

TERMS OF REFERENCE

Notice of an Inquiry into licensing arrangements under the Electricity Act 1996 for inverter-connected Generators

Pursuant to Part 7 of the Essential Services Commission Act 2002

1. BACKGROUND

- 1.1. Pursuant to s34 of the Essential Services Commission Act 2002 (**Act**), the Essential Services Commission (**Commission**) may, following consultation with the Minister, conduct an inquiry if it considers an inquiry is necessary or desirable for the purpose of carrying out its functions.
- 1.2. The Commission has statutory licensing and related regulatory powers and functions in relation to the electricity industry in South Australia.
- 1.3. The Commission is aware of recent and emerging technological, operational and other developments which will have impacts on the electricity industry and, as a result, for South Australians and the State economy generally.
- 1.4. In order to meet its primary statutory objective of protecting South Australian consumers' long term interests with respect to the price, quality and reliability of essential services, it is appropriate for the Commission to consider the above matters in the context of its regulatory powers and functions, with a view to ensuring their continued relevance and effectiveness – both now and over the long term.
- 1.5. Accordingly, the Commission has formed the view that an inquiry into the way in which it regulates grid-scale wind and inverter-connected electricity generating plant and equipment is necessary and desirable at this time to ensure that the regulatory frameworks it applies under industry regulation Acts is consistent with its primary statutory objective, and is proportionate and responsive to recent and emerging issues.
- 1.6. The Inquiry will build on the previous work undertaken in relation to wind generation plant in 2005 and 2010 and will determine if there is a need for additional conditions given the status of current national requirements (for example, under the National Electricity Law).
- 1.7. The earlier work of the Commission permitted the integration of wind into the South Australian market from 2005 onwards, albeit in a cautious and measured way. The rules, which were implemented through the Commission's earlier decisions in this area, have meant that wind farms are able to become licensed. At the same time, those rules require wind farms to deliver technical performance outcomes aimed at mitigating the potential technical risks they pose.
- 1.8. Given the potential growth in this form of electricity generation, it is timely for the Commission to not only reconsider its current position in relation to wind, but also for it to ask if there are any risks posed by other generation technologies which warrant a regulatory response.

2. TERMS OF REFERENCE

- 2.1. Following consultation with the Minister, the Terms of Reference for the Inquiry are:
 - 2.1.1. The Commission will inquire into appropriate regulatory arrangements administered by the Commission under the Act (including subsidiary regulatory instruments made by the Commission such as industry codes) to apply in relation to grid-scale wind and inverter-connected electricity generating plant and equipment.
 - 2.1.2. In undertaking the Inquiry, the Commission will:
 - 2.1.2.1. Analyse the regulatory issues associated with the quality and reliability of electricity supplied by grid-scale wind and inverter-connected electricity generating plant and equipment, with a view to ensuring that any regulatory arrangements it administers are targeted, efficient and appropriate.
 - 2.1.2.2. Identify an appropriate regulatory framework that:
 - 2.1.2.2.1. has relevance for customers and for licensees and exempted entities currently providing grid-scale wind and inverter-connected electricity generation, and
 - 2.1.2.2.2. will be relevant in the context of new participants, business models and/or technologies which could deliver more effective and innovative outcomes for customers in the future.
 - 2.1.2.3. Have regard to other relevant contextual matters, including (without limitation), the legal and regulatory regime which applies to the operations of the National Electricity Market.
 - 2.1.3. The Commission may consider other matters which may arise in connection with or through its inquiry into the matters identified in items 2.1.1 and 2.1.2, consistent with the powers provided to the Commission under relevant industry regulation acts.

3. REQUIREMENTS FOR THE INQUIRY

- 3.1. Consultation with stakeholders will be undertaken in accordance with the Commission's Charter of Consultation and Regulatory Practice. This will include a:
 - 3.1.1. call for submissions to an Issues Paper and technical advice from the Australian Energy Market Operator in December 2016, and
 - 3.1.2. call for further submissions to a Draft Report by June 2017.
- 3.2. The Commission will complete this Inquiry by September 2017.
- 3.3. In addition, copies of the Charter of Consultation and Regulatory Practice are available on the Commission's website at www.escosa.sa.gov.au, or the Commission can provide hard copies on request.

3.4. In accordance with s38 of the Act:

3.4.1. a copy of the final report will be provided to the Minister.

3.4.2. a copy of the report must be laid before both Houses of Parliament, within 12 sitting days of receipt of the relevant Minister.



Brett Rowse

Chairperson

