



Ref.: JD/AC

9 August 2012

Mr John Pierce
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

97-99 Adelaide Street
Maryborough QLD 4650
PO Box 163
Maryborough QLD 4650
Telephone 13 10 46
Facsimile 07 4123 1124
Website www.ergon.com.au

Dear Mr Pierce

ERC0147 – AEMC’s Consultation Paper – National Electricity Amendment (Connecting embedded generators) Rule 2012

Ergon Energy Corporation Limited (Ergon Energy) appreciates the opportunity provided by the Australian Energy Market Commission (AEMC) to provide comments on the *Consultation Paper National Electricity Amendment (Connecting embedded generators) Rule 2012* (the Consultation Paper). This submission is provided by Ergon Energy in its capacity as a Distribution Network Service Provider (DNSP) in Queensland.

Ergon Energy looks forward to providing continued assistance to the AEMC in its consultation on the Rule change request on connecting embedded generators. Should you require additional information or wish to discuss any aspect of this submission, please do not hesitate to contact either myself on (07) 4092 9813 or Alena Christmas on (07) 3228 8272.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Jenny Doyle', with a long horizontal line extending to the right.

Jenny Doyle
Group Manager Regulatory Affairs

Telephone: 07 4092 9813
Email: Jenny.Doyle@ergon.com.au

Ergon Energy Corporation Limited

**Submission on the *Rule Change Consultation Paper*
*National Electricity Amendment (Connecting
embedded generators) Rule 2012***

**Australian Energy Market Commission
9 August 2012**





**Submission on the *Consultation Paper –
National Electricity Amendment (Connecting
embedded generators) Rule 2012 of Consultation*
Australian Energy Market Commission
9 August 2012**

This submission, which is available for publication, is made by:

Ergon Energy Corporation Limited
PO Box 15107
City East
BRISBANE QLD 4002

Enquiries or further communications should be directed to:

Jenny Doyle
Group Manager Regulatory Affairs
Ergon Energy Corporation Limited
Email: jenny.doyle@ergon.com.au
Ph: (07) 4092 9813
Mobile: 0427 156 897



1. INTRODUCTION

Ergon Energy Corporation Limited (Ergon Energy) welcomes the opportunity to provide comments to the Australian Energy Market Commission (AEMC) on its *Consultation Paper – National Electricity Amendment (Connecting embedded generators) Rule 2012 (the Consultation Paper)*.

This submission is provided by Ergon Energy in its capacity as a Distribution Network Service Provider (DNSP) operating in Queensland. Ergon Energy is available to discuss this submission or provide further detail regarding the issues raised, should the AEMC require.

Ergon Energy provides detailed responses to the questions asked by the AEMC in section 2 of this submission. At a high level Ergon Energy provides the following key points:

- Ergon Energy supports the enhancement of the connection framework that encourages the connection of the Embedded Generators (EG).
- Ergon Energy considers that the Rule Change in its current form is not appropriate. Ergon Energy considers that the focus should be on the identification of the different classes of EG connections and the technical/access/network considerations that are associated with each class of EG, rather than trying to standardise the connection process for all EGs. The Rule change should support this and therefore aim for greater flexibility and less prescription.
- Ergon Energy considers that there may be some confusion about the obligations that rest with Ergon Energy as a DNSP in the National Electricity Market. Ergon Energy has obligations to operate, maintain (including repair and replace as necessary) and protect its supply network to ensure the adequate, economic, reliable and safe connection and supply of electricity to its customers¹. It is because of these obligations that Ergon Energy may vary the technical requirements of a connection agreement and cannot adopt a one size fits all approach.
- Ergon Energy requests that the AEMC in considering this Rule Change, note that Queensland, Victoria and New South Wales Governments have delayed the formal introduction of the National Energy Customer Framework.
- Ergon Energy agrees that it is not appropriate that EGs of the size contemplated by this Rule change should sit under Chapter 5A. Rather, they more appropriately sit under Chapter 5 of the National Electricity Rules (the Rules). Given this, the definition of non-registered EGs should be removed from Chapter 5A.
- Ergon Energy does not support the Rule Change proponents' concept that basic connections should be offered for the size contemplated by the Rule Change proponents.
- Adopting the same connection principles used to develop Chapter 5A cannot and should not be transferred as an equivalent to Chapter 5.
- Ergon Energy recommends that the next steps should focus on encouraging greater collaboration between Network Service Providers (NSPs), EG proponents, the Australian Energy Market Operation (AEMO) and other technical experts in developing appropriate access standards for different classes of EGs.

