

6 February 2019

Mr. John Pierce
Chair
Australian Energy Market Commission
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By online submission

Dear Mr Pierce

Submission to Australian Energy Market Commission's (AEMC) draft report, *Review of regulatory frameworks for Stand-alone power systems (SAPS)*

The Australian Energy Market Operator (AEMO) welcomes the opportunity to provide input to the Commission's draft report on the review of the regulatory frameworks for SAPS.

AEMO is the independent National Electricity Market (NEM) and Western Australian Wholesale Electricity Market (WEM) market and systems operator, and the NEM National Electricity Transmission Planner. We undertake these roles within the relevant legislated policy and market frameworks, and in adherence to the National Gas and Electricity Objectives and Rules.

AEMO's attached submission provides views on the options for SAPS service delivery considered in section 4.4 of the AEMC's draft report, principally concerned with facilitating ongoing access to the competitive retailer market for customers moved within SAPS.

For further information on the AEMO submission, please do not hesitate to contact myself or Paddy Costigan, Manager Market Design on (03) 9609 8407.

Yours sincerely



Peter Geers
Chief Strategy and Markets Officer

ATTACHMENT – AEMO SUBMISSION ON DRAFT REPORT, REGULATORY FRAMEWORKS FOR STAND-ALONE POWER SYSTEMS (the draft report)

1. Consistency of retailer services

The draft report considers two alternatives for the provision of retailer services to customers who are moved to a SAPS connection. The first model presented seeks to maintain the market arrangements already established between a customer and a retailer and to provide continued access to the competitive retail market (NEM Consistency Model). The second model presented requires the customer to change their arrangement to a retailer selected by third party, with prices determined through a selection process or similar.

From a customer experience perspective, there is not a range of alternatives regarding their primary interface with the market. The choice is between two options: continued access to retail market competition or have retailer arrangements and pricing determined by a third party.

At a time when efforts are being made to extend retailer competition to customers in embedded networks and enhancing competition in the energy market more generally, AEMO considers that it would be appropriate to extend the same access to customers who are moved into SAPS.

Moving a customer to a SAPS connection delivers efficiencies which will principally accrue to the customers retaining a connection to the distribution network, rather than those moved to SAPS. To the extent that it is possible, market arrangements should be established which require participants to be flexible to accommodate the convenience of the customer rather than inconveniencing a customer for the benefit of others. To this end, AEMO is supportive of implementing the NEM Consistency Model, detailed in the draft report.

2. Design of market systems

AEMO systems are currently designed to accommodate complex connection arrangements and facilitate a range of services including energy settlement, role appointment, allocation of losses, load profiling and the management of connection point standing data. Transmission, distribution and embedded network connection points are catered for, as are a substantial number of off-market connection points. Rules are applied relative to the requirements of each variation of connection point in market systems.

As a result of recent changes to the National Electricity Rules (NER), including the introduction of Five-Minute Settlements and Global Settlements, AEMO is further enhancing the ability to manage services for complex connection arrangements. AEMO considers that the current and future design of market systems will be capable of managing requirements for SAPS, including energy settlement, loss allocation (if any), connection point discovery and role change.

3. Treatment of energy and losses in SAPS

AEMO agrees with the AEMC's view that SAPS will require standard market processes to be modified to enable the trading of energy between retailer and generator and the application of losses.

Energy within SAPS should always net to zero; as a result, there are no losses that need to be accounted for in energy settlement. AEMO consider that this could best be achieved by using the metered energy at the customer's load to determine the generation, with a virtual metering arrangement at the generation connection point. This arrangement would work for SAPS connections where there is a one generator to one customer connection, or a one generator to multiple customer

connections. It would also work where there are multiple generator connections within one SAPS, providing that the Financially Responsible Market Participant (FRMP) for the generation connection points is the same (i.e. multiple physical connection points could be treated as one for energy settlement).

Due to this netting arrangement, generation and load in SAPS does not need to be considered by AEMO in forecasting, planning or dispatch processes. Accordingly, AEMO agrees with the AEMC that there would be no distortion to spot prices by allowing SAPS generation to be managed through the settlement process.

As there are no technical network losses, the distribution loss factor for SAPS connection points should be set at x1, and SAPS connection points should be excluded when determining unaccounted for energy, once Global Settlement changes have been introduced.

AEMO considers it very unlikely that any SAPS generation would be sufficiently large to warrant registration, however it may be prudent to limit the size of generation that can be installed in SAPS in the NER or in associated procedures or application processes.

4. Wholesale market exposure – ability to hedge

The NEM Consistency Model could be supported by a wholesale trading arrangement that requires either:

- A mechanism which applies the spot price for the settlement of load and generation within SAPS, or
- A calculated or pre-determined value for the purchase and sale of energy in each SAPS.

Considering the limited number of connection points that are likely to be operating within SAPS, the settlement process would be made simpler if the network proposing the SAPS is required to establish a sole intermediary to act as FRMP for all generation in SAPS within their network boundary.

The risk to a retailer of exposure to spot price would be no greater within SAPS than a standard connection. To the extent that it became a material issue for any retailer, they would have the opportunity to hedge the risk, or create an alternative off-market arrangement for the sale and purchase of energy from the FRMP for generation within SAPS in each NEM region. In any case, the lack of adjustments to account for network technical losses and unaccounted for energy may off-set, or at least mitigate, any additional risk through exposure to the spot market.