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Submission to the AEMC

Regarding consultation on rule change request

Connecting embedded generators

Project Ref. ERC0147

9th August 2012

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The Australian Energy Market Commission

Consultation into rule change request on Connecting Embedded Generators.

APA Group (APA) is pleased to have an opportunity to comment to the Australian Energy Market Commission on the rule change request from ClimateWorks Australia, Seed Advisory and the Property Council of Australia, in relation to *Connecting Embedded Generators.*

APA commends the AEMC for preparing the paper and also thanks ClimateWorks Australia, Seed Advisory and Property Council of Australia for their initiative and efforts.

As such, APA is pleased to be able to provide comment on some of the issues raised within the paper.

About APA Group (APA)

APA is a major ASX-listed gas transportation business with interests in gas infrastructure across Australia, including 12,700 km of natural gas pipelines, over 25,000 km of gas distribution networks and gas storage facilities. APA is Australia's largest transporter of natural gas, delivering more than half of Australia's annual gas use through its infrastructure.

APA also has investments in other energy infrastructure through minority interest in Envestra, the Ethane Pipeline Income Fund, Energy Infrastructure Investments, Gas Distribution Investments and the Hastings Diversified Utilities Fund. APA's involvement also extends to the provision of services to most of these companies.

APA operates gas distribution networks for Envestra and Gas Distribution Investments, and is committed to supporting the expansion of these networks.

Benefits of Natural Gas

Natural gas is a key fuel for the transition to a low emission economy.

Whilst natural gas is a fossil fuel, it is more greenhouse efficient than coal or oil, and is only half as emission intensive as black coal and a third of brown coal and is the cleanest burning of all fossil fuels. It is colourless, odourless, and non-toxic. Natural gas is currently the cleanest commercial form of reliable and scalable base-load generation.

Natural gas provides low emission energy for applications ranging from home appliances to vehicles to commercial buildings through to large industrial processes.

Natural gas is a suitable fuel for a range of distributed generation technologies including conventional engines, fuels cells, micro-turbines, co-generation and tri-generation.

General thoughts on the rule change request

APA understands that the impact of the proposed rule change will be "to amend the National Electricity Rules (NER) to make a more efficient process for connecting embedded generators to distribution networks and clarify the costs for connections".

Given that the outcomes of the proposed rule change are for an increase in process efficiency that also reduces costs, APA is fundamentally supportive of the request for rule change.

APA notes with interest some observations of ClimateWorks Australia, Seed Advisory and Property Council of Australia (the proponents), in their rule change paper – *Submission to the Australian*

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Energy Market Commission – "Proposal to amend the National Electricity Rules for connecting embedded generators" – April 2012, namely

- Chapter 5 being not sufficiently prescriptive with respect to the connection process;
- That there is a lack of technical standard under the NER, for embedded generators;
- That currently, under the rules it is not particularly clear or transparent in regard to determining connection cost.

Complementing the proponent's observations above, APA's views are that policy to govern distributed generation should be developed and implemented so that it:

- Facilitates the identification and removal of the barriers to entry, thus allowing a role for lower emission fuels in achieving energy efficiency and emissions reduction objectives.
- Does not discriminate in favour of one fuel type or technology over another. That is, the achievement of energy efficiency and/or emissions reduction objectives should be measured in a consistent and objective manner, independent of fuel and technology type.
- Ensures focus on the economics of emissions reduction by enabling asset owners and operators to make decisions on economic grounds.
- Ensures incentives to reduce peak demand are available to any party that achieves demand reduction. Under current Access Arrangements, a number of electricity distribution businesses have funding allowances to implement demand management initiatives. However, these distribution businesses have to balance different objectives being the maximisation of profit and the implementation of demand management, which may be in conflict. An alternative approach would be to make incentives available to any party that could implement an activity to secure a reduction in peak demand.
- Recognises the key role distributed generation has in facilitating efficient investment across both electricity and gas networks. That is, investment in distributed generation potentially allows greater utilisation of the gas network, thereby reducing electricity network investment, to the overall benefit of consumers. For example, gas networks are typically under-utilised in summer, so that distributed generation holds the potential to avoid investment in electricity network capacity which would otherwise support peak summer electricity demand.
- Ensures Feed In Tariffs (FITs) and distributed generation objectives are consistent with the objectives of the Clean Energy Act 2011. It is theoretically possible to install more energy efficient equipment and simultaneously shift to a more emissions intensive fuel, for example replacing a natural gas boiler with a high efficiency waste oil boiler. The program should be designed in such a way that increases in carbon emissions are not rewarded.

