

1st July 2022

By email to: AERregulatedSAPS@aer.gov.au

Updating instruments for regulated stand-alone power systems

PIAC welcomes the opportunity to provide feedback on the AER's draft updated guidelines to accommodate regulated stand-alone power systems (SAPS). Our feedback on each of the six guidelines follows.

Regulatory Investment Test for Distribution Application Guidelines, and Regulatory Investment Test for Distribution (2 documents)

RIT-D threshold

The requirements of many network investments below the current RIT-D threshold (\$6 million) at the fringe of the electricity grid could be more cost-effectively met with one or more SAPS. PIAC recommends a change to the RIT-D threshold calculation to reflect the potential cost savings of SAPS. This threshold would take effect where capital expenditure (Capex) of a network solution is potentially higher than the Capex and operational expenditure (Opex) over the asset life of equivalent SAPS.

While a standard household SAPS has a capital cost of around \$50,000, it is reasonable to expect regulated SAPS to cost substantially more. Including the operational and maintenance costs, the total life-cycle cost of a regulated SAPS asset for a typical remote all-electric home will typically be in the order of \$200,000 over about 25 years.

PIAC recommends that the RIT-D threshold for fringe-of-grid network investments below \$6 million be revised to: *\$200,000 (or other appropriate value reflecting the cost of SAPS) per customer supplied by that network investment.*

Market benefits

Any market benefits assessment involving one or more SAPS should include comparison of SAPS Opex with any wholesale energy costs, including system losses, avoided by that SAPS.

Reliability outcomes

PIAC recommends the reliability value of one or more SAPS should include any improvements to reliability:

- for individual SAPS customers, including avoided GSL payments,
- at a feeder level, particularly for worst-served feeders, and
- across the DNSP's system as a whole, with consideration of STIPS outcomes.

Connection Charge Guidelines

PIAC supports the proposed amendments to this guideline and recommends making one clarification.

Regulated SAPS should only be supplied to customers with a pre-existing network connection. The draft guideline could be interpreted to suggest DNSPs are able to supply SAPS for new customers, which is not the intention of the SAPS rule change. Providing regulated SAPS to new customers does not avoid costs of network asset replacement, so would result in inappropriate cross-subsidies from DNSP's other customers. New builds in regional and remote areas will continue to have the option of installing their own SAPS (or paying for a connection to the local distribution network, where available), according to the relative costs and their own preferences.

PIAC recommends using language that clarifies regulated SAPS will only be an option to supply existing customers of the DNSP.

Distribution Service Classification Guidelines

PIAC supports the proposed amendments to this guideline.

Distribution Reliability Measures Guidelines

PIAC broadly supports the proposed amendments to this guideline, with two recommendations.

Definitions

PIAC recommends the definition of a feeder (page 5) be amended to clarify a SAPS in entirety is equivalent to a feeder, and a SAPS sub-component is not. The proposed definition of a feeder could be interpreted to suggest 'part of' a regulated SAPS could be considered a feeder. Clarification is needed so a failure of only part of a SAPS is not considered an outage for reliability purposes where it does not result in a loss of supply to the customer.

Exclusions

It is unclear why SAPS are an exception for exclusions 1, 2 and 3 but not 4 and 5. None of these outages would have any bearing on a SAPS, as SAPS are not connected to the transmission system or the market. PIAC recommends the AER makes these consistent or clarify the reasoning for the differential treatment of these exclusions.

Expenditure Forecast Assessment Guideline

PIAC supports the proposed amendments to this guideline.

PIAC welcomes the opportunity to discuss these matters further.

Yours sincerely,

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