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Inquiry into licensing arrangements for inverter-connected generators

The Australian Energy Council (the Energy Council) welcomes the opportunity to make a submission to the the Essential Services Commission of South Australia's (ESCOSA) consultation on the Inquiry into licensing arrangements under the *Electricity Act 1996* for inverter-connected generators.

The Energy Council is the industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

We welcome ESCOSA's Inquiry, which is examining the performance standards applied to inverter-connected generators through their licence conditions. The last review of these conditions occurred in 2010 and much has changed in both South Australia and the National Electricity Market (NEM) since that time, making it appropriate to revisit the regulatory framework. The Energy Council welcomes ESCOSA's acknowledgement of related reviews currently being undertaken by other regulatory bodies to examine issues of power system security and reliability, which are inherently entwined with ESCOSA's Inquiry.

The following outlines the key issues in ESCOSA's Inquiry identified by the Energy Council.

Regulatory duplication

The performance standards detailed in ESCOSA's licence conditions should be harmonised with the national requirements administered by the Australian Energy Market Operator (AEMO). It would seem inefficient for ESCOSA to regulate technical standards, which are already captured within AEMO's requirements and enforced by the Australian Energy Regulator (AER). Bringing these disparate regimes together is in the interests of regulatory consistency and certainty.

In addition, the performance standards are in place largely to drive system security and reliability. Power system security and reliability are best safeguarded by AEMO in its NEM-wide technical role without the need for jurisdictional duplication.

Retrospective application of licence requirements

The Energy Council is firmly opposed to retrospectively applying new or additional technical requirements on generators already in development or operation. Technical and regulatory requirements factor greatly into investment decisions for new assets, allowing the developer/operator and financial sponsors to appropriately calculate and price risk, and ensure sufficient returns.

It would be inappropriate for ESCOSA to make any changes that would compromise investment certainty and put the operation of existing or developing assets at risk. For example, it may not be technically possible to retrofit older generators to meet any new requirements, leaving these assets stranded ahead of their scheduled

end of life. The option to upgrade assets should be one left to asset owners to determine, and as set out below, the market could provide appropriate incentives to make this more likely.

NEM-wide market driven solutions

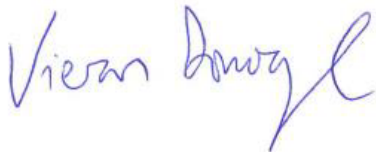
Market based solutions are the most effective option where it is identified that the market can appropriately take the place of regulatory prescription. Not only do market driven solutions relieve the regulatory burden on market participants, they drive efficiency and generally lead to lower cost solutions through competition and innovation.

Considering the technical requirements that form part of this Inquiry, we suggest that reactive power and frequency control capability would be most effectively delivered through competitive sourcing or as AEMO procured ancillary services. Opening a market for these solutions could also provide sufficient incentive for asset owners to upgrade their facilities to take advantage of market opportunities.

Finally, we suggest that with several ongoing reviews into power system settings underway, ESCOSA should exercise caution in implementing additional technical requirements until such reviews are complete. System security and reliability are NEM-wide concerns and any improvements should be considered through this broader lens.

Any questions about our submission should be addressed to Emma Richardson, Policy Adviser by email to emma.richardson@energycouncil.com.au or by telephone on (03) 9205 3103.

Yours sincerely,



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