¹ section 42, *Electricity Act 1994*



2. TABLE OF DETAILED COMMENTS

Question(s)	Ergon Energy Response
<p><u>Question 1 Complying with Chapter 5</u></p> <p>(a) Currently any person can require a network service provider to comply with Chapter 5 or elect to use the connection procedure under Chapter 5. Are there any problems or barriers to how this is applied in practice?</p> <p>(b) If so, what are the problems and/or barriers? What are the costs and impacts on stakeholders?</p> <p>(c) How would the proposed amendment to specify that an EG has the right to require a network service provider to comply with Chapter 5 resolve these problems and/or barriers?</p>	<p>(a) Ergon Energy provides no comment.</p> <p>(b) Ergon Energy provides no comment.</p> <p>(c) Ergon Energy does not agree with the Rule Change Proponent’s recommendation of giving an EG the right to require that NSPs comply with Chapter 5². This takes away the commercial right of both parties to negotiate the terms and conditions of a connection that should be available to both parties. We do not think that a standardised process is viable given that the connection of embedded generation is dependent upon the following:</p> <ul style="list-style-type: none"> • the level of generation already connected; • the voltage to which the generation is to be connected; • the size of the generation system to connected; • the type of generation system proposed; and • the electrical strength of the network at the point of connection. <p>Ergon Energy does not consider that a single standardised approach is appropriate given the number of dependencies and technical issues associated with connecting EGs. Furthermore, Ergon Energy does not agree with the Rule Change Proponents amendment of the definition of EG³ as Chapter 5A captures non-registered embedding generating units. Also by using the word “clarifies” it is arguable that the current definition of EG is ambiguous. Ergon Energy does not consider that it is</p>

²

³ Rule Change Proponent proposes that definition be amended so that it clarifies that an EG is not necessarily a registered participant.



<p>(d) Given that any person can elect to use the connection process under Chapter 5, when, and why, do non-registered EGs choose not to use this process?</p>	<p>ambiguous as there are strict rules about registration.</p> <p>(d) Ergon Energy provides No comment.</p>
<p><u>Question 2 Good faith provisions</u></p> <p>(a) The current NER sets out that network service providers and connection applicants must conduct negotiations in 'good faith'. Are there any problems associated with the application of this provision?</p> <p>(b) How would the proposed amendment for an additional 'good faith' impact stakeholders?</p>	<p>At a high level, Ergon Energy considers that there are already sufficient good faith provisions contained within the Rules and that there is no evidence to suggest that DNSPs do not negotiate in good faith with EG connection applicants.</p> <p>(a) Ergon Energy does not consider that there are any deficiencies in the current good faith provisions as set out in clause 5.3.6(f) of the Rules.</p> <p>(b) Clause 5.1.3 sets out the principles relating to connection to the national electricity grid. Ergon Energy does not support the inclusion of these 2 new clauses proposed by the Rule Change Proponents. This is because, firstly these 2 proposed sub-clauses are drafted in such a way to make them an obligation rather than a principle. Secondly they are duplicitous; as clause 5.3.6(f) of the Rules already contains a good faith entitlement and clause 5.3.2(f) of the Rules mandates that a NSP provides the applicant with technical information necessary to facilitate the processing of a connection enquiry.</p>
<p><u>Question 3 Publishing details of information requirements</u></p> <p>(a) What are the costs and benefits to distributors and EGs in requiring distributors to publish information on its connection process including an application form and information on application fees and calculation of connection costs?</p>	<p>Ergon Energy supports a Rule Change that looks at improving communication between EG proponents and NSPs. In saying this, we are not supportive of the proponent's Rule Change as the sub-rules associated with rule 5.3 of the Rules provide obligations on both parties to provide information necessary to facilitate a connection.</p> <p>(a) Ergon Energy sees value in providing this information but notes that there will be limitations meaning only generic information may be provided when in reality most EG proponents are site specific therefore this will not satisfy the Rule Change proponents.</p> <p>Ergon Energy highlights that our website⁴ currently has information available to</p>

