



DEMC20/00158

21 February 2020

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Updating the Regulatory Frameworks for Distributor-led Stand-alone Power Systems (EMO0038)

Dear Mr Pierce

The Energy and Technical Regulation Division of the Department for Energy and Mining, South Australia (Division) welcomes the opportunity to comment on the Draft Report on updating the regulatory frameworks for distributor-led stand-alone power systems (SAPS) by the Australian Energy Market Commission (AEMC).

The Division notes the report presents draft recommendations for a package of proposed rules to implement a new regulatory framework for SAPS provided by distributors.

The Division has previously submitted to the AEMC that the starting point for the SAPS delivery model should be retention of existing arrangements with as little change as possible and at the lowest cost. The Division therefore generally supports the proposed approach of the AEMC which has settlement arrangements for SAPS that do not deviate significantly from existing arrangements.

The Division notes that the AEMC is not proposing to significantly amend the existing allocation of non-energy costs incurred in the National Electricity Market (NEM) by market participants. The Division supports the AEMC's proposal that market customers should be exempt from the Retailer Reliability Obligation in respect of their SAPS customer load.

In relation specifically to the SAPS settlement price, the Division considers that in order for customers transitioned to distributor led SAPS to be no worse off and maintain their access to existing market retail offers, the risk that retailers would face in supplying these customers must be minimised.

The AEMC's proposed approach to determining the SAPS Settlement Price (SSP) would appear to remove retailer exposure to price volatility within the spot market associated with serving SAPS customers load. Calculating the SSP annually as a time

weighted average of the previous twelve months of data should achieve this without the complexity and challenges of other approaches, for example utilising contract price data.

The Division also considers it appropriate that the SSP include an adjustment to reduce the risk of the SSP being greater than the wholesale cost faced by retailers, which would remove a retailer's incentive to supply SAPS customers. While the AEMC has proposed an adjustment of 0.8 be included in the National Electricity Rules, it may wish to consider providing greater flexibility for this factor to be changed if required. For example, AEMO could determine the appropriate adjustment factor at each annual reset of the SSP. Under the current proposal this adjustment factor, should it be deemed insufficient, can only be adjusted via a rule change proposal.

In relation to SAPS service classification, the Division agrees with the AEMC that the existing framework for distribution service classification in the National Electricity Rules is broadly fit for purpose to support the Australian Energy Regulator in determining the classification of the distribution service provided by means of a SAPS. To provide the Australian Energy Regulator (AER) with additional guidance in how the services and activities associated with a SAPS should be treated within the regulatory framework, the Division supports the inclusion in the NER a set of principles to which the AER must give effect when identifying and classifying the distribution services provided by means of a stand-alone power system.

The Division notes that the COAG Energy Council is concurrently undertaking drafting of amendments to the National Electricity Law and National Energy Retail Law to implement its response to the AEMC's review. Final drafting may not be consistent with the AEMC's proposed drafting. It is therefore important that the AEMC continue to work with officials while developing the final rules package to ensure it is consistent with any COAG Energy Council approved amendments to the legal framework.

The Division looks forward to the AEMC's further consideration of these important matters over the remainder of this project.

Should you wish to discuss the submission in further detail, please contact Mr Mark Pedler, Principal Policy Officer, on (08) 8429 3361.

Yours sincerely



Vince Duffy
Acting Chief Executive
Department for Energy and Mining