



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

The AEMC has published its final recommendations for a package of proposed rules to implement a new regulatory framework for stand-alone power systems (SAPS) provided by distributors in the National Electricity Market (NEM), where these provide an efficient alternative to traditional poles and wires investment. The cost savings arising from the use of lower cost SAPS will flow through to all users of the distribution network, through lower network prices.

### Context for this review

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.

SAPS are currently not generally captured under the national regulatory framework and are subject to jurisdictional legislative frameworks that vary in their completeness. However, changes in technology and technology costs are leading SAPS to become an increasingly viable option for providing electricity services to customers, and it is therefore important that the national framework allows for the deployment of SAPS solutions by distributors where this is efficient.

Although likely to be relatively small in number, customers that are candidates for SAPS supply account for a disproportionately high share of distributors' costs. Consequently, enhancements to the regulatory framework to permit the use of SAPS by distributors could lead to large benefits, both for individual customers transitioned to SAPS supply, and to the wider customer base in the form of the reduced costs that would flow through to them. To realise these benefits, the regulatory frameworks must adequately support the use of SAPS and the transition of grid-connected customers to stand-alone solutions.

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*. The 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 final report

The final report presents the Commission's proposed 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 SAPS where it would be economically efficient to do so.

The arrangements would closely follow existing national energy frameworks to enable customers supplied by SAPS 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 final report outlines the recommended arrangements required to:

- enable the financial settlement of load and generation by the Australian Energy Market Operator (AEMO), and thereby support retail competition
- derive a SAPS settlement price, which would be paid by retailers to AEMO, and then by AEMO to SAPS generators, in energy market settlement
- clarify the approach to the classification of services for regulatory purposes, and the implications of this for the economic regulation of networks
- support the application of technical regulation and performance standards to SAPS, such that SAPS customers are not disadvantaged with regard to the quality of supply they can expect to receive via SAPS supply arrangements.

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.

## Implementation

Implementation of the recommended regulatory framework will require changes to be made to both the national energy laws and rules, and also to some jurisdictional legislative instruments. The Commission understands that changes to the NEL and NERL are currently being developed by officials. It is expected that these will be agreed by the COAG Energy Council and put to the South Australian parliament later this year. Following the passage of this legislation, the South Australian Minister for Energy will be able to make the rule changes described in the report.

Once the package of law and rule changes have been enacted, jurisdictions will then have the ability to opt-in to the national regulatory framework after making appropriate changes to any relevant jurisdictional instruments. A final step will give AEMO and the Australian Energy Regulator (AER) a transitional period to consult on and update relevant procedures and guidelines. Based on current expectations, the full framework could take effect in mid- to late-2021.

While adjustments may be required in response to the impacts of COVID-19, the Commission notes that it, and the other market bodies, have identified this review as a reform suitable to progress on its existing timetable. The implementation of this reform comes at a time when the deployment of SAPS may provide an appropriate response to recent bushfire events that occurred during the 2019-20 summer period. The opportunities presented by SAPS in supporting the bushfire recovery and providing future quality, safety and reliability benefits to bushfire-prone communities mean that the Commission is highly supportive of the expeditious implementation of these reforms.

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