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30 April 2025

Dr Kris Funston
Australian Energy Regulator
GPO Box 3131
Canberra Act 2601

Dear Dr Funston

Subject: Submission on Draft Shared Asset Guideline – 2025 SAPS Review

Essential Energy welcomes the opportunity to respond to the Australian Energy Regulator's (AER) Draft Shared Asset Guideline (SAG or the Guideline) for the 2025 Stand-alone Power Systems (SAPS) review, published on 24 March 2025. As the operator of one of Australia's largest electricity distribution networks, Essential Energy's network covers 95% of NSW and serves over 900,000 customers across regional, rural, and remote New South Wales and parts of southern Queensland. Essential Energy's long, stringy network includes many high cost-to-serve customers in remote locations, making them optimal candidates for SAPS installations to improve reliability and reduce network costs.

Essential Energy forecast in its 2024-29 regulatory proposal it would install approximately 400 SAPS during the regulatory period to deliver consumer benefits through efficient alternatives to traditional grid connections.[1] However, the restrictive nature of the SAPS regulatory framework, including stringent opt-in provisions, and metering issues[2] has prompted Essential Energy to re-evaluate the deliverability of its SAPS. Emerging data highlights challenges with costs, Australian standards, and regulatory requirements, which are shifting the economic viability of SAPS.

These challenges are partially reflected in the minimal revenue generated to date. With Essential Energy completing only two systems since the Amending SAPS Rule came into effect, its SAPS Register reports total revenue of $639.43 for the 2023-24 financial year and $74.35 in Q1 of the current calendar year.[3] Essential Energy acknowledges achieving 100 times this level of installations in the 2024–29 regulatory period is potentially unlikely. Consequently, the revenue available to share with consumers from SAPS installations is expected to be minimal, while administrative burdens associated with being a market registered SAPS Resource Provider significantly exceeds the value shared. These challenges, combined

[1] Essential Energy, 2024-29 Regulatory Proposal, January 2023, p. 49.
[2] SAPS are required to have type 1-4 meters with remote communication capabilities but are located in areas with sparse mobile communications. Costs to install satellite communication devices to facilitate remotely read meters per installation approximate $5000 with annual operating costs exceeding $2000. AEMO has a rule change pending to address this issue. is proposing a rule change to address this issue. [Link to proposed rule change](#).
[3] Essential Energy SAPS register: [SAPS-Register.pdf](#)

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with the proposed definition of "net positive generation revenue" in the draft SAG further impacts on the investment incentive for SAPS.

Essential Energy is committed to delivering affordable, reliable, and efficient electricity services in the long-term interests of consumers, consistent with the National Electricity Objective (NEO). In this regard, Essential Energy believes there is an opportunity for the AER to undertake a comprehensive SAG review following the amendments for SAPS purposes, to ensure distribution assets maximise consumer value. Our detailed feedback and recommendations follow.

DEFINITION OF "NET POSITIVE GENERATION REVENUE"

Essential Energy has concerns regarding the draft SAG's definition of "net positive generation revenue" as equal to all "*revenues received by the Australian Energy Market Operator for the production of electricity for supply in a regulated SAPS that is sold through a market*". This definition assumes that "net" is equal to "gross". In doing so, it assumes that there are no costs attributable to the generation and collection of revenue as a registered SAPS Resource Provider.

As one of the first distribution businesses to register with AEMO as a SAPS Resource Provider, Essential Energy incurs costs related to the collection of generation revenues from SAPS that it does not incur in its role as a distribution network service provider. These include:

- Setup costs: Austraclear account establishment and system integration for settlement purposes
- Contracts with contestable metering coordinator, provider and data agency for the installation of the generation meter and ongoing maintenance of meter at a cost of around $130 a year for each SAPS
- Administration: Compliance, reporting, and maintenance - monthly fees for actual transactions, reports, and tokens held costing $10,800 per annum

In the 2024 calendar year Essential Energy's total costs for the settlement of SAPS generation revenue was $11,700, greatly exceeding the value of the reported revenue of $639.43. Standard accounting defines net revenue as gross revenue minus associated costs, reflecting true economic value of the service provided. The AER's proposed definition of net positive generation revenue is flawed and not aligned with standard accounting principles, which impacts on distributors and consumers. The costs incurred by Essential Energy as a SAPS Resource Provider are real and must be deducted to calculate true net revenue, aligning with the AER's existing revenue-sharing principles for common distribution services.

