

19 October 2018

Mr John Pierce
Chair
Australian Energy Market Commission
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Dear Mr Pierce

Review of regulatory frameworks for Stand-alone power systems

AEMO supports the implementation of a nationally consistent regulatory framework governing the development of Distribution Network Service Provider (DNSP) operated Stand-alone power systems (SAPS). Advances in technology mean that, particularly in remote areas and only with the right consumer protections and service standards in place, SAPS may be a preferable supply option than connection to the National Electricity Market (NEM).

As operator of the NEM, AEMO considers its role in the development and operation of power systems not connected to the national market, to be an implementation advisory and operational support role. AEMO must remain focussed on operation of the NEM and should not be involved as the operator of SAPS at the scale contemplated in this review. The SAPS framework will need to outline SAPS operators' role, responsibilities and obligations.

AEMO's expertise in the operation of power systems can be utilised in ensuring security, reliability and technical performance standards of SAPS are appropriate. To support retail competition within the SAPS, AEMO could potentially operate a service similar to the settlement of wholesale electricity prices between retailers and providers, and in the establishment and maintenance of metering installations for SAPS customers, as occurs in the NEM.

Given the framework being developed by the AEMC, AEMO recommends the following principles and

framework apply:

1. Power system standards

The development of SAPS will require a regulatory framework regarding security, reliability and quality of supply standards; along with planning and forecasting obligations upon the system operator. This must include a specific obligation for SAPS owners to provide AEMO with information that AEMO consider is required to perform our functions, such as visibility of SAPS for transmission planning and forecasting.

The National Electricity Law (NEL) must stipulate that any SAPS connecting or re-connecting to the NEM, must meet the NEL, National Electricity Rules and National Electricity Retail Rules. This includes specific clarity that the technical standards required from new generators connecting to the NEM will apply to SAPS generators, regardless of the fact SAPS' generators may not be 'new'. The connection of any SAPS that does not meet NEM standards would compromise security and reliability of the NEM.

Visibility of Distributed Energy Resources (DER) within a SAPS may be required by the SAPS system operator, for reasons similar to those outlined in AEMO's *Visibility of DER* report¹.

2. Settlement and Metering

AEMO is the operator of the NEM's Market Settlement and Transfer Solution (MSATS) and is tasked with the management of energy settlement in the NEM in chapter 3 of the NER. In this context, AEMO has an in-depth knowledge of the installations, processes and systems to support retail contestability, energy settlement and metering.

AEMO considers that it is possible for customers connected via SAPS to access retail competition and for generation at the SAPS to be cleared through the market settlement systems, subject to appropriate rules and procedures being developed. This means that to facilitate retail competition and settlement, compliance with equivalent requirements of the NER is required, including rules in chapters 2, 3 and 7 as a minimum.

As such, AEMO considers that SAPS customers should not be excluded from the retail market. Customer confidence in the adoption of SAPS is likely to be boosted where access to the competitive retail market is sustained.

3. Consumer protections

A consumer protection framework for SAPS must deliver adequate standards of service and fair and reasonable prices in an economically efficient manner. These are the outcomes that NEM connection has delivered and that must be considered in developing a regulatory framework for SAPS.

AEMO looks forward to continuing to participate in the development of SAPS.

Yours sincerely



Peter Geers
Executive General Manager Markets

¹ Available at: https://www.aemo.com.au/-/media/Files/Electricity/NEM/Security_and_Reliability/Reports/2016/AEMO-FPSS-program----Visibility-of-DER.pdf