⁴ <http://www.ergon.com.au/your-business/connections/major-connections>



<p>(b) How would the proposal to add a clause that each party 'must provide the other with information the other reasonably requires in order to facilitate connection to the network' address any problems? What are the details and examples of the current communication issues that stakeholders have experienced with the connection process?</p> <p>(c) Noting that there are currently provisions under the NER for the exchange of information, what are the deficiencies of the current arrangements?</p> <p>(d) Would the demand side engagement document under the distribution network planning and expansion framework rule change address these information requirements?</p>	<p>assist customers with their connection enquiries. In relation to costs, Ergon Energy refers all customers to our Australian Energy Regulator (AER) approved Pricing Proposal for each regulatory year and our Capital Contributions Policy. Both of these documents are available on Ergon Energy's website and provide details of the fees associated with Ergon Energy's distribution services. However, each EG connection will vary by size, location and complexity many of our distribution services have been determined by the AER to be Quoted Services and therefore standard fees are not applicable and instead the application fees and connection costs will be calculated specific to the individual EG (using the AER approved formula and input rates).</p> <p>(b) Ergon Energy considers that rule 5.3 already contains adequate information exchange provisions. Therefore we do not think that adding this clause is necessary.</p> <p>(c) Ergon Energy provides no comment.</p> <p>(d) Ergon Energy considers that the demand side engagement document will not address the information requirements being proposed by the Rule Change Proponents. This is because it is a forward looking document. However, Ergon Energy believes that the value of this document cannot be discounted as draft Schedule 5.9 (clause 5.13.1(h)) proposed under the draft National Electricity Amendment (Distribution Network Planning and Expansion Framework) Rule 2012 is extensive and supports the intent of the Rule Change Proponents request. Ergon Energy therefore sees no value in creating onerous obligations which overlap with information requirements already being provided for under the demand side engagement document and generally throughout the connection process under rule 5.3.</p>
---	---



<p>(e) Should the proposed changes apply generally to all network service providers?</p>	<p>(e) Ergon Energy does not consider that the proposed changes should apply to all NSPs.</p>
<p><u>Question 4 Response to connection enquiries</u></p> <p>(a) In stakeholders' experience, have the response that the network service providers provided in response to connection enquiries been clear and reasonable?</p> <p>(b) Have there been experiences where a connection applicant has been asked to provide information that it has already submitted and, if so, why?</p> <p>(c) Have there been experiences where a connection applicant has been asked to provide information that it did not consider was 'reasonable'? How was this situation resolved?</p> <p>(d) To what extent would the requirements for distributors to publish the demand side engagement document resolve any issues?</p>	<p>(a) Ergon Energy understands that stakeholders consider that NSP responses to connection enquiries are not clear and reasonable. However, Ergon Energy considers that the purpose of a connection enquiry is to provide the applicant with a preliminary response. In Ergon Energy's experience often the applicant wants a full scope of works and the costs associated with the connection at the enquiry stage. This is not reasonable within the timeframe provided.</p> <p>(b) Ergon Energy notes that there have been some instances where this has occurred and it is usually because the applicant has not provided the information through our required process, for example the applicant used the incorrect form.</p> <p>(c) Ergon Energy has not experienced this. However, if it were to happen Ergon Energy submits that this can be easily resolved through clarification, explanation and negotiation between the parties.</p> <p>(d) Ergon Energy considers that this may alleviate the concerns of the Rule Change Proponents. Ergon Energy notes that the Rule Change Proponents responded to the AEMC's Rule Change – <i>Distribution Network Planning and Expansion Framework</i> and they supported the requirement that DNSPs are required to publish an Annual Planning Review.</p>
<p><u>Question 5 Information to be included in offers to connect</u></p> <p>(a) In practice to date, what information on connection costs are provided in offers to connect? How is the requirement of confirming to rule 5.5 being met? How are the current arrangements deficient?</p> <p>(b) How would the proposed rule to add an 'itemised statement of connection costs' improve the current arrangements? How would stakeholders be impacted if this requirement were to be introduced?</p>	<p>Ergon Energy considers that it is inappropriate to transfer the "itemised statement of connection costs" that is proposed under Chapter 5A to Chapter 5. The connection costs should be part of the commercial arrangements that are negotiated between the parties. Ergon Energy considers that the current arrangements are appropriate and should not be amended.</p>



