

13 March 2018

Mr Chris Pattas
General Manager, Networks
Australian Energy Regulator
Melbourne VIC 3001

Dear Mr Pattas

AER issues paper – service classification and asset exemption guidelines

SA Power Networks welcomes the opportunity to comment on the AER's issues paper on the new Service Classification and Asset Exemption Guidelines. The issues paper is very broad and does not set out views on the AER's intended approaches. Therefore, at this stage we limit our comments to some discreet topics, but look forward to engaging further with the AER as it develops these guidelines.

Service Classification Guideline

A guideline could assist in streamlining and facilitating stakeholder engagement on this somewhat obscure aspect of regulation. However, we consider that:

- The main potential for harmonisation across jurisdictions is in the terminology applied to describe services that are to be classified.¹
- Harmonising service classifications across jurisdictions can be beneficial to the extent that it pertains to the coverage of Standard Control Services (SCS). This would promote consistent reporting and comparisons between distributors via benchmarking.² However, it is imperative that due consideration be given to jurisdiction or distributor specifics warranting different service classifications—this includes differences in legislative / jurisdictional requirements, or in the market characteristics of the service in question, such as the extent of prevailing competition / contestability or negotiating power of customers. Market conditions can differ significantly across jurisdictions, with connection services being a prime case in point.
- The form of regulation factors are sufficiently clear and do not require further interpretation with respect to how they should be applied to identify the market characteristics of different services.
- There might be merit in providing some guidance on the AER's interpretation of what comprises an unregulated distribution or non-distribution / non-electricity service, given the implications that these different terms have for ring-fencing requirements. However, any guidance must be kept non-prescriptive and also allow flexible consideration of new services as they arise within a regulatory control period. Given the pace of technology change, it is difficult to predict, ahead of a five-year regulatory period, the full extent of possible unregulated services.
- With respect to the coverage of distribution services, we urge the AER to consider the increasing potential for assets within the distribution network to be used and configured in a way that might assist in managing issues outside of the distribution network to the benefit of all electricity customers. The AER's issues paper refers to the use of voltage regulation equipment on the distribution network to assist in ancillary services markets. There might be other measures that distributors could compete with other providers on a fair basis in order to assist in managing broader wholesale market system issues and these opportunities should not be unreasonably constrained.

¹ In our Framework and Approach (F&A) initiation letter to the AER, we have as far as practical sought to replicate the terminology applied by the AER in its recent F&A decisions for other distributors. SAPN, *Request to replace Framework and Approach*, 31 October 2017. Accessible on the AER website: [<https://www.aer.gov.au>].

² The AER uses benchmarking of operating expenditure as an input to its decisions on forecast operating expenditures applying to Standard Control Services.



Asset Exemption Guideline

In developing an Asset Exemption Guideline pertaining to assets located behind a retail customer's connection point, the AER should:

- Be clear on the information required of distributors in applying for exemptions and the principles upon which applications will be assessed by the AER. It is imperative that this occur as soon as possible given the timing of our next regulatory determination for the 2020-25 regulatory period.³
- In assessing exemption applications, not limit consideration to whether the service to be provided by the asset in question is competitive / contestable. Consideration should also be given to:
 - whether the desired investment by a distributor is reasonably likely to affect competition. There are a range of conceivable ways in which distributors could efficiently partner with unregulated firms to co-invest in assets such as Distributed Energy Resources (DER). Partnerships between firms operating in different parts of the electricity supply chain could become ever more critical as challenges and opportunities arising from renewables increasingly cut across different parts of the supply chain. Providing these partnering agreements have been entered into on an arms-length and non-discriminatory basis, there is no reason why broader competition would be affected; and
 - the likely cost impacts on customers in the short and long term under different scenarios. It is not appropriate to reject a distributor's exemption application (which could otherwise achieve cost reductions for customers) on the basis of promoting long term potential for competition as the AER suggests. Any consideration of long term potential for competition should consider cost impacts on customers based on some form of cost assessment rather than just theory.

If you wish to discuss any of our comments further, please contact Bruno Coelho on 08 8404 5676.

Yours sincerely



Wayne Lissner

Head of Regulation

³ SA Power Networks regulatory proposal is due to the AER by 31 January 2019.