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Dr. Kris Funston
Executive General Manager Network Regulation
Australian Energy Regulator (AER)
via email: aerinquiry@aer.gov.au

Dear Kris

Draft Shared Asset Guideline – 2025 Stand-Alone Power System (SAPS) Review

Endeavour Energy appreciates the opportunity to provide this response to the AER's Draft Shared Asset Guidelines and the revenue sharing approach that applies specifically to regulated SAPS.

Our comments below respond to:

- the AER's proposed revisions to the Shared Asset Guidelines to give effect to the Australian Energy Market Commission's (AEMC) Regulated SAPS rule change; and
- the AER's invitation to provide feedback on other prospective changes to the Shared Asset Guidelines, given on-going developments occurring as part of the energy transition, to help shape the scope of a future review.

Revenue sharing arrangements should be compatible with the Ring-fencing Guideline and promote the shared asset principles

Under the rule change and exemptions provided under the AER's Electricity Distribution Ring-fencing Guidelines (the Ring-fencing Guidelines), a Distribution Network Service Provider (DNSP) may earn SAPS generation revenue via payments from the Australian Energy Market Operator (AEMO). As the generation assets of the regulated SAPS are fully cost-recovered via a DNSP's Regulated Asset Base (RAB), the AER proposes to require all the SAPS generation revenue to be returned to the DNSP's customers through an offsetting reduction to their regulated revenue allowance.

We note that the AER's draft revenue sharing methodology for regulated SAPS differs from the standard approach applying to other shared assets in that it:

- excludes the materiality threshold required to trigger a revenue reduction; and
- increases the value of the reduction to 100% of the SAPS generation revenue earned.

We understand that amendments to clause 6.6.4(c)(3) of the National Electricity Rules (NER) prevent the AER from applying the materiality threshold to regulated SAPS; however, we query the proposed treatment of SAPS generation revenue as material on the basis that DNSPs incur no extra cost to earn this revenue. In particular, we note that:

- in practice, DNSPs incur new costs beyond those ordinarily required to provide distribution services to receive generation revenue as a result of fulfilling the functions of a SAPS Resource Provider where they are compelled to do so, within the constraints of the Ring-fencing Guidelines, in circumstances where a third-party provider is not able or willing to offer SAPS generation services;[1] and

- for most prospective sites, associated upfront and ongoing enablement costs will be minimal. However, as they are likely to substantially exceed expected generation revenues, we are concerned that the proposed approach by the AER is likely to deter network investment in SAPS.

With respect to the revenue adjustment amount, we note that the AER has elected to maintain the AEMC's transitional arrangements, requiring net generation revenue from the previous regulatory control period to be deducted in the first year of the proceeding regulatory control period if it is positive.[2] We agree a backward-looking calculation would be simple to apply and avoids uncertainties associated with forecasting generation revenue that is sensitive to the market-based SAPS settlement price and SAPS uptake which is currently lower than initially expected across the NEM.

As net generation revenue is not defined in the NER, the AER has proposed to define it as the amount a DNSP receives for the production of electricity for supply in a regulated SAPS that is sold through a market.[3] To avoid any confusion or ambiguity, the AER has indicated this means they will reduce a DNSP's revenue allowance by the total amount of SAPS generation revenue received from AEMO. However, we are concerned that this approach fails to account for the aforementioned incremental costs attributed to the collection of SAPS generation revenue and, in effect, applies the conventional definition of gross revenue in contrast with the AEMC's intention for net revenue to apply.

This is demonstrated by the inclusion in the transitional rule of the "net positive" qualifying condition for a revenue adjustment which suggests the AEMC contemplated an alternate "net negative" scenario where SAPS generation costs exceed revenues for which a revenue reduction would not apply. We note also that the AER's draft approach does not consider any offsetting financial outflows to AEMO, which the AEMC explicitly recognised and required that the AER accommodate in its update of the Shared Asset Guidelines.[4]

> *"…as the financially responsible market participant for the distribution system, the DNSP will earn revenue from the sale of electricity to the market under Chapter 3. The calculations are in clause 3.21.3 and provide for payments by AEMO for electricity generated by a generating system in a regulated SAPS and for payments to AEMO where the generating system is consuming electricity, for example if it is charging batteries using electricity produced elsewhere in the regulated SAPS."*

In addition, returning all SAPS generation revenue to customers appears to be inconsistent with the Ring-Fencing Guidelines which permits individual DSNPs to provide SAPS generation services up to their allotted revenue limit without a waiver. Neither the Ring-fencing Guidelines nor explanatory statement (to version 3) contemplated that these earned revenues would then be entirely returned to customers via a Shared Asset Guideline adjustment. If all of the net positive revenue were to be shared with customers (such that customers are the sole beneficiary of SAPS), there would not seem to be any ongoing value in limiting a DNSP's capacity to provide SAPS – and so no need for both measures to operate simultaneously.

