

27 September 2023

Ashok Kaniyal
Australian Energy Market Commission

Submitted via website: ERC0363

Dear Mr Kaniyal,

Enhancing investment certainty in the R1 process

CitiPower, Powercor and United Energy (we) welcome the opportunity to participate in the Australian Energy Market Commission's (AEMC) enhancing investment certainty in the R1 process consultation paper (consultation paper) process.

Executive summary

Our submission wishes to make the following points:

- *Limited representation of distributors in the R1 process review:* we were not included in the connection reform initiative (CRI) process. The process is understood to have comprised developers and consultants. There was only minimal representation of existing network customers. Its further understood the focus was placed on transmission connections. This appears reflected in the wording of the National Electricity Rule (Rule) change proposal and the consultation paper.
- *Materiality of issues in the connection process:* the issues being identified by Clean Energy Council are reflected in our experiences. Working with our Generator Steering Committee, we have found issues are best resolved through dialogue rather than further prescriptive Rules and dispute resolution processes. The primary frustration for our customers connecting to the distribution network, has been circumstances where that connection must also rely on augmentation of the transmission network. The frustration is borne out of an absence of effective oversight of transmission connection services. We note the Australian Energy Regulator is now considering further this issue.
- *Consideration of other network users:* there is little contemplating of the wider impact this Rule change may have on existing and future customers. Technical standards are designed to ensure the safety and reliability of the network for all customers. Diluting technical standards will deteriorate the service provided to all customers in the absence of further investment.
- *Who pays:* the Rule change requires the network be augmented should the connection applicant identify external network conditions as the reason for changes in the R1 process. Such investment would not pass a regulatory investment test and would not be funded by the AER and possibly be excluded from the regulatory asset base.

Should you have any queries, please contact Brent Cleeve on 0409 805 058 or bcleeve@powercor.com.au.

Yours sincerely,


Brent Cleeve

Head of Regulatory Policy and Compliance
CitiPower, Powercor and United Energy

Appendix

1. Do you agree that the absence of a NER obligation on parties to the R1 process is contributing to poor engagement and process delays?

We do not believe the regulatory arrangements, or our internal processes, create delays in the registration process.

Through extensive work with connection proponents, more than 75 large scale generators have connected to our networks over the last 5 years. This has been achieved through proactively engaging with all connection proponents along their connection journey. Given the demand for connection to Powercor's network especially, we actively try to expediate large generation connections to avoid hoarding of scarce capacity on the network.

In 2021, we established the Generation Steering Committee (Committee) which brought together major generation proponents to discuss how we could improve the efficiency of the large generation connection process. The Committee, chaired by our Head of Design and Customer Programs, met every 6 weeks through the period 2021-22 with sole purpose of identifying and rectifying concerns raised with the connection process.

The Committee identified concerns that included:

- Australian Energy Market Operator (AEMO) were a primary source of confusion that lead to delays in many generation connection projects on the distribution network
- we were encouraged to consider options to improve communication between AEMO and generation connection proponents
- where connection to the distribution network required transmission augmentation, generation connection proponents identified issues the cost of transmission augmentations, time taken for transmission connection offers to be presented and the close of transmission connection works
- a desire for reform to regulatory framework to avoid the need for complex technical specifications.

In terms of interactions with the distribution business, the Committee considered pricing to be fair, clear and transparent and in most cases, communication was prompt, clear and efficient.

Further actions have been undertaken to address some of the 'paint points' identified by generation connection proponents. These include:

- since 15 March 2023, all generation connection proponents have been able to provide their own system strength services or alternately procure them our business
- we have been trialling with AEMO a process whereby we engage the same consultants to undertake the due diligence on generator performance standards
- commenced early discussions on minimum access standards with generation connection proponents to better clarify expectations. Preliminary discussion occur after the steady-steady and system strength requirements have been determined advancing generator performance standard discussions to the early phases of the connection application process
- seeking with generation connection proponents to identify synergies for network upgrades, especially in circumstances where augmentation could benefit multiple connection applicants
- introduction of high voltage distributed energy resources management system (HV DERMS), which enables us to operate a real time run-back scheme. Through HV DERMS we can accommodate additional generation connections within the capability of the network. Whilst we have the control to run-back the generator for a short period of time, they will otherwise have the flexibility to maximise their exports. All new generation connection proponents will have HV DERMS incorporated as part of their interface. Existing generators can also choose to opt-in.

As a final comment, it's not clear whether the issues being described by the CEC and AEMC relate to transmission or distribution. What has been described in the consultation paper has not been our experience.

3. Does the existing process for renegotiating technical performance standards create barriers for enabling connecting parties to negotiate efficient system security and reliability outcomes

Technical performance standards exist to protect the interests not only of the generation connection proponent, but the interests of existing and future customers. Distributors have a responsibility to ensure the interests of existing and future customers are considered to ensure any newly connecting generator does not impact the service customers receive or result in new costs resulting from that connection. Today's generation connection proponent will become an existing customer tomorrow and we would fully expect them to want distributors to consider their interests in any subsequent connection application.

Distributors are subject to an extensive list of compliance obligations under instruments such as the Electricity Distribution Code of Practice. Many of these obligations are tier 1 or tier 2 obligations subject to significant fines. Adherence to technical performance standards is a way by which compliance with relevant regulatory obligations can be maintained.

The complexity of the connection process should not be underestimated. There is time required to ensure that a new connection will not place existing network customers at risk. There is also time required to prepare design, gain easements and build assets. The time taken to complete these tasks can often be underestimated by generation connection proponents in their own planning.

