



INFORMATION PAPER

Stand-alone Power Systems (SPS)

Electricity Industry Regulations Amendment (Stand-Alone Power Systems) Regulations 2021

The Minister for Energy has given approval to draft:

- amendments to the Electricity Industry (Licence Conditions) Regulations 2005 (Licence Conditions Regulations) to ensure that Western Power and Horizon Power develop a customer engagement strategy for SPS customers; and
- amendments to the Electricity Industry (Obligation to Connect) Regulations 2005 (OTC Regulations) to ensure they apply appropriately to SPS, and to grandfather certain provisions over removed poles and wires.
- These amendments are included in the Electricity Industry Regulations Amendment (Stand-Alone Power Systems) Regulations 2021 (Amendment Regulations).

Background

In the right circumstances, SPS are more cost-effective, safer, and more reliable than traditional network infrastructure. This is particularly relevant in regional and remote locations where the cost to supply electricity is high and customers are likely to experience substandard power reliability.

While significant opportunities exist for SPS as a network alternative, the regulatory and policy framework was not designed to govern supply through an SPS. Energy Policy WA has recently progressed several initiatives to address legislative and regulatory barriers which include:

- amendments to relevant energy legislation through the *Electricity Industry Amendment Act 2020*;
- changes to the Electricity Networks Access Code 2004 (Access Code) to support Western Power's use of SPS and allow for the recovery of efficient expenditure through regulated network tariffs; and
- a comprehensive review of all relevant regulatory instruments and policies to ensure adequate provision for SPS.

Customer engagement provisions for SPS customers

Overview

Recent amendments to energy legislation include the insertion of an explicit statutory function, under section 41 of the *Electricity Corporations Act 2005* (Corporations Act), to confirm Western Power's ability to provide SPS in a like manner to existing electricity networks.

Prior to the amendments to the Corporations Act, customers could technically 'opt in' to receive an SPS, and therefore had a choice as to whether they received electricity through an SPS or poles and wires. The confirmation of a statutory function to provide SPS means that Western Power's use of SPS transitioned from an explicit consent model to an 'automatic' rollout.

This means that a customer no longer has the option to receive a poles and wires supply where an SPS has been identified as a preferred network solution, and Western Power has the authority to remove the de-energised part of the network.

Given that Western Power is no longer required to obtain explicit consent to transition a customer to an SPS, and because SPS service provision is new to the customer experience, Energy Policy WA recommended to the Minister for Energy that Western Power and Horizon Power be required to establish a comprehensive customer engagement strategy.

SPS customer engagement obligations

Western Power and Horizon Power already undertake high levels of customer engagement when they seek to transition customer supply arrangements to SPS, and it is in their interests to ensure that customers are well informed.

Notwithstanding this, as a supply arrangement, SPS is still relatively new and a level of oversight of the customer engagement process is required to ensure that customers have access to comprehensive and consistent information about the service they can expect to receive.

Changes to the Licence Conditions Regulations will require both Western Power and Horizon Power to develop a comprehensive SPS Customer Engagement Strategy (Strategy) for the Minister for Energy's approval and publication on their respective websites. The Strategy will need to be reviewed at least every two years, recognising that changes may be required to reflect customer experience.

The Strategy must, at a minimum, include the following:

- protocols for engagement with customers and potential customers; and
- information for customers and potential customers in relation to the provision of SPS, including:
 - the basic specifications of the SPS available;
 - a description of the process of installing an SPS and the services to be provided by it;
 - a description of a customer's obligations in relation to an installed SPS;
 - a description of a customer's consumer rights in relation to the provision of an SPS and the services provided by it;
 - indicative costs for upgrading an installed SPS; and
 - contact details of the corporation's customer and fault services and the electricity ombudsman (as defined in section 92(1) of the Electricity Industry Act 2004).

Part 2 of the Amendment Regulations amend the Licence Conditions Regulations to provide that it is a condition of the distribution licence held by Western Power and Horizon Power to have a Strategy.

