



Erne Energy
Highett
Victoria 3190
Australia

Sherine Al Shallah
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Our Ref: JC 2019-088

4th February 2019

Dear Ms. Al Shallah,

Erne Energy Response to the Draft Report: Review of the Regulatory Frameworks for Stand-Alone Power Systems – Priority 1 (EMO0037)

Erne Energy welcomes the opportunity to provide a response to the Draft Report covering the Review of the Regulatory Frameworks for Stand-Alone Power Systems.

Erne Energy has more than 10-years of experience working in the UK and Australian electricity environment, supporting the transition to low carbon, reliable and resilient electricity networks. Erne Energy has worked with distribution businesses to facilitate the use new technologies and the development of new approaches to regulations, markets and policy requirements in the evolution to a decentralised system.

We would be happy to provide further support to the Australian Market Energy Commission on the treatment and potential of emerging technologies and approaches.

Yours Sincerely

Dr. Jill Cainey
Director
Email: jill.cainey@erne-energy.com
Mobile: 0428 264 174



General Comments

We are broadly supportive of the approach proposed by the AEMC. We support the objective of changing the National Electricity Law (NEL) and National Energy Rules (NER) as required to allow Network Service Providers (NSPs) to provide Microgrid, Stand-alone Power System or Individual Power System as a distribution service, which could then be subject to economic regulation.

The assets of a SAPS or Microgrid in an NSP-led arrangement should form part of the regulated asset base to enable the efficiencies of deploying a SAPS to be shared and the reliability standards that a customer experiences in a SAPS or Microgrid should be equal to those in the wider interconnected system.

In the matter of control and ownership of behind-the-meter and in front-of-the-meter assets to facilitate the operation of a secure SAPS, we welcome the AEMC's consideration of providing further guidance to the AER to support the access of NSPs all of the assets encompassed in a SAPS.

Islanding Microgrids

Islanding microgrids should not be treated as embedded networks since they are connected to the wider system for the majority of the time and provide access to the regulated and competition benefits of the wider system.

For example, an entire town could be islanded by de-energising the line that links the microgrid to the wider system to mitigate the risk posed electricity assets during extreme fire weather, while the operation of the islanded microgrid will still give the community access to electricity. This is critical as extreme fire weather is typically also associated with extreme heat and medical research has demonstrated that people with access to a working air conditioner are 77 % more likely to survive an extreme heat event than those without an air conditioner. A power outage, such as those seen during Australia Day 2018 and 2019 and the result of increased air conditioning load, means that householders have no access to cooling at a time when it is critically needed.

The electricity infrastructure (wires, generation, storage etc.) for an islanding microgrid would be most appropriately operated by the NSPs (as part of the Regulated Asset Base), ensuring reliable operation for the majority of the time when un-islanded and also during the brief times of islanding.

A town is a much larger network than that envisaged for the current Stand-Alone Power Systems (SAPS) and any proposed regulations should equally be able to accommodate a SAPS of a few to an islanding microgrid of thousands. This may be accomplished by applying rule based on size (number of customers or total capacity)

Competition

We are still concerned at the focus on delivering competition, particularly retail competition in a SAPS, when customer numbers are very small, and the SAPS is remote. There real risk that the benefits obtained to all customers of a DNSP by migrating some customers to SAPS will be lost due to the burden of applying regulations and competition that works in the NEM to a SAPS with only a few customers.

The need to have a separate Retailer in a SAPS, even if it is the unregulated entity of the DNSP, creates an unnecessary cost, particularly if the unregulated entity is required to register as a regulated Retailer. The States of Australia have clearly demonstrated how SAPS can be regulated effectively and efficiently, ensuring customer satisfaction and attempts to override local approaches with national



approaches that are not efficient may result in jurisdictions remaining outside the hoped-for national framework.

We would strongly encourage the AEMC to explore options that recognise that in the vast majority of cases only the DNSP will have the incentive to deploy a SAPS and that, given the size and remote location of SAPS, there is highly unlikely to be any party other than the DNSP that will deploy and operate a SAPS.

Vertical separation and competitive markets do not necessarily deliver the best outcomes for customers. Regulations only need to deliver reliable electricity at lowest cost to customers and in most cases a degree of vertical integration, particularly in small systems, may achieve this more efficiently.

Regulatory Investment Tests

Care will be needed to ensure that the investment test for a SAPS is SAPS-specific to avoid capturing other network investment options that would typically fall below the threshold for a test. NSPs should not find themselves burdened by performing investments tests for non-SAPS approaches that currently fall below the threshold.

Customer Engagement

Customer engagement is an increasingly important focus of NSP operation (e.g. “New Reg” and the Energy Charter) and we support the proposed development of a pre-SAPS Customer Engagement Strategy by the NSPs.

We support the proposal that NSPs should not have to seek explicit informed consent to transition customers to a SAPS. We also support the view that a right to reconnection to the wider system should not be available, since the proposed changes to the classification of a SAPS would mean that customers are connected to the network.

Jurisdictional participation in the national framework.

We are concerned that the reliance on Ministerial approval to opt-in to the national framework, means that the ability of NSPs or customers to access the option of a SAPS will be based on political whim. While recognising that each jurisdiction will need to ensure that local regulations and requirements support SAPS before allowing that option to be deployed, we are concerned that access to SAPS (either locally or under the national framework) should not reasonably be withheld, if the NSP can demonstrate the benefits of deploying a particular SAPS to those customers on the proposed SAPS and the wider customer base.

Delivery Model

There are examples of successful SAPS in Australia that operate as fully regulated service provision (see Figure 4.2, page 96). It is likely that the deployment of SAPS will be in locations that limit the ability to provide competition in either service provider or retail. The NEM Consistency Model may offer fewer changes to the rules and the status quo but comes with significant disadvantages. The status quo is no longer fit for purpose (which is why this consultation exists) and seeking to “shoe horn” SAPS into the regulations that create and support the status quo are not appropriate. Therefore, the Integrated Model is best on offer, since it offers the ability to send appropriate price signals to customers in the SAPS and avoids the complications in Retail, but the No Competition Model is also valid and should also be an option.