

Supporting renewables with rules that put customers first

*Address by Australian Energy Market Commission Chairman Mr John Pierce AO
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****Check against delivery****

Thank you for the introduction and to the Clean Energy Council for inviting me to speak today.

Our panel topic today “reshaping policy” is particularly fitting because that’s what the governance and institutional arrangements of the national electricity market were set up to do.

This was in recognition of where responsibilities for the sector sit within the federation and knowing that;

- policy objectives would change,
- technology would change, and
- consumer preferences and business models would change.

Hence, regulatory arrangements would need to change.

But the power system would still need to deliver reliable and affordable energy supplies.

More specifically the Commission was set up to change the rules in response to rule change requests that are put to it. We are charged with evaluating these proposals against legislated policy objectives tied to consumers’ interests in relation to security, reliability and price.

The phrase, *proposals that are put to it’* – is an important part of that statement. Anyone can propose a rule change except the Commission itself. This means that people in government, industry, and consumers themselves, can drive the reshaping of the rules.

To deliver this reshaping in a rule-making sense is, a lot of the time, about the nuts and bolts of a market that delivers 200 terawatt hours of electricity each year to 9 million connections; and organises \$16.6 billion worth of financial transactions between market participants who own generation assets that would cost somewhere in the order of \$250 billion to replace. A lot at stake there.

And while the rule making process can be about nuts and bolts, it opens up a whole new world of opportunities for those of you with new technologies and business models who want to give consumers a better deal or a better energy experience, and so attract new customers.

I'll give you some tangible examples of this.

Cost reflective network pricing supports the transformation of the network, providing a foundation for efficient usage and investment decisions by consumers.

In particular, network tariff reform will be one of the keys to unlocking the value of distributed energy resources like solar and batteries.

I'm not saying that it's necessary for retailers to structure their prices in a way that matches network prices.

It is a signal to energy service providers and retailers so they can work out where and what they do to best meet consumers' needs.

We have made data more accessible – to consumers and their agents, so that products can be tailored to meet individual needs.

Last week we published three reports that focus on how the regulatory framework can support power system evolution.

From those reviews will flow;

- New trials to determine how power system performance can be improved and new business models like virtual power plants can be integrated.

- More transparent and consistent forecasting information to help market participants make better investment and operating decisions.
- A new mechanism to integrate more demand response into the wholesale market.

Generator technical performance standards is another vital, nuts and bolts project.

Generators play an important role in helping keep the grid stable and so it's important that they have specific technical capabilities when connecting to the power system.

We are in the middle of consulting with stakeholders on a draft rule that proposes changes to technical performance standards for generators which are seeking to connect to the grid. These changes reflect the transformation of the energy mix. The proposed standards, and the process for negotiating these, are key to smooth transition as new generators with different technical characteristics join the power system.

The consideration of this new rule also deals with cost and system security for consumers by addressing the need to match technical requirements to local power system needs.

For example, if provision of voltage control isn't an issue in a particular region because there is already plenty of this capability nearby then we don't need to oblige new generators connecting to that part of the grid to pay for unnecessary voltage control capability.

This approach would enable standards to be negotiated for each connection – tailored to circumstances – which provide the best outcome for investors, and for consumers who won't pay more than necessary.

Another example of rules that facilitate new technology integrating into the system in a way that delivers the best outcomes for consumers is the new **five minute settlement** we made last November.

The purpose of five minute settlement is not to favour or to disadvantage any particular technology.

Rather, it is to produce an improved price signal that more accurately reflects the reality of what's happening in the physical power system at the time.

These price signals will lead to more efficient bidding, operational decisions and investment decisions.

There are those that see five minute settlement as a way of providing a better price signal for investment in fast response technologies, such as batteries, new generation gas peaker plants and demand response. And these fast responders are needed to support the increasing penetration of variable generation in the market.

Yes that's true – but as always, above everything else the Commission is focused on the best, low cost outcome for consumers.

We are redesigning the regulatory frameworks so that customers experience the benefits of new technologies by having access to better options, greater choice and more control over their bills.

The instructions, or rules, that we write are meant to incentivise, and support you to do that.

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