An accessible and comprehensive Strategy will not only benefit SPS customers, it will also provide private service providers and customer protection bodies with clarity and transparency regarding Western Power's and Horizon Power's approach in relation to SPS provision.

Connection obligations in an SPS context

Overview

Energy Policy WA's review of regulatory instruments included reviewing the application of the OTC Regulations in an SPS context. Under the OTC Regulations, distributors must connect a customer's premises to a distribution system if it is within 100 metres of the distribution system and a distributor may charge the customer the amount that it would cost to make the connection.

In simple terms, the OTC Regulations give customers whose premises are within 100 metres of the network the right to: request a connection (and receive a quote); and receive a connection (if they are willing to pay).

Without amendments to the OTC Regulations, the removal of poles and wires and provision of an SPS may mean that certain customer provisions and network operator obligations under the OTC Regulations would cease to exist for some customers. The amendments to the regulations are summarised as follows:

- **Obligation to Connect** – the obligation to connect is grandfathered over removed network infrastructure (poles and wires) for a period of ten years from removal (Western Power and Horizon Power customers only).
- **Price capping** – an SPS connection, provided at either a network equivalent cost or SPS cost (whichever is lowest), must be offered to customers located within 100 metres of poles and wires that are scheduled to be removed, for a period of two years from customer notification of the removal of poles and wires (Western Power and Horizon Power customers only).
- **Method of supply** – a distributor has the right to determine the method of electricity supply (either through SPS or poles and wires).
- **Augmentation costs** – customers must pay for any SPS augmentation to accommodate an increased load (as per current arrangements for grid connected customers).
- **Timeframes** – a prescribed timeframe is set for distributors to respond to an SPS connection request.
- **Notification requirements** – a distributor must adhere to customer notification requirements when it proposes to decommission a distribution system (Western Power and Horizon Power customers only).