Reported Revenue vs Settled Revenue

Whilst not a cost, it is important to note there is a difference between reported revenue and settled revenue that is earned by Essential Energy for generation services provided. In the case of Essential Energy SAPS installed, these are systems designed to service single premises, where system generation settled by AEMO may be immaterial in the National Electricity Market. AEMO has sought Essential Energy's agreement to write off small amounts (usually under $10) in its Austraclear account where the cost of trade is greater than the value of the generation revenue.

In practicality, this means Essential Energy forgoes revenue for amounts that are written off by AEMO. As a result, while Essential Energy's reported generation revenue was $639.43 for the 2024 calendar year, the actual amount settled was $604.99, a difference of around 5.7 per cent. While not seemly significant in dollars, this difference will increase with more SAPS installed and highlights potential issues with the AER's proposed definition that need remediation.

Consumer and Distributor Impact

Essential Energy is concerned that if settled revenue and the costs of providing the generation services associated with operating SAPS are not accounted for in the AER's proposed definition, distributors are required to absorb those losses and costs, potentially deterring SAPS investment. Incurring these losses and costs and the potential impact on investment is likely to increase network costs for consumers, which is contrary to the NEO.

Utilising the AER's proposed definition of net positive generation revenue further impacts on distributor costs for operating SAPS. For example, in the 2024 calendar year it cost Essential Energy, and its customers, $11,700 to settle total SAPS generation revenue of $605 resulting in a net loss of $11,095[4]. The proposed definition would increase that nominal loss and inflate it via the Weighted Average Cost of Capital (WACC) and inflation. Whilst Essential Energy supports returning value to consumers, it does not seem reasonable that DNSPs should have to fund the initial loss as well as the inflated return as a deduction to the allowable revenue requirement. The proposed approach goes beyond the principle of "net" which accounts for the reasonable costs associated with providing the SAPS generation service.

Inconsistent with AER revenue-sharing practice

The current revenue sharing framework administered by the AER, allows for the netting off or recovery of administrative costs related to the earning of unregulated revenue as the result of other services provided by distribution assets. For example, as part of the Common Distribution Service distributors can recover costs for facilitation of shared assets which includes the administrative costs associated with generating the unregulated revenue from distribution assets.

Further, the principle of the cost allocation methodology is entirely dedicated to ensuring that the costs of generating revenue are appropriately accounted for. The proposed approach in the draft SAG deviates from these principles, by applying an assumption that all monies paid by AEMO for SAPS generation are windfall gains, wherein no costs have been incurred.

Administrative Burden

Reporting and accounting for revenue sharing of small revenue amounts imposes disproportionate costs, including staff time, system updates, and compliance audits. In addition, costs like metering contracts and Austraclear maintenance currently outweigh revenue, resulting in settlement loss for Essential Energy, which is not considered in the proposed framework. A reporting threshold would reduce this burden, aligning with consumer interests by minimising unnecessary costs.

Recommendations:

- Revise "net positive generation revenue" to factor in actual settled revenue earned and deduct settlement-related costs, aligning with standard accounting practices and AER revenue-sharing principles

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[4] Rounded to the nearest $1, using actual settled amounts from AEMO.

- Introduce a de minimis reporting threshold and adjust revenue expectations to reflect slow SAPS rollout and low revenue.

INADEQUATE CONSULTATION PROCESS

The decision to proceed directly to a draft decision without issuing a consultation or issues paper, while compliant with consultation procedures under the NER, deviates from best practice stakeholder engagement, and the engagement expectations laid out in the AER's own Better Reset Handbook[5].

Whilst this may appear a de minimus change to the SAG, Essential Energy has concerns that the approach undertaken limits opportunities for practical realities of SAPS implementation to come to be aired and debated, and stakeholders to propose broader amendments. Essential Energy acknowledges that the requirement on the AER to update its SAG by 1 July 2025 to address the Amending SAPS Rule will not allow for further engagement. However, the AER should undertake a more comprehensive SAG review to allow for adequate consultation in relation to the issues raised in this submission.

Recommendation: Adopt a multi-stage consultation process for a future SAG review, including consultation papers, to facilitate comprehensive stakeholder input.