<p>(c) Should this requirement apply to all types of connections?</p>	
<p><u>Question 6 Setting out the time to connect in the preliminary program</u></p> <p>(a) Under the current arrangements (either under the NER or jurisdictional arrangements), what are the typical timeframes within which offers to connect are made by distributors?</p> <p>(b) What are the factors that affect the timeframe for finalising an offer to connect?</p> <p>(c) Is it feasible or practical to include a specific timeframe to finalise an offer to connect at the time of preparing the preliminary program? What information is currently provided in preliminary programs?</p> <p>(d) If adopted, should this requirement apply to all connection enquiries?</p>	<p>(a) Once Ergon Energy receives an accepted application to connect, Ergon Energy uses best endeavours to provide a customer with a negotiated connection offer within 65 business days.</p> <p>(b) The need to undertake detailed and more complex connection design work, including where the connection application involves:</p> <ul style="list-style-type: none"> • non-standard Ergon Energy design; • planning and technical studies; and • site visits and inspections, <p>can affect the timeframe for finalising an offer to connect.</p> <p>Other factors can include:</p> <ul style="list-style-type: none"> • determination of the service classification, that is, Alternative Control Service or Standard Control Service; • dependency on external parties, for example TNSP's providing information; and • Third party approvals and negotiations can lengthen the process because of the technical complexity associated with connecting EGs. <p>(c) Ergon Energy does not consider that it would be practical, and may not add value, to include a specific timeframe to finalise an offer at the time of preparing the preliminary program. Ergon Energy's understanding is that the customer wants to know when construction will be completed, therefore the value of when an offer to connect is to be made is not a primary concern as opposed to knowing the costs and when construction is completed during the enquiry phases.</p> <p>(d) Ergon Energy does not support the recommendation to include a timeframe to finalise an offer to connect.</p>



Question 7 Providing an offer to connect within 65 business days

- (a) What are the factors that affect the timeframe within which offers to connect may be made? What are the factors that impact the process for negotiating negotiated access standards?
- (b) Have there been cases (particularly in Victoria) where 65 business days was not sufficient to finalise an offer to connect? What were the reasons for requiring more than 65 business days?
- (c) How would network service providers and connection applicants be affected by the proposed amendment?
- (d) Should this requirement apply to all network service providers for all connections?

- (a) Ergon Energy refers to comments made in 6(b). In relation to negotiating access standards, in Ergon Energy's experience, there is a lack of knowledge regarding access standards in terms of what they mean. Therefore Ergon Energy spends a considerable amount of time educating proponents. Further, any negotiation of access standards under rule 5.3.4A(i) means the involvement of the Australian Energy Market Operator (AEMO). AEMO will assess proposed performance standards under a new generation connection.
- (b) Ergon Energy refers to response in 6(b).
- (c) Ergon Energy considers that imposing this may result in more onerous application requirements being imposed on connection applicants.
- (d) Ergon Energy does not support this recommendation applying to all connections, as there are too many factors outside a NSP's control. This could have far reaching and unintended consequences, including capturing Registered Participants who are not meant to be captured as the Rule Change proponents are seeking solutions for EGs not all market participants. The connection timeframe can and is often amended by both parties and this should be allowed to continue without limitation imposed.