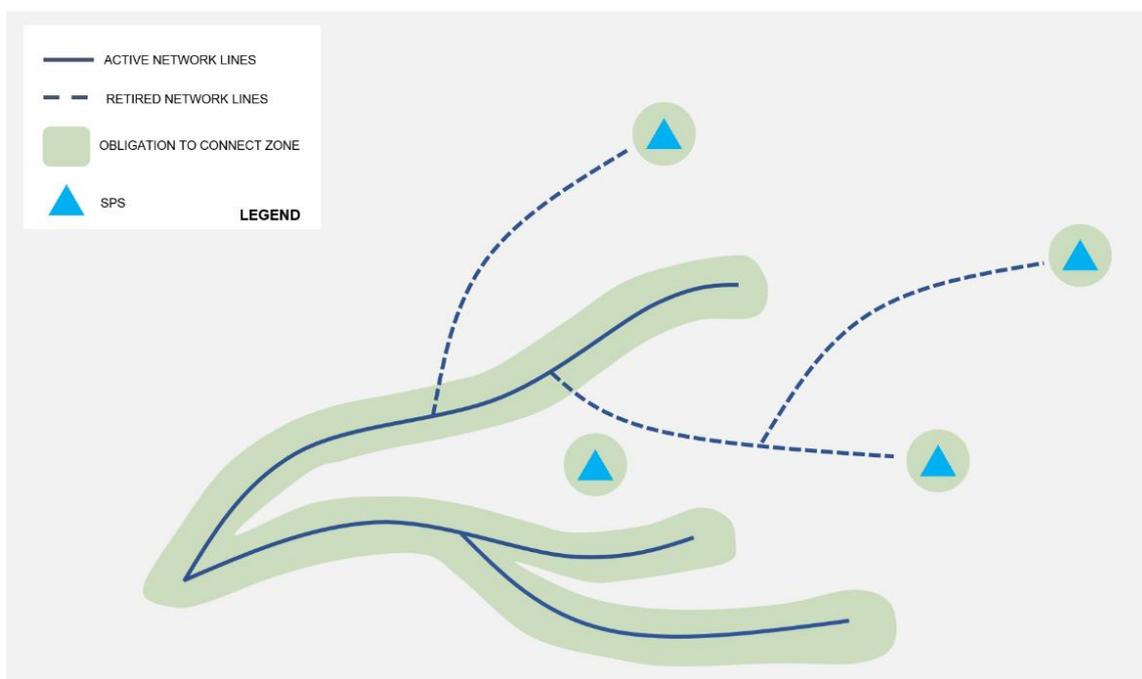
Obligation to Connect

The application of the OTC Regulations in an SPS context, where traditional network infrastructure has been removed, raises a number of issues. If no amendments are made to the OTC Regulations, the following will apply:

- when poles and wires are removed and replaced with an SPS, the distributor will have an obligation to connect a customer's premises if it is located within a 100 metre radius of an SPS; and
- all customers who were located within 100 metres of the poles and wires prior to their removal will no longer be covered by the OTC Regulations, unless they remain within a 100 metre radius of an SPS.

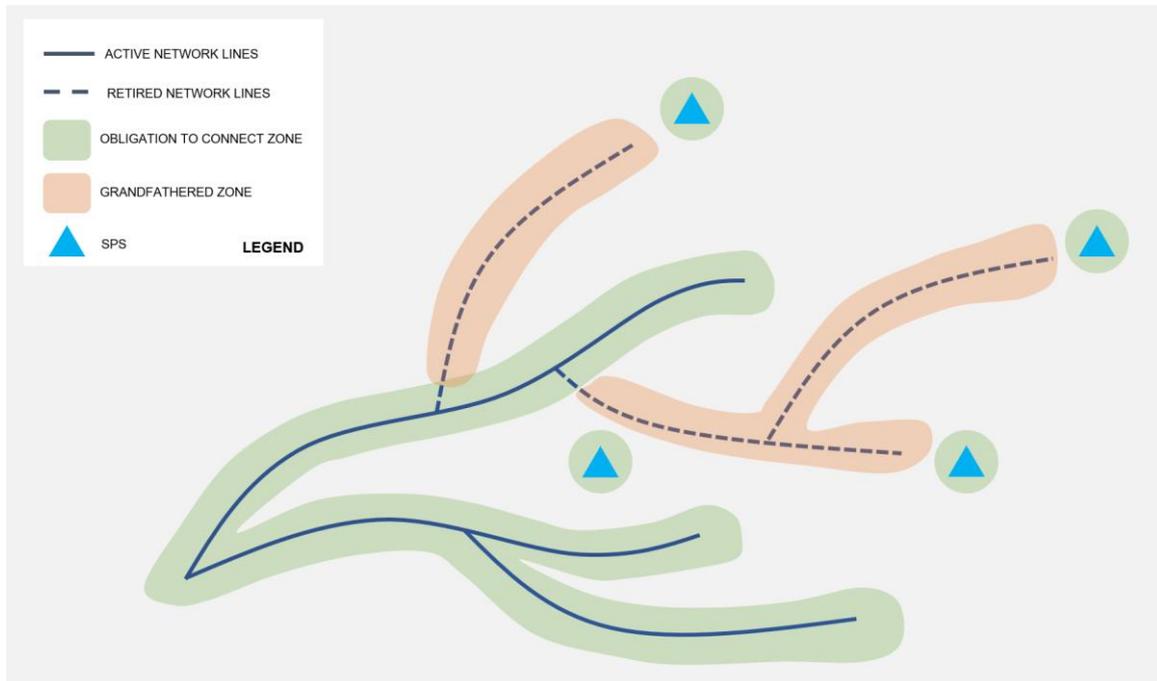
This is demonstrated in Figure 1 below.

Figure 1: Footprint of the OTC Regulations if no change is made



To protect a customer's right to access a connection under the OTC Regulations, where the obligation to connect existed, amendments to the OTC Regulations have been drafted to grandfather the obligation to connect over premises within 100 metres of removed network infrastructure for a period of 10 years, following the removal of the poles and wires (refer to Figure 2).