MISSED 2023-24 REVIEW AND NEED FOR COMPREHENSIVE REVIEW OF THE SAG

Essential Energy is disappointed that the AER did not undertake the promised review of the SAG in 2023-24[6], this has left in place critical gaps in the Guideline's ability to deliver real benefits to customers. A comprehensive review will provide an opportunity to assess the Guideline's effectiveness in delivering cost reductions for consumers and encouraging asset utilisation for consumer benefit, particularly considering the energy transition and potential for greater optimisation of distribution network assets.

Given the transitional rules for SAPS expire on 1 July 2025, the current review's limited scope—focused solely on SAPS amendments—does not adequately address the need for the broader SAG assessment to test whether it is delivering on its intended purpose to return value from network investments to consumers where possible. For example, Essential Energy's January 2025 submission highlighted that the SAG returns only $84.14 million from $841 million of unregulated revenue exceeding the materiality threshold (in FY24 terms), equating to less than 0.04% of total revenue shared with customers. [7] This underscores the Guideline's limited consumer benefit, a concern that needs addressing. Given the marginal nature of SAPS investments to date, the exclusion of SAPS generation revenue from the materiality threshold set out in the SAG is unlikely to deliver any meaningful returns to customers.

Essential Energy strongly recommends that, as part of the final determination for the current SAG review to include SAPS, the AER commit to a full review of the SAG along with its objectives and functions. The objective of this review should be to ensure that revenue sharing is fully aligned with the objectives of Clause 6.4.4(c)(1) of the National Electricity Rules (NER), which sets out that DNSPs "*should be encouraged to use assets that provide standard control services for the provision of other kinds of services where that use is efficient and does not materially prejudice the provision of those services"*. An

[5] AER, Better Resets Handbook; Towards Consumer Centric Network Proposals, July 2024, p11 – 17.
[6] AER, Decision - Ring-fencing Class Waiver for Batteries funded under the Community Batteries for Household Solar Program - February 2023_0.pdf
[7] Essential Energy Submission to Review of Ring-fencing Guideline, January 2025, p. 2-4.

alignment of this principle with the application of the SAG will naturally result in changes to both Ring-fencing obligations and Service Classification. Changes to the SAG should enable and incentivise increased asset utilisation of distribution assets which can provide other kinds of services, without prejudicing the provision of standard control services.

Essential Energy contends that if the SAG was operating effectively, it would provide appropriate incentives to use distribution assets for the purposes of attracting unregulated revenue and pass a share of those revenues back to customers. If the AER, and/or consumers, are concerned about over investment in networks' Regulated Asset Bases (RAB), the incentive to over-invest could be mitigated through a higher sharing ratio, where revenues in excess of the revenue required to own and maintain assets is – after having exceeded the materiality threshold – shared directly with customers.

Recommendation: Commit to a comprehensive SAG review post the amendments to incorporate SAPS generation revenue into the SAG, to maximise consumer benefits from distribution assets.

MISALIGNMENT WITH THE RING-FENCING GUIDELINE

The incentive mechanism introduced by draft SAG's requirement to share all "net" revenue, subject to reconsideration as discussed above, appears to conflict with the Electricity Distribution Ring-Fencing Guideline's (the Ring-fencing Guideline) cap on SAPS generation revenue. The Ring-fencing Guideline allows DNSPs to supply "*other services as a SAPS Resource Provider, provided that the revenue the DNSP receives as a SAPS Resource Provider in a regulatory year does not exceed the generation revenue cap*".[8] Under the Ring-fencing Guideline, DNSPs may provide distribution services but must not provide other services without a waiver. [9] The AER has previously defined a distribution service as the actions, or work that are provided to customers for payment.[10]

The explanatory statement accompanying the Ring-fencing Guideline provides additional detail in relation to this allowance wherein it states that the changes to the Ring-fencing Guideline to allow regulated SAPS includes: "*An exemption allowing DNSPs to provide generation services to regulated SAPS up to a cap on the revenue they may* ***earn*** *from these services (i.e., a generation revenue cap)"* [*emphasis* added]. The term "earn" in this context is taken to mean the plain English translation which is to receive as return for effort and especially for work done or services rendered.[11] The AER's use of the definition of services provides further credence to the term earn, which infers ownership status.

