

Contact: Mark Feather
Contact Phone: [REDACTED]
Date: 29 May 2023

Ms Anna Collyer
Chair
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
SYDNEY NSW 2000

Dear Ms Collyer

Re: Review into Consumer Energy Resources Technical Standards

The Australian Energy Regulator (AER) welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) draft report for the review into Consumer Energy Resources (CER) technical standards.

The continued growth of investment in CER presents enormous opportunities which can benefit all consumers under the right governance and regulatory settings. It is also an important avenue for the energy sector to contribute towards government commitments for Australia to achieve net zero.

At this point in time, we are seeing a system where CER are not able to be utilised to their potential, and this can impact both individual consumers and the system as a whole. As noted in the Australian Energy Market Operator's recent report on [Compliance of DER with Technical Settings](#), compliance of inverters with technical settings is poor; a wide range of data sources consistently indicate that less than half of systems installed are set correctly to the required technical standard.

This may result in an increase in the size of credible contingences that must be managed by AEMO to maintain power system security. It may also reduce the flexibility that distribution networks have to maximise their hosting capacity for CER exports at certain times of the day. This in turn impacts on owners of CER, and potentially limits the optimal deployment of these assets to support more efficient system operation.

Further, as identified in the report by [Baker-McKenzie](#) in support of the AEMC's review, the implementation of technical standards relating to CER span across state, territory and Commonwealth regulatory frameworks. Baker-McKenzie state: "Understanding the existing regulatory framework for CER technical standards is challenging due to the differing jurisdictional frameworks and technical regulators and a lack of clarity as to how such frameworks interact. Further, the number of stakeholders involved at different stages of the CER lifecycle influences compliance and the complexity of the existing framework." We agree with this statement.

The impacts this fragmented regulatory environment may have include increasing the need for costly network investment, compromising system security, and impacting CER-owning consumer confidence.

Comments on immediate actions

We welcome the pragmatic options identified to address compliance issues in the short term.

Specifically, the AEMC has recommended that distribution network service providers (DNSPs):

- introduce commissioning sheets for installers
- contact customers suspected of non-compliance and inform them of their rectification options
- deliver training for installers on compliance with technical standards.

We support these recommendations as we expect the benefits to consumers will outweigh costs. As an example, DNSPs may be setting conservatively low export limits due to assumed levels of non-compliance. Increasing compliance rates over time will allow DNSPs to raise export limits to levels which reflect the network's true hosting capacity, and customers will be able to export more of the electricity that they generate. High compliance rates are also vital to the effective implementation of flexible export limits. In the longer-term, we expect that this relatively small action will also reduce network investment requirements and lead to better system security and more efficient system operation, due to higher compliance of installed CER systems with technical standards.

In practice, we consider that as part of CER integration expenditure proposals, DNSPs should demonstrate the steps they have taken to improve compliance for new CER connections, including the introduction of commissioning sheets for installers and contacting customers suspected of non-compliance. This is because taking these practical steps to address compliance may ultimately be more efficient than the more expensive alternative of investment in the network.

We will shortly be reviewing our expenditure forecast assessment guidelines in response to the [introduction of an emissions reduction objective into the national energy objectives](#). As part of this process, we will also amend relevant guidelines, including our CER integration expenditure guidance note, where we will clarify these expectations. We expect that this will process will commence in early 2024.

Recommendation to progress regulatory reform

The paper identifies key regulatory issues which touch on the scope of the national energy laws and whether they should be extended to capture parties such as manufacturers and installers.

We note the AEMC's recommendations for immediate action are focused on improving compliance with the AS4777.2:2020. With a potential need for further new standards in future as a decentralised and high CER penetration electricity system emerges, we may face similar compliance issues impacting consumer confidence, system security and network investment needs.

The AER welcomes the opportunity to further engage with the AEMC, the other market bodies, and jurisdictions on a broader strategic discussion about CER governance. As part of this, consideration should be given to what the regulatory framework (rules) should look like.

In our previous submission to the AEMC consultation paper on this review, we raised significant concerns regarding the effectiveness of the existing governance arrangements, including their reliance on connection agreements between distribution businesses and customers as a mechanism to enforce compliance with technical standards. We reiterate our views that consumers are not well placed to ensure compliance with connection agreements

given they are unlikely to be aware of the technical requirements or be able to identify whether they have been complied with.

Ultimately, policy makers should consider the following questions in determining an appropriate framework:

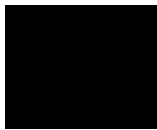
- Which parties are best placed to bear the risks and hold the relevant accountabilities and liabilities?
- What are the most appropriate governance instruments to establish obligations and responsibilities on the relevant parties?
- What body should be responsible for ensuring compliance (including enforcement action)?

Ultimately, effective consideration of these issues would include whether installers and manufacturers should hold greater accountabilities. Similarly, such an analysis would consider whether there should be a national, centralised framework for CER technical standards, and whether an existing body or bodies are well placed to take on the role of regulating technical standards, or if a new body would be best placed.

Clarity on this important strategic issue is essential to delivering outcomes for individual consumers, as well as the entire electricity system.

We thank the AEMC for the opportunity to provide input to this consultation. If you have any questions about our submission, I can be contacted on [REDACTED].

Yours sincerely,

A black rectangular redaction box covering the signature of Mark Feather.

Mark Feather
General Manager, Strategic Policy and Energy Systems Innovation
Australian Energy Regulator