Figure 2: Footprint of the OTC grandfathered zone



The 10-year grandfathering provision is considered an appropriate timeframe to allow customers to transition to the new arrangements.

It is important to note that grandfathering of the OTC Regulations simply preserves the right to a connection (if the customer pays) and does not include any grandfathering of the cost of that connection.

The issue of cost is discussed below.

Price capping of connection for customers in an SPS context

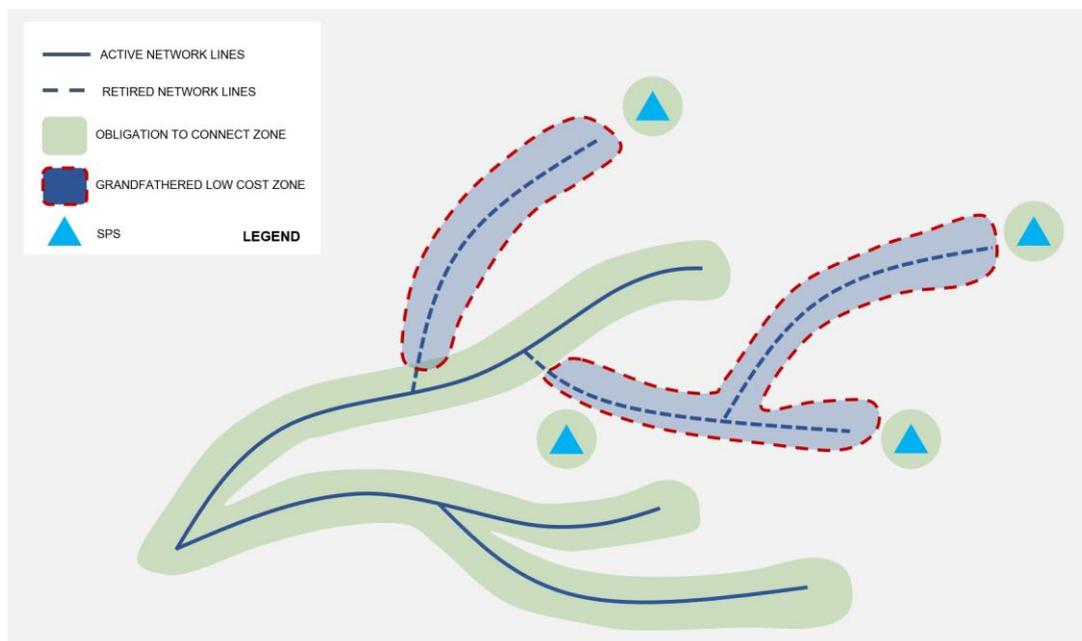
The amount a customer is required to pay for a new or upgraded connection existing under Part 3 of the OTC Regulations is the amount that it costs to “make the connection in the lowest cost way that is sustainable for making connections of that kind and is in accordance with accepted good industry practice as it would be applied by a prudent distributor”.

While there is no ‘one size fits all’ and no guarantee of connection at a low cost, it is reasonable to assume that, in cases where a customer is relatively close to the network, within 25 kilometres of a zone substation, and where the terrain is easy to navigate, they would expect to pay less for a new poles and wires connection than they would for a new SPS. However, once the poles and wires are removed, customers who retain the right to connect will have to pay the full cost for an SPS which, at today's pricing, is approximately \$150,000 to \$200,000.

The proposed amendments to the OTC Regulations (Part 5 of the Amendment Regulations) detail grandfathering provisions that provide a customer the option to receive an SPS at a network-equivalent connection cost (i.e. costings will be based on the position of the poles and wires as if they had not been decommissioned) or the cost of an SPS, whichever is the lowest cost, for a period of two years from first being notified of the intention to remove the poles and wires (refer to Figure 3).

This provision has been drafted to ensure regional customers are not disadvantaged by the rollout of SPS and are given time to transition to the new arrangements.