Essential Energy agrees with the AEMC's amendments to clause 6.4.4(c)(3) of the National Electricity Rules (NER) to remove the materiality threshold applying to SAPS generation revenue, so that generation revenues be shared with customers without applying the threshold.

However, there appears to be a misalignment between the SAPS Amending Rule in relation to revenue sharing and the expectation of revenues to be earned by DNSPs as set out in the Ring-fencing Guideline. The revenue cap in the Ring-fencing Guideline implies that DNSPs can invest in the provision of SAPS up to the value of the retained generation revenues, before a waiver to earn revenue above the cap is

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[8] AER, Ring-fencing Guideline for Electricity Distribution, Version 3, November 2021
[9] *Ibid*: Clause 3.1
[10] AER Service Classification Guideline, August 2022, p.4.
[11] Merriam-Webster online dictionary: EARN Definition & Meaning - Merriam-Webster

required.[12] This contradicts the intent of the Amending SAPS Rule to return to consumers that net positive generation revenue earned by DNSPs in their entirety. Were this not the case, the AER would likely have:

- Not considered or applied a cap on generation revenue earned by DNSPs for providing other services in their roles as SAPS Resource Providers;
- Not allowed for applications to increase the allowable SAPS generation revenue cap[13]; and
- Understood and outlined its requirement, under clause 11.142.5 of the NER, to amend the SAG by 1 July 2025 to account for the Amending SAPS Rule.

To be clear, Essential Energy is not against the equitable sharing of net unregulated revenue generated through the optimised use of network assets with its customers. Essential Energy's view, as stated above is that the SAG, as currently drafted is not working in the long-term interests of consumers and is not achieving the objectives of Clause 6.4.4(c)(1) to incentivise use of network assets to generate unregulated revenues to be shared with customers. All incentives across all Guidelines should properly align, which is likely to require a wholistic approach to reform of the Guidelines to improve their effectiveness for consumers and to avoid unintended consequences.

Essential Energy believes the misalignment created by these amendments to the SAG and the Ring-fencing Guideline, in particular the waivers and exemptions process, through the revenue cap – presents a clear trigger for a full review of the Shared Asset Guideline – as set out by the AER in its Framework and Approach (F&A) for NSW Electricity Distributors. In the F&A, the AER stated that: "*Given the alignment between our approaches to service classification and the Ring-fencing guideline, a possible future trigger for a review of the guidelines would be when there is a need to review our approach to ring-fencing and waivers*."[14]

Recommendation: That the AER commit to a full review of the SAG to ensure it is meeting its objectives and either contemporaneously or as a consequence of amendments to the SAG, align the Ring-fencing Guideline accordingly.

CONCLUSION

Essential Energy is committed to delivering reliable, affordable electricity to our 900,000 customers across regional, rural, and remote New South Wales, where our long, stringy network serves many high cost-to-serve customers who are ideal candidates for SAPS. However, the restrictive SAPS framework, coupled with the draft Shared Asset Guideline's proposed definition of "net positive generation revenue," and misalignment with the Ring-Fencing Guideline disincentivises the viability of Essential Energy's forecast SAPS installations for the 2024–29 regulatory period, which in turn diminishes potential consumer benefits from SAPS.

We urge the AER to commit to a comprehensive SAG review post-SAPS amendments to ensure that customer benefit from the use of distribution assets is optimised, as intended by clause 6.4.4(c)(1) of the

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[12] AER, Ring-fencing Guideline for Electricity Distribution, Version 3, November 2021 and explanatory statement, pp.14-15.
[13] AER, Ring-fencing Guideline for Electricity Distribution, Version 3, Explanatory Statement, November 2021, p.54
[14] AER, Framework and approach Ausgrid, Endeavour Energy and Essential Energy (New South Wales) Regulatory control period commencing 1 July 2024, p.19.

(NER). By adopting robust consultation, redefining “net positive generation revenue” to reflect true costs, aligning guidelines, and introducing a de minimis reporting threshold, the AER can support SAPS deployment that delivers meaningful value to consumers, consistent with the National Electricity Objective.

Essential Energy welcomes the opportunity to discuss this submission further as the AER sees fit. Please feel free to contact me or contact Adam Young, Regulatory Strategy Manager, on [redacted] or via email at [redacted].

Yours sincerely

[redacted]

Hilary Priest
Head of Regulatory Affairs