In some situations we have found we need to advance the processes of generation connection proponents. Limited network capacity means we need to move the connection process along to avoid capacity banking by proponent. In other circumstances, we find we need to work with generation connection proponents to develop the information they need to allow their connection process to proceed.

Finally, we would note there are situations where the generation connection proponent has made changes to their plant. If this occurs, it should be expected this will have timing implications for the R1 process.

4. Do you agree that there are problems with the way the R1 process seeks to resolve external system security issues?

Our understanding is the R1 process is not critical path for most connection applicants. It represents the completion phase. The most important phase for the generation connection proponent is the application phase.

To assist generation connection proponents, we work with them to track their connection applications and ensure they do not experience issues through the process. This dialogue based approach we consider has been highly successful for our customers and the businesses.

5. How material is the absence of an independent, external dispute resolution process for the efficient negotiation of technical performance parameters before registration approval?

Whilst we do not consider it necessary, we are not opposed to independent external dispute resolution process for issues involving technical performance standards if it is believed it will result in a more efficient connection process.

If the process is introduced, it is important it is not viewed as a substitute for negotiation with distributors or used as a process to bypass the interests of existing and future customers.

6. Would the proposed timelines provide sufficient certainty about the duration of the R1 model assessment phase?

We are open to any change that improve the efficiency of the connection process. However, requiring distributors to complete reviews of a generation connection proponent's R1 model within 30 business days is highly ambitious and does not reflect the complexity that can arise in the connection of large-scale generators.

Connection applications can vary widely in their complexity and can be further complicated by generation connection proponents providing incorrect data or models to support our analysis. If the AEMC is contemplating mandating assessment periods, it needs to be inclusive of a 'stop the clock' provision to manage incomplete or highly complex connection applications.

7. Do you agree with the CEC's proposal for materiality guidelines, including whether they could appropriately define materiality thresholds for the categorisation of connection types?

If the CEC believes a materiality guideline would be of assistance, we have no objection.

However if such a guideline is to be developed, it is important that distributors are represented in its development. The CEC has nominated AEMO as they appropriate body to develop the guideline with input from network service providers. Similar to CRI process, we have concerns under AEMO's leadership, there is a risk the materiality guideline would narrowly focus on transmission connections and/or be reflective of the obligations AEMO faces under the NER rather than those of distributors.

As mentioned previously, it is distributors who are responsible for compliance across their networks and protecting the interests of existing and future customers. Further, many aspects of our distribution network are subject to specific Victorian arrangements under the Electricity Distribution Code of Practice rigorously enforced by the Essential Services Commission.

8. What are your views about the proposed pathway for each connection type, including the assignment of obligations and the allocation of costs and risks

If the AEMC sees fit distributors are required to accept registration of generation connection proponents plant in situations of genuine non-compliance, it must also ensure distributors are not subject to sanction from other regulatory authorities such as the AER or ESC. We also consider it necessary in such situations that to protect the interests of existing and future customers, the AEMC ensure the AER recognise that additional funding be provided to distributors to remediate the impacts of that connecting generator has imposed on other customers.

Beyond the detail of the pathways, it is important to recognise the CEC proposal will shift costs from the generation connection proponent to the distributor and existing/future customers. For example, we will need to incur more costs defending existing customers from non-compliant proponents or modifying the network to manage non-compliant generators. Generators do not pay for use of the distribution network. Aside from connection costs, all other costs are paid for by load customers. Further augmentation work associated with the generator connection generally benefit only the generation connection proponent.

Beyond the broader equity considerations identified above, costs associated with facilitating generation connection proponents will be difficult to forecast and hence unlikely to be funded by the AER through the reset capital expenditure forecasts. This may result in distributors incurring capital efficiency sharing scheme (CESS) penalties through no fault of the distributor. It may also 'squeeze out' of expenditure on other more prudent and efficient capital projects

It should be noted that to the extent distributors are required to invest in the network to support the generation connection proponent, the current regulatory invest test process does not allow augmentation for the purposes of relieving network constraints on generators. This would mean any expenditure would be considered by the AER to be imprudent and potentially 'stranded' should the investment proceed.

Despite this, we do see potential solutions to many of the issues identified by the CEC and AEMC. The current regulatory framework does not support distribution level renewable energy zones (REZs). REZs would present an opportunity to address many of the technical issues identified by the CEC. The concept is supported by our Generator Steering Committee. We note that jurisdictions have in some states established their own regulatory arrangements outside of the NER to support the REZ concept. Consideration should be given to bringing the concept inside the NER to obviate the need for jurisdiction-based schemes and to place pressure on the AER to fund REZ proposals.

Another potential solution we have been actively applying in across our networks has been HV DERMS. As previously mentioned, HV DERMS allows registration of plant subject to the network being able to interrupt export from that plant in the event the export threatens system security. This has permitted plant that may not otherwise been able to connect, to do so. It has also increased the capacity available to future connection applicants.

9. What are your views about the CEC's proposal for dispute resolution?

We don't oppose an independent engineering facilitator to manage disputes. It would require a clear framework to operate to ensure it does not simply delay registration.

It would also need to ensure it considers the impact its decisions have on existing or future customers or, to the extent it places the distributor in non-compliance, a mechanism to ensure the distributor is funded to return the network to compliance.

10. Do you support the CEC's proposed model or do you prefer an alternative approach? Are there any modifications to the CEC proposals that you believe may improve it?

The CEC proposal is extensive. It would necessitate virtually a new NER chapter.

As mentioned at the outset, at least for connections on our networks, we do not see the existing process as 'broken' as the CEC does. We believe more could be achieved through dialogue, especially in the distribution case with AEMO/AusNet, than drafting another 20 pages of prescriptive Rules that are more likely to hinder rather than expedite connections.