



Essential Services Commission of South Australia
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Dear Sir/Madam

RE: AUTHORISATION OF VIRTUAL POWER PLANT OPERATIONS – CONSULTATION

The Energy and Technical Regulation Division (the Division) of the Department for Energy and Mining appreciates the opportunity to make a submission to the Essential Services Commission of South Australia's (the Commission) *Authorisation of Virtual Power Plant Operations Consultation Paper*.

The Division supports the Commission's consideration of licensing arrangements for virtual power plants (VPPs). VPPs have the potential to make a valuable contribution to markets and to lowering costs for consumers but face challenges to integrate with market and regulatory frameworks that were not designed for this distributed model. The South Australian government supports the deployment and improved integration of DER and is supporting the roll out of VPPs through its Home Battery Scheme and South Australia's Virtual Power Plant (SA VPP).

The Division understands the Commission's current consultation is twofold in its purpose: to vary the existing exemption, and to consult on VPP licensing conditions.

The Division notes the current exemption was granted only in respect of participants who registered in AEMO's VPP Demonstration Program, and only in respect of operations for the purposes and duration of that program.

At the time of granting the exemption, all potential beneficiaries of the exemption were not known as the program was open to new registrations. This is no longer the case and, as the beneficiaries of the exemption are known, there is a case for the varied exemption to specify the entities, subject to confirming intentions for those operations. This would be consistent with other exemptions granted in favour of specific persons.

For those VPPs already registered and wishing to continue operations beyond the exemption's current end date, the Division considers it important that disruption be minimised as far as possible. However, based on the Commission's published licence applications, the Division is not aware that any of the subject VPPs has applied for a licence in anticipation of the current exemption's expiry. Nonetheless, in principle and to provide continuity, the Division supports the Commission's proposal to extend the term of the exemption by 12 months or a period sufficient to allow the beneficiaries to apply for and be granted a licence.

As the VPP Demonstration Program is expected to conclude on 30 June 2021, there may be some uncertainty about the scope of operations permitted under an exemption that is expressly limited to operations for the purpose of that program. The Division encourages the Commission to consider how the scope of operations authorised by the exemption would be defined beyond the Program's conclusion.

The consultation paper states that "extension of the exemption will not prohibit other potential VPP operators from entering the market in South Australia." However, the Division

understands that the Commission's proposal is to continue the exemption's limited application. This means that any other VPP operator not already enrolled in AEMO's program would not be able to avail itself of the exemption's authority and would need to obtain a licence. Given that the Commission is presently consulting on licensing conditions for VPPs, consideration could be given to a time-limited exemption for other VPPs to address the same regulatory uncertainty that prevailed in respect of the current exemption, pending the outcomes of the Commission's current licensing consultation process.

Turning to the licensing conditions, the Division notes that the standard conditions set out in the consultation paper are, with one exception, mandatory conditions for generation operations under the licensing regime of the *Electricity Act 1996* (the Act).

VPPs are unique in that their operations are based on an aggregation of distributed energy resources and the size, distribution and composition of that aggregation may continually change over time. The Division observes that this presents a somewhat different context for the standard licensing conditions. As the Commission has noted, the operation of VPPs is a new and developing area. However, given their potential to scale and to be operated as a dispatchable resource, the Division supports the application of the standard conditions to VPP licences unless a condition is demonstrably unworkable for a VPP.

Conditions that may warrant closer investigation are those that apply to the '*licensee's electricity generating plant*' specifically, rather than to the licensee. This is because of the relationship between the VPP operator and the many owners of individual assets over which the VPP operator may have only partial control.

The Division, in consultation with the Office of the Technical Regulator, considers that Condition 9 requiring a switching manual does not need to apply to a VPP.

In addition to generation licensing conditions, the Division encourages the Commission to consider also how the '*generating plant*' that forms the authorised operations would be described for a VPP licence. The annexure to a generation licence identifies the plant that is authorised in terms of its type, capacity and location. Again, VPPs by their nature do not fit simply in this schema, yet the licence obligations operate in relation to this essential description.

The Division also wishes to highlight the Retailer Energy Productivity Scheme, or REPS, which commenced on 1 January 2021. Under the REPS, retailers must meet productivity targets, which they can achieve by undertaking eligible energy productivity activities. One such activity is to connect a battery to an approved VPP. To ensure this eligible activity can be taken up, there needs to be a clear basis for approving the VPP, which necessarily relies the operations being appropriately authorised where relevant.

The Division welcomes the Commission's consideration of appropriate licensing arrangements for VPPs to ensure a robust and fit for purpose regulatory regime and looks forward to gaining further insights as to the views of VPP stakeholders. Should you wish to discuss this submission, please contact Rebecca Knights, Director, Energy Policy and Projects Branch, on (08) 8429 3185.

Yours sincerely,



Vince Duffy
Executive Director, Energy and Technical Regulation

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