APA supports the recommendations, as proposed by ClimateWorks Australia, Seed Advisory and Property Council of Australia, in their paper.

APA supports in principle the below proposed solutions put forward by the proponents, on page (14) of their paper, i.e.

- Provide an automatic right to connection to the electricity grid.
- Entitle export of electricity to the grid.

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- Provide an improved connection process for embedded generators that are ineligible for automatic access and a right to export electricity to the grid.

- Allow electricity distributors to charge an optional fee-for-service. This is to encourage them to work collaboratively with proponents during the connection process.

- Require electricity distributors to publish an annual report identifying where network capacity may be limited.

Brief comments on questions found through the AEMC consultation paper, are provided below;

1 - Questions relating to *Complying with chapter 5*

The proponent's paper discusses the issues of connection. The subsequent recommendation is logical and reasonable, namely that connection to the electricity network should be easier; quicker; lower cost; easier to understand and so on The current process is the reverse of that and needs to be changed. APA concurs with the listing in the proponent's paper of the barriers to entry for embedded generators

2 - Questions relating to *Good Faith provisions*

The obvious issue with 'good faith' provisions is the relative subjectivity associated with such words. Because demonstrating that parties have acted in 'good faith', is a particularly difficult task, APA would recommend that the reliance on such wording is minimised and that more prescriptive words are used in their stead – wherever possible.

The more a process is specified and quantified, the better for all parties involved. In fact, the recommendations made by the proponents not surprisingly focus on providing greater certainty by standardising and quantifying requirements where possible.

3 - Questions relating to *Publishing details of information requirements*

It is not unreasonable to expect that the proponents of embedded generation projects are supported, where required, by the electricity distributor in regard to the provision of more information.

Information about, for example, network plans; demand side opportunities and; network performance and constraints, should be made available to embedded generation proponents, without constraint.

4 - Questions relating *to Response to connection enquiries*

Over the years, this area of interaction between proponents and electricity distributors has been the subject of much criticism and concern. For example duplication of information requests, requests for sometimes irrelevant information and tardiness in supply of information have been problems for both parties.

Again, if the connection process was standardised (on items of information provided and response times) a number of these concerns would diminish.

5 - Questions relating to *Information to be included in offers to connect*

Information on likely connection costs, in a standardised format, would be useful for proponents. The type of information required by embedded generation proponents could easily be identified by a series of organised consultation session between electricity distributors and embedded generation proponents.

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6 - Questions relating to *Setting out the time to connect in the preliminary program*

An agreed time period for the preliminary program should be formally agreed for a project, with commitments made by both parties.

7 - Questions relating to *Providing an offer to connect within 65 business days*

Based on anecdotal reports, timeliness of negotiations and turnarounds in information to embedded generation proponents has been a significant issue over the years. By agreeing set timelines for the provision of particular types of information, including times to be dedicated to each step of negotiations – even if only estimates – would add greater confidence and certainty to the process.

APA has no specific comment on these proposed periods of 65 business days other than to acknowledge that having an agreed time period is very important. Any period agreed must be realistic and attainable.

8 - Questions relating to *Terms and Conditions of connection*

The key point implicit in this section is the need for consistency between distributors – ideally within states and also, of course, nationally. This would assist embedded generation proponents who operate across or within states, and also allow for benchmark comparison and performance assessment between distributors.

9 - Questions relating to *Technical standards for embedded generators*

APA believes that standard technical processes should be developed for embedded generators. Until this is done, processes will tend to be ad hoc and potentially inconsistent within and across electricity distributors – something that correlates with higher than necessary cost that will inevitably discourage investment in embedded generation.

10 - Questions relating to *Embedded generators having an automatic right to export to the grid*

Subject to grid security, APA supports this principle consistent with the proponent's recommendations.

By providing certain export rights, those embedded generations proponents, should achieve greater certainty than at present, where various well documented barriers to entry often effectively make grid export far more difficult than it should otherwise be.

The benefits to grid export are well documented in the proponent's rule change paper. The easier it is for an embedded generator to connect and export to the grid, the more such projects will be successful.

11 - Questions relating to *Allowing distributors to charge an optional fee for service*

The concept of a distributor being able to charge a fee for service, in relation to assisting a proponent to connect to the network is not unreasonable. The fee should be reasonable and should also relate to the time taken to undertake the work – something that might vary from project to project.

12 - Questions relating to *Shared network augmentation costs*

If a financial benefit is created for the electricity distributor, due to the connection of an embedded generator, than any fees or costs that would otherwise be paid by the generation, would be offset by any savings generated by the connection.