](mailto:energycouncil@environment.gov.au)

Dear COAG Energy Council Secretariat

RE: COAG ENERGY COUNCIL ENERGY MARKET TRANSFORMATION PROJECT TEAM –  
STAND ALONE ENERGY SYSTEMS IN THE ELECTRICITY MARKET, CONSULTATION ON  
REGULATORY IMPLICATIONS

Endeavour Energy welcomes the opportunity to provide feedback on the Energy Market Transformation Project Team's (EMTPT) Consultation Paper on Stand Alone Energy Systems in The Electricity Market.

The Consultation Paper notes the availability of stand-alone systems has evolved dramatically in recent years due to advances in technology, business models and cost reductions. However, the current energy regulatory frameworks set out by the National Electricity Law (NEL) and National Energy Retail Law (NERL) were not designed with these stand alone systems in mind. Given this, the EMTPT are seeking stakeholder views on whether the existing energy regulatory framework is fit for purpose to accommodate these developments.

Endeavour Energy acknowledges that the energy market has become highly dynamic which makes it difficult to maintain a regulatory framework that provides both certainty and flexibility. We consider that the Distribution Network Service Provider (DNSP) model identified in the Consultation Paper (primarily to supply remote or edge of grid areas) should be supported by the regulatory framework. DNSPs can support the efficient use of off-grid technologies and solutions through their network planning knowledge and expertise, access to capital and ability to innovate and pricing signals.

To support the DNSP model, Endeavour Energy considers the regulatory framework should remain service based and seek to promote the most beneficial outputs for all energy consumers, rather than trying to define inputs. However, as outlined in the Consultation Paper, the current regulatory framework is unclear if this can occur, thus potentially creating a barrier to the use of stand-alone energy solutions to enhance the long term interest of all consumers. We consider any ambiguities or definitional issues within the Rules should be addressed to ensure that DNSPs are not restricted from deploying stand-alone systems where this represents the most efficient means of providing a network service (typically fringe-of-grid) and include these costs in their regulatory determination, where they may produce the most economically efficient outcome in replacing or providing a network service. The question of whether these costs should be capitalised will depend on the least cost option between leasing and owning the asset. This decision by the DNSP will be subject to review by the AER at the time of a determination.

The ability to utilise stand-alone systems to service remote areas will help reduce network costs and subsidies between customer groups. If the DNSP model is not available we will instead be required to sustain more expensive network based solutions, or provide extreme price signals through our distribution prices or connection costs, whilst relying on the customer to seek a stand-alone system from the other market models, many of which will take several years to develop or elect not to service remote areas. We therefore consider enabling the DNSP model (and others) will be most beneficial to customers in the long term.

It is noted that other Government agencies, in addition to the COAG Energy Council, are establishing and/or reviewing interrelated regulatory energy economic policy. For example:

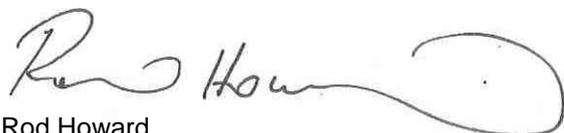
1. The Australian Energy Regulator (AER) Ring-Fencing Guideline – The Ring-Fencing Guideline, which comes into force on 1 December 2016, will determine what energy services can be provided by DNSPs, including stand alone systems, or will need to be provided by a separate entity, albeit a separate entity of the DNSP.
2. Contestability of energy services rule change request currently pending on the Australian Energy Market Commission's (AEMC's) website – The rule change proposes amendments to the service classification framework for technologies in contestable markets and as such the regulatory framework that will apply to them for the DNSPs upcoming determination period. This could potentially include stand-alone systems.
3. Alternatives to grid-supplied network services rule change request also pending on the AEMC's website – The rule change proposes amendments to the definition of distribution service in the National Electricity Rules (NER) to clarify the scope of what constitutes a distribution service. Again, this could include stand-alone systems.

It is imperative that consistent policy outcomes are achieved from these various reviews that produce service based regulatory outcomes that seek to promote the most beneficial outputs for all energy consumers, rather than trying to define inputs. This will be in the long term interests of consumers with regard to the price, quality and reliability of electricity and gas services as it does not focus on inputs that restrict market participants from deploying efficient technological solutions.

Finally, we acknowledge the risk of split incentives for other stand-alone ownership models (such as the landlord model) as identified by the EMTPT. Broadly, we consider commercial agreements between customers and providers with appropriate levels of information disclosure regarding costs, service levels and dispute resolution mechanisms are appropriate. However, we defer to the views of impacted stakeholders, such as consumer groups, as to how the issue of consumer protections can best be addressed and whether the non-DNSP operational models should be directly regulated under the rules to provide appropriate protections and oversight. As a matter of principle we consider the costs of any measures put in place should be borne by the party which gives rise to the risks. This means any distributor of last resort style solutions should be funded by stand-alone providers through an insurance scheme rather than passed through to the customers of a DNSP.

If you have any queries or wish to discuss this matter further please contact Jon Hocking, Manager of Network Regulation at Endeavour Energy on (02) 9583 4386 or via email at [jon.hocking@endeavourenergy.com.au](mailto:jon.hocking@endeavourenergy.com.au).

Yours sincerely



Rod Howard  
Acting Chief Executive Officer