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Chairman  
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**BY EMAIL:** [submissions@aemc.gov.au](mailto:submissions@aemc.gov.au)

26 March 2009

Dear John

***REF: Secure Energy, 1st Interim Report  
December 2008, Reference EMO 0001***

We refer to the initiative of the Australian Energy Market Commission (**AEMC**) to review demand-side participation (**DSP**) in the National Electricity Market (**NEM**), with the intent of reporting the outcomes to the Ministerial Council on Energy and making recommendations on potential changes that could be made to the National Electricity Rules (**Rules**). We note that submissions on the Issues Paper for Stage 2 of the Review have been received. However, we would like to take this opportunity to provide some comments that might be useful in the consideration and analysis of Stage 2 submissions.

Secure Energy is a specialist in local standby electricity generation, with the objective of improving return on investment from standby generation assets, and concurrently augmenting the reliability of electricity network operators. As a new entrant, we are committed to working within and supporting the existing regulatory and technical frameworks of the national electricity market, and playing an important role in protecting Australia's future energy supply.

This submission aims to address issues in relation to Network Access and Connection Arrangements that potentially impact on embedded generators. Specifically:

- (a) We do not believe that the technical standards imposed by the National Electricity Rules (**NER**) are an impediment to the registration of embedded generators.<sup>1</sup> In fact we recognise the importance of maintaining and enforcing appropriate technical standards on all types of generators, in order to ensure that the integrity of the national electricity system is not compromised.
- (b) We do not believe that the technical standards imposed by the network service providers (**NSPs**) are an impediment to the connection of embedded generators. We recognise that it is critical that any risks that are posed to NSPs by the connection of embedded generators must be identified and addressed as part of the registration process, in order to ensure that the integrity of the NSPs' systems is not compromised.
- (c) We do not believe that the registration fees imposed by NEMMCO represent an impediment to the registration of embedded generators. It is understood that there is an administrative cost associated with the consideration and processing of applications for the registration of all types of generators, and we would not regard the current fee structure as inappropriate.

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<sup>1</sup> For example, those specified in Schedule 5 of the NER.

- (d) The NER is a well-developed, intricately balanced regulatory framework that has evolved over decades, and addresses the risks and interests of many participants within the market. The NER in their current form do not prohibit the deployment of embedded generation within the national electricity market. We do not consider the NER to be an impediment to the registration of embedded generators. We would be concerned that any changes made to the NER to specifically address the requirements of particular proponents of particular embedded generation solutions would risk upsetting the balance that is currently reflected in the NER.
- (e) Notwithstanding that the NER in their current form facilitate the registration of embedded generators, the phenomenon of registering such generators is relatively new in the context of the development of the national electricity market (which has occurred over several decades). The conventions on which market participants have operated historically have not evolved to accommodate embedded generation, as participants have not historically been required to consider the issue. Accordingly, many of the “how to” procedures regarding such things as MSATS entries and sign offs do not exist for the registration of embedded generators.
- (f) Our experience is that the NSPs have been cooperative and practical in their approach to the consideration of applications for the registration of embedded generators. We estimate that any delays that have occurred in securing the necessary approvals from NSPs for embedded generator registration has been a function of:
  - (i) the legitimate requirement of NSPs to undertake an assessment of commercial and technical risks associated with significant embedded generation; and
  - (ii) the absence of any “implementation guidance” (referred to in paragraph (e)) for connection and registration arrangements,

rather than a lack of desire on the part of NSPs to support embedded generation. In this regard, it might be useful for the AEMC to provide some “clarifying statements” to give participants comfort on matters in respect of which industry convention has not evolved as an overlay to the existing NER. We emphasise that such clarifying statements should be a confirmation of the application of the existing NER; not a proposal to amend the NER or to develop new policy.

- (g) Large electricity customers with standby generation assets should have the opportunity to achieve a commercial benefit from owning and operating these assets, where they can provide benefits to the market and the national electricity system. The opportunity to generate commercial returns on these assets should be independent of a customer’s procurement of electricity from a retailer. Settlement of the generation output of these assets in the spot market is the best mechanism by which the peak shaving benefits of standby generation can be derived. If a customer’s only option is to settle the output of standby generators via the retail relationship, this would severely reduce the efficacy of peak shaving, and would also reduce competitive tension in both the retail electricity relationship and the potential demand response market.
- (h) We welcome studies by the AEMC and others concerning the growing risk that the electricity market in Australia may not meet peak demand requirements in the medium-long term. We note that the problem is amplified when examined by reference to individual transmission and distribution network elements, as opposed to capacity calculated at a national or regional (State) level. We also note that the regulatory processes for considering the application of non-network (generation) solutions to network augmentation requirements are cumbersome for potential providers of such solutions.

Should you have any queries in relation to this letter, please feel free to contact either one of us.

Kind regards

**Ben Burge**  
Chairman

**Chris Murphy**  
Chief Executive