



## Updating the regulatory frameworks for distributor-led stand-alone power systems

The AEMC has published its draft recommendations for a package of proposed rules to implement a new regulatory framework for stand-alone power systems provided by distributors in the National Electricity Market (NEM).

### Context

A stand-alone power system (SAPS) is an electricity supply arrangement that is not physically connected to the national grid. The Commission uses the term to encompass both microgrids, which supply electricity to multiple customers, and individual power systems, which relate only to single customers.

Changes in technology and technology costs are leading SAPS to become an increasingly viable option for providing electricity services to customers. Consequently, enhancements to the regulatory framework are required to allow customers to take advantage of new technology and approaches, and enable the adoption of future advancements in technology.

SAPS are currently not generally captured under the national regulatory framework and are subject to jurisdictional legislative frameworks that vary in their completeness. Given changing technologies, it is important that changes to the national framework are made to allow the uptake of distributor-led SAPS, where this is efficient.

On 19 September 2019, the Commission self-initiated and published terms of reference for a review into *Updating the regulatory frameworks for distributor-led stand-alone power systems*. This review builds on the work undertaken by the Commission under priority 1 of the *Review of regulatory arrangements for stand-alone power systems* over the course of 2018 and 2019, and earlier work in 2017 in response to a rule change request from Western Power.

In the priority 1 final report, the Commission set out a number of recommendations for changes to the regulatory framework to facilitate the provision of SAPS specifically by distribution businesses. The Commission also prepared recommended drafting instructions for amendments to the National Electricity Law (NEL) and National Energy Retail Law (NERL). The Commission's priority 1 recommendations were considered and approved by the COAG Energy Council at its meeting on 22 November 2019.

### Overview of draft report

The draft report presents, for stakeholder feedback, the Commission's proposed draft package of changes to the national electricity and energy retail rules to implement the new approach for SAPS previously recommended by the Commission in the priority 1 final report. These new regulatory arrangements would allow distributors to use stand-alone power systems where it would be economically efficient to do so.

The arrangements would closely follow existing national energy frameworks to enable customers supplied by stand-alone power systems to retain all their current consumer protections, including access to retail competition and existing reliability standards, such that they would not be disadvantaged where a distributor determined that it would be more cost-effective to supply them on a stand-alone basis.

The rules drafting presented in the report is consistent with, and builds on, the Commission's earlier recommendations. It aims to remove the existing barriers to distribution businesses providing stand-alone power systems as a regulated service, while retaining existing NEM arrangements as far as possible.

In particular, the draft report discusses the arrangements required to:

- enable the financial settlement of SAPS load and generation through the systems operated by the Australian Energy Market Operator (AEMO), and thereby support retail competition
- derive an administered SAPS settlement price, which would be paid by retailers to AEMO, and then by AEMO to SAPS generators, in settlement
- clarify the approach to the classification of services provided by means of a SAPS distribution system for regulatory purposes.

A further issue, identified in discussions between the Commission and the Australian Energy Regulator (AER), is the potential application of the waiver process set out in the AER's ring-fencing guidelines and its suitability in the context of SAPS. In the report, consideration is given to issues related to the provision of generation services by distributors given the AER's approach to ring-fencing. The AER has also indicated that it intends to publish an explanatory note concurrently with the report, which aims to provide distribution businesses with transparency of, and certainty around, the waiver application process in respect of SAPS.

In developing the detailed advice on rules to apply the recommended framework for distributor-led SAPS, the Commission has also considered a number of areas where less additional work was required to develop rules drafting. For example, the Commission has maintained its approach to network planning and customer engagement, where the recommendations were specified in some detail in the priority 1 final report.

### Next steps and implementation

Written submissions from stakeholders commenting on the proposed package of rule amendments presented in the draft report are requested by **13 February 2020**.

Stakeholders are also welcome to submit their views on the AER's explanatory note - for consideration by the AER - in their submissions to the draft report.

The Commission further intends to hold a stakeholder workshop on 29 January 2020 in Brisbane to allow stakeholders to discuss matters arising from both this report and the AER's explanatory note. All enquiries regarding this workshop should be addressed to Rupert Doney on (02) 8296 7800 or [rupert.doney@aemc.gov.au](mailto:rupert.doney@aemc.gov.au).

Following consultation on the draft report, the Commission will prepare and submit a final report and package of rules to the COAG Energy Council. The new framework can then be implemented by the Energy Council amending the national energy laws based on the Commission's drafting instructions, and these being passed through the South Australian parliament. The proposed rule changes will then be made by the South Australian minister.

Following enactment of the package of law and rule changes, jurisdictions will then have the ability to opt-in to the national regulatory framework once they have made appropriate changes to any relevant jurisdictional instruments. A final step before full implementation will give AEMO and the AER a transitional period to consult on and update relevant procedures and guidelines.

For information contact:

Director, **Andrew Truswell** (02) 8296 0637

Adviser, **Rupert Doney** (02) 8296 7800

Media: Media & Content Manager, Kellie Bisset, 0438 490 041 or (02) 8296 7813

19 December 2019