



Review of stand-alone power systems - priority 2

The AEMC has published the draft report for its review of regulatory arrangements to support the provision of stand-alone power systems by third-parties while providing protections for consumers

The draft report sets out and explains the Commission's initial views on the regulatory frameworks that should apply to stand-alone power systems (SAPS) provided by parties other than distributors in the National Electricity Market (NEM). These "third parties" could include a wide range of potential providers, including community groups, local councils, developers or NEM market participants.

Context for this review

In August 2018, the AEMC was asked by the COAG Energy Council to provide advice on the regulatory arrangements required to allow for the use of SAPS. Under the terms of reference the review is structured around two priorities:

- Priority 1 focused on the development of a national framework for customers that move from grid-connected supply to SAPS provided by DNSPs.
- Priority 2 focuses on the development of a framework to support the supply of electricity from SAPS provided by parties other than the local DNSP (third parties).

A final report for priority 1 was published on 30 May 2019, and recommended allowing NEM distributors to use SAPS where it is economically efficient, under regulatory arrangements that would closely follow existing national energy frameworks to enable customers receiving stand-alone systems to retain their current consumer protections.

Overview of the draft report

The draft report presents and explains the Commission's initial proposals on the regulatory framework that should apply to third-party SAPS.

In developing this framework, the Commission has sought to apply consistent principles between priority 2, priority 1 (DNSP-led SAPS), and standard supply, recognising the importance of areas such as licensing, consumer protections and access to retail competition. However, how those principles are applied for third-party SAPS in practice is likely to vary, depending on:

- the size of the system (for example, only large systems are likely to be able to support retail competition and justify the costs of economic regulation) and
- whether it is regulated under national or jurisdictional rules (noting that regulation of third-party SAPS is currently the responsibility of jurisdictions).

The approach aims to provide a more flexible framework capable of accommodating the broader range of providers and circumstances that could be associated with third party systems. In contrast to priority 1, customers will generally be making a choice to transition to third-party provision or to move to premises supplied by a third-party system. Additionally, service providers themselves are likely to be much smaller and less well resourced than distribution businesses in the NEM would be, and may operate under a variety of ownership structures and operating models.

It is likely that a one-size-fits-all approach will not be appropriate for the regulation of third-party SAPS. The Commission considers that the most appropriate approach to regulating third-party SAPS will be a tiered framework applying regulation in a proportionate way.

A tiered framework for the regulation of third-party SAPS would allow appropriate protections in a proportionate manner.

Proposed tiered framework

To develop a tiered framework, the Commission has considered the appropriate categories for third-party SAPS, how boundaries would be drawn between categories and what type and level of regulation would be required for each category.

- **Category 1** would comprise very large microgrids, large enough to warrant regulatory determinations by the AER and to support effective retail competition. This category of microgrids would be regulated in an equivalent manner to standard supply customers, and DNSP-led SAPS, with the existing national laws and rules and relevant existing jurisdictional frameworks extending to apply to these systems. It is unlikely that many if any third-party SAPS would fall into category 1.
- **Category 2** microgrids will range from those supplying smaller towns to those connecting more than a handful of customers. Microgrids under category 2 will generally be vertically integrated, with effective retail competition unrealistic and the AER revenue determination process to set network tariffs disproportionately burdensome. The flexibility and proportionality in a regulatory framework necessary to accommodate the potential breadth of circumstances is likely to be most effectively supported through jurisdictional regulation, with nationally consistent principles to minimise additional compliance costs for operators seeking to operate on a national basis.
- **Category 3** would encompass very small microgrids with a handful of customers, microgrids which only supply large customers, and an individual power system where there is a sale of energy. These will likely have a much lower regulatory risk, with customers likely to have greater bargaining power and control over system specifications, and failure impacting a much smaller number of customers. A proportionate framework would have some minimum consumer protections, such as billing requirements, as well as energy-specific safety requirements, basic metering requirements and some technical standards, through jurisdictional license or exemption conditions to allow for flexibility and balance between risks and costs.

Background

A stand-alone power system 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 stand-alone power systems to become an increasingly viable option for providing electricity services to customers.

Currently, the national energy laws and rules only apply to the interconnected electricity grid on the east coast of Australia that forms the National Electricity Market (NEM). Where there are stand-alone systems not connected to this grid, these are subject to regulation by states and territories at the jurisdictional level. State and territory regimes for SAPS differ quite widely, and regulation is not necessarily comprehensive.

Next steps

Written submissions from stakeholders commenting on the matters raised in this draft report for priority 2 are requested by **8 August 2019**. In particular, stakeholder input would be welcome in regards to the obligations that would apply to each category and the thresholds that would be used to determine which category would apply to a given system.

The Commission is required to publish the priority 2 final report by 31 October 2019.

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