Figure 3: Grandfathered cost within the Obligation to Connect zone



The policy to grandfather a 'lowest cost' SPS connection (being either a network equivalent cost or SPS cost) will only be available for non-contestable customers (i.e. those customers who use less than 50 MWh per annum) located within 100 metres of network infrastructure scheduled to be removed, for a period of two years from customer notification of removal of the network.

The policy is intended to protect low usage customers (i.e. customers who consume 50 megawatt hours of electricity or less during a year) and does not extend to larger electricity customers.

It is intended that Western Power will be able to recover any cost differential (that is, any difference in cost between the SPS and what a poles and wires connection would have been) through its Regulated Asset Base under the Access Code. The grandfathering provisions made under the OTC Regulations will be administered by Western Power and Horizon Power as the licenced distributors.

Method of electricity supply

Under the current OTC Regulations, distributors such as Western Power and Horizon Power have an obligation to connect a customer to an electricity supply if their premises is within 100 metres of the distribution system and they are willing to pay the cost. Historically, any connection made under the OTC Regulations has been by extension of the poles and wires network.

Proposed amendments to the OTC Regulations (Part 3 of the Amendment Regulations) make it clear that the obligation to connect includes connection through a network connection *or* an SPS, and that distributors can determine what the most suitable connection option is.

The amendments allow a distributor to satisfy an obligation to connect by providing an SPS, even in the case where the distribution system will not be decommissioned, noting that in certain circumstances Western Power may not be able to provide an SPS where other distributors may be able to, for example to serve a large isolated load such as a mining load.

SPS augmentation costs

Under current arrangements, if an existing grid-connected customer requests a distributor augment (upgrade or change) the distribution system to accommodate an increased load, the distributor would charge that customer the cost of the requested augmentation or change.

Amendments to the OTC Regulations (Part 3 of the Amendment Regulations) allow the distributor to continue this arrangement for SPS connections (provided the customer is willing to pay), including scenarios where the customer requests a larger SPS (or any other change), or an SPS rather than a grid connection.

Timeframe for complying with an obligation to connect

The amendments to the OTC Regulations (Part 3 of the Amendment Regulations) set out the timeframe for complying with an obligation to connect if the distributor is satisfying the supply of electricity to the required premises via an SPS.

Without changes, the regulations would require a distributor to attach or connect an SPS within 20 business days, or a later time agreed with the customer. Energy Policy WA understands that, in most cases, the 20-business day timeframe is not practicable for SPS delivery so a revised timeframe of four months for SPS has been proposed, with the option to agree to a later time with the customer.

Notification requirements

The proposed amendments to the OTC Regulations (Part 5 of the Amendment Regulations) include timeframes that a distributor must comply with when it proposes to decommission a distribution system (that is, take it out of use/service).

Western Power and Horizon Power will be required to notify existing customers that the distribution system is to be decommissioned and must also notify potential future customers whose premises are located within 100 metres of the distribution line of their grandfathered rights. These notice requirements only apply to Western Power and Horizon Power customers.

The distributor must undertake this notification process before the distribution system is decommissioned. Where this does not occur – for example, if a customer is inadvertently omitted from the notification process – the decommissioning can still take place but notification for that customer and commencement of the two year pricing capping period is taken to be from the date of decommissioning, to ensure the customer is not disadvantaged by any notification omission or error.

Finally, if there is a new owner of a premises, notice provided to the original owner is taken as sufficient in terms of complying with this obligation. In other words, if there are changes to home ownership there is no further obligation on Western Power or Horizon Power to notify subsequent owners of the premises.

Feedback

Comments on the regulations should be emailed to submissions@energy.wa.gov.au by 27 August 2021.

All submissions received will be published on the Energy Policy WA website unless a specific request for confidentiality is made. If this is the case, please indicate which parts of your submission you wish to keep confidential and if you want to remain anonymous. To protect the privacy of individuals, personal contact details will not be published.

The regulations will be provided to the Minister for Energy for final approval once the public comment period has closed and feedback has been