



Inclusion of Embedded Generation Research into the DMIS

Draft Determination 29 September 2011

The Commission has made a draft rule to strengthen the incentives for Distribution Network Service Providers (DNSPs) to minimise the connection costs of embedded generators. The draft rule expands the objective and scope of the Demand Management Incentive Scheme (DMIS) to include innovation in connection of embedded generators. Expanding the existing scheme will be the most practical and effective way of encouraging DNSPs to consider more cost effective ways of connecting embedded generators to the distribution networks.

The Commission has decided to make a draft rule in response to a request submitted by the Ministerial Council on Energy (MCE) regarding the inclusion of embedded generation research into the DMIS applied by the Australian Energy Regulator (AER) to DNSPs as part of their revenue determinations.

The draft rule proposes to require the AER to consider improving the incentives for DNSPs to consider ways of more efficiently connecting embedded generators under the DMIS framework. The draft rule also amends the title of the scheme to "Demand management and embedded generation incentive scheme".

Call for submissions

Submissions on the draft rule determination should be received by 10 November 2011.

Proposal in context

In November 2009, the AEMC provided its stage 2 final report to the MCE identifying certain aspects of the existing National Electricity Rules that could be improved to enhance demand-side participation (DSP) in the national electricity market. The stage 2 DSP review raised the issue of distribution businesses' incentives for innovation in connection of embedded generators as an area needing further consideration.

The stage 2 review found that the prospect of more customers using embedded generation as substitute for electricity sourced from the main network is likely to increase given the increasing focus on climate change policies and the uptake of various government schemes and incentives such as feed-in tariffs and rebates for photovoltaic solar energy. The review concluded that, absent additional incentives, the existing framework did not encourage DNSPs to appropriately innovate for embedded generation connections.

Under the existing framework, DNSPs have strong incentives to focus on network reliability and safety and weak incentives to minimise costs associated with connecting embedded generators to their network. This imbalance is largely a result of the discretion DNSPs have in specifying the minimum technical standards that connecting embedded generators must meet at their own expense.

In response to the stage 2 DSP review findings, the MCE submitted a rule change request in November 2010 to expand the existing DMIS to include incentives for innovation in connection of embedded generators. The MCE proposed a rule to require the AER, in developing and implementing a DMIS, to have regard to incentives for DNSPs to consider more innovative and cost effective ways of connecting embedded generators to their distribution network.

On 23 June 2011, the Commission published a notice under section 95 of the National Electricity Law (NEL) advising of its intention to commence the rule making process and the first round of consultation in respect of the rule change request. Submissions closed on 21 July 2011.

The Commission received six submissions on the rule change request as part of the first round of consultation. Submissions were generally in favour of the MCE's proposed rule.

Expanding the objective and scope of the Demand Management Incentive Scheme (DMIS) will be the most practical and effective way of encouraging distribution businesses to consider more cost effective ways of connecting embedded generators to the distribution networks.

Draft Rule Determination

The Commission has concluded that DNSPs currently have weak incentives to minimise the connection costs of embedded generators due to their focus on ensuring connections meet the network security and reliability standards applicable to relevant DNSP. While maintaining these technical connection standards is important, if they are in excess of the necessary minimum requirements to maintain system security and reliability of supply, then the additional costs to meet those prescribed standards may discourage embedded generators from connecting to the distribution network.

To overcome this lack of incentive, the Commission has determined to make the draft rule as proposed by the MCE, with minor drafting amendments. The draft rule requires the AER to consider improving the incentives for DNSPs to consider ways of more efficiently connecting embedded generators under the DMIS framework. The draft rule also amends the scheme's title to "Demand management and embedded generation incentive scheme" to reflect the expanded objective and scope of the scheme.

The Commission believes that expanding the scope of the DMIS will be the most practical and effective way of encouraging DNSPs to consider more innovative and cost effective ways of connecting embedded generators to distribution networks.

The Commission has also recognised that any benefits to be realised from the draft rule will require DNSPs to secure additional funding under the scheme. However, the Commission has concluded that the existing DMIS framework is adequate with respect to funding in so far as DNSPs will continue to retain the discretion in proposing to the AER innovative projects that encompass demand management and non-network alternative issues more generally or promote innovation in connection of embedded generators.

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