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Rebecca Knights

Energy and Technical Regulation Division
Department of Energy and Mining
Government of South Australia

Submitted by email to: demsanenwg@sa.gov.au

20 August 2021

Dear Ms Knights

Stand-alone Power Systems – South Australian Implementation

AGL Energy (**AGL**) welcomes the opportunity to respond to the South Australian (**SA**) Government's Consultation Paper on Stand-alone Power Systems – South Australian Implementation, July 2021.

Strategic direction

We are generally supportive of the national regulatory framework¹ that was developed by the Australian Energy Market Commission (**AEMC**) to facilitate the transition towards stand-alone power systems (**SAPS**) (**National Framework**). We consider the National Framework will support greater optionality in efficient alternatives to traditional electricity supply arrangements. This approach ensures energy consumers have access to more reliable and affordable energy supply, particularly where the costs of providing grid-connected services may be high, for example in remote locations and areas which are difficult to access or susceptible to bushfires.

At the same time, the National Framework focusses on maintaining competitive solutions in generation and retail services for those consumers who transition to SAPS, which the AEMC consider fundamental to ensuring cost competitive outcomes for consumers. The National Framework limits distribution networks' ability to provide SAPS generation services through the Australian Energy Regulator's (**AER**) Electricity Distribution Ring-fencing Guideline (**Ring-fencing Guideline**) and the proposed exemptions framework.²

While these measures provide reasonable safeguards to ensure energy consumers do not pay more than they have to for energy supply, we consider that additional safeguards are required to ensure the Ring-fencing Guideline exemptions framework is complemented and reinforced against high cost and inefficient network investments and/or favour investment proposals from affiliated ring-fenced entities to the detriment of consumers.

The Ring-fencing Guideline provides a fundamental safeguard to ensure a level playing field so that new participants and business models can fairly compete in delivering cost effective energy solutions. Against the

¹ See AEMC, Updating the regulatory frameworks for distributor-led stand-alone power systems, Available at <https://www.aemc.gov.au/market-reviews-advice/updates-regulatory-frameworks-distributor-led-stand-alone-power-systems>.

² See AER, Electricity Ring-fencing Guideline Review, Available at <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/electricity-ring-fencing-guideline-review/aer-position>.



backdrop of technology advancements that can provide multiple services both in contestable markets and to support the ongoing security and operation of local distribution networks, we believe a competitive-based approach is best placed to support efficient outcomes, including energy storage solutions, for the benefit of all consumers.

Accordingly, we believe the policy focus should be on strengthening and improving the effectiveness of the ring-fencing framework and implementing complementary reforms to support the development of a more mature market for distribution network services. Complementary reforms should require distribution networks to openly and transparently procure network services and provide relevant data and information to other market participants about applicable system and voltage constraints.

Additional safeguards

In our recent experience with distribution network tenders for SAPS generation services across the NEM and WEM, we have observed a high level of disparity in the probity measures employed by distribution networks to ensure fair and competitive outcomes in their assessment of market tender proposals. This risk is amplified in circumstances where networks are assessing proposals from their affiliated ring-fenced entities.

As we observed in our recent submission to the AER's Electricity Ring-fencing Guideline Review,³ we consider that tenders awarded by a distribution network to its ring-fenced entity should be subject to a rigorous level of regulatory oversight, based on the asymmetric information advantage networks have via their natural monopoly business structure, to ensure these proposals are supporting the most efficient outcomes.

We would therefore recommend the SA Government implement the following additional safeguards to complement the Ring-Fencing Guidelines:

- Require that distribution networks appoint an objective probity officer to facilitate the assessment of tender proposals;
- Require distribution networks publish sufficient locational information to enable competitive market proponents to develop cost competitive proposals; and
- Require that all contractual information with respect to these tenders be provided to the Department for review.

Should you have any questions in relation to this submission, please contact Kurt Winter, Regulatory Strategy Manager, on 03 8633 7204 or KWinter@agl.com.au.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Elizabeth Molyneux'.

Elizabeth Molyneux

GM Policy and Markets Regulation

³ See AGL Submission to AER Draft Electricity Ring-fencing Guideline (8 July 2021), Available at <https://www.aer.gov.au/system/files/AGL-%20Electricity%20Distribution%20Ring-fencing%20Draft%20Guideline%20Submission%20-%202018%20July%202021.pdf>.