Our interest in SAPS relates to service improvement and cost reduction opportunities, with the commercial opportunity of earning SAPS generation revenue being inconsequential. This is because DNSP-led SAPS present an opportunity for networks to improve service quality to remote customers, while also reducing bushfire risk and network operation and maintenance costs. The latter savings represent a substantive opportunity for customers, particularly of rural DNSPs, where the costs of the SAPS represent a fraction of

[1] These include but are not limited to metering services costs, administration costs, account establishment and system integration costs for settlement purposes.

[2] NER, cl. 11.142.5(d)

[3] AER, Draft Shared Asset Guidelines - Regulated SAPS Review, Explanatory Statement, March 2025, p.5.

[4] AEMC, Updating the regulatory frameworks for distributor-led stand-alone power systems, Final report, 28 May 2020, p.138.

the costs of a traditional network supply model. The SAPS generation revenue may amount to hundreds of dollars in comparison to network cost savings of several hundred thousand dollars.

Given this context, and noting that it would seem consistent with the intent of the rule change to incentivise DNSPs to implement SAPS to reduce network costs and improve service quality, we recommend that the AER:

- use the discretion given to it by the AEMC to apply a revenue sharing arrangement which incentivises DNSPs to use SAPS assets to reduce network costs and improve service quality in accordance with the AEMC rule change, and generate unregulated revenues consistent with the existing shared asset principles in the NER; and
- consider whether the SAPS revenue generation threshold in the Ring-Fencing Guideline remains necessary and/or accurate.

We welcome a broader review of the Shared Asset Guidelines

The AER has previously flagged an intention to conduct a broader review of the Shared Asset Guideline. We remain supportive of doing so and consider a review would be appropriate as the role of DNSPs evolves to that of a distribution system operator (DSO) in two-sided energy markets. The Shared Asset Guideline was originally developed at a time when pole and land rental were the expected use cases of the guideline (with particular regard to the pending National Broadband Network rollout at the time).

We estimate that over $84M ($M; FY24) of revenue has been shared with customers across the National Electricity Market since the introduction of the Shared Asset Guideline. This is a positive outcome for customers and should be encouraged to help alleviate electricity cost pressures, particularly as these opportunities may increase as the role of networks evolves. For example, we consider there to be material opportunities for networks to provide access to network assets, including:

- community battery capacity;
- network control assets (e.g., to provide system support services); and
- kerbside network assets for EV charging infrastructure.

We consider that customers stand to benefit from incentive structures that encourage networks to better utilise existing assets. Our view is that regulatory controls such as cost allocation and revenue sharing can better promote the interests of customers by preventing cross subsidies and providing a financial benefit to customers, rather than the use of ring-fencing waivers (for example, as have been applied to community batteries as the preferred regulatory treatment). In addition, cost allocation and revenue sharing would be better suited to encouraging innovation and effective partnering between DNSPs and third parties to unlock the full value of network assets.

Consistent with the shared asset principles, specifically 6.4.4(c)(1), DNSPs should be encouraged to use assets that provide standard control services (SCS) for the provision of other kinds of services where efficient to do so and the use does not materially prejudice the provision of SCS. Accordingly, we recommend that the AER conduct a broader review of the guideline to consider whether the Shared Asset Guideline remains fit-for-purpose in light of the energy transition and if there are opportunities to promote DNSPs exploring innovative and commercial opportunities to the benefit of customers.

We would be happy to discuss the matters in our submission further. If that would be of assistance, please contact Emma Ringland, Head of Regulation & Investments at Endeavour Energy, via email at [redacted]

Yours sincerely

[redacted]

Francoise Merit
Chief Financial Officer