Question 8 Terms and conditions of connection

- (a) How are the current provisions under clause 5.3.6(b)(2) being applied? That is, are the terms and conditions for connection of the kind as set out in schedule 5.6?
- (b) In what ways are varying terms and conditions between distributors a problem? Is it appropriate for distributors to have different terms and conditions? Does this reflect relevant differences in network requirements?

Ergon Energy considers that the terms and conditions of connection will vary depending on the technology and the size of the EG. It is completely appropriate for DNSPs to have different terms and conditions because there are differing jurisdictional requirements and each distribution business has different network issues. Other factors that Ergon Energy considers would vary the terms and conditions may include:

- the existing load on the network;
- whether any other EGs are connected on that part of the network where the applicant may seek to connect; and
- the network configuration at the proposed point of connection, including the size



	<p>of the transformer, size and length of low voltage mains and service.</p>
<p><u>Question 9 Technical standards for EGs</u></p> <p>(a) Without technical standards currently being in place for EGs, how well has the connection process under Chapter 5 worked in practice? How urgently are standards needed?</p> <p>(b) Would standards for different types/classes of EGs be required?</p> <p>(c) What factors should be taken into consideration in developing such standards? Are there any specific jurisdictional or local requirements?</p>	<p>At a high level, Ergon Energy supports the development of appropriate access standards. However, we consider that the Rule change should not proceed until they are developed.</p> <p>(a) Ergon Energy applies Schedule S5.2 to all EGs of at least 30 MW, and much of it to those below. The smaller generators are not required to meet all the automatic access standards, but some are still relevant. The decision is done on a case-by-case basis, as there is no simple threshold that can be applied, because it depends on where they are connecting in the network.</p> <p>Ergon Energy considers that standards are needed but highlight that there should be a careful and thorough approach taken in developing the standards.</p> <p>(b) Yes different standards would be required. For example different requirements may be required for intermittent generation with inverter connected, and co-generators with a significant load component, and non-exporting co-generators.</p> <p>Ergon Energy confirms that there would need to be separate standards for different classes by size, as well, but regard must be had for local network conditions.</p> <p>(c) Whilst developing nationally consistent technical standards is preferred, there are jurisdictional and network configuration differences that cannot be overlooked during the development. Note that in Queensland under rule 9.37.2(d), small generators⁵ are not required to comply with the conditions of connection set out in schedule 5.2 of the Rules. Further, each part of the network has local factors which influence the requirements, such as fault levels and load profiles that should be contemplated while developing standards. Finally jurisdictional safety requirements will vary</p>

⁵ small generators for the purpose of Chapter 10, is defined under Chapter 9 of the Rules as A *Generator* whose *generating system is connected* to the Queensland system and has a *nameplate rating* of less than 5MW.



<p>(d) What should be the scope of such standards? Can all relevant technical requirements be 'standardised'?</p>	<p>between jurisdictions.</p> <p>(d) In Ergon Energy's views standards should be high level with minimal prescription. The underlying problem is that because each connection point is unique there will be exceptions to any broadly generalised standards.</p>
<p><u>Question 10 EGs having an automatic right to export to the grid</u></p> <p>(a) Under what circumstances have EGs not been allowed to export electricity to the network?</p> <p>(b) What are the impacts on EGs and other participants when exporting is not allowed?</p> <p>(c) Are there circumstances where the ability of EGs to export electricity to the network should be limited? What conditions could be reasonably imposed to limit exporting?</p> <p>(d) What are the costs and benefits of allowing, and not allowing, EGs to export electricity to the network?</p>	<p>At a high level Ergon Energy does not support EGs having an automatic right to export.</p> <p>(a) Ergon Energy provides the following examples as circumstances where EGs have not been allowed to export where:</p> <ul style="list-style-type: none"> • live-line maintenance or repairs are carried out on the network and the EG may need to be restricted for safety issues; • the EG fails to comply with the relevant performance standards in their connection agreement (e.g. appropriate voltage control); • they have exceeded their authorised export; • abnormal loading conditions exist such that the operation of the EG could cause unacceptable network voltages; and • the operation of the EG would compromise the operation of system protective devices. <p>(b) From a network perspective, when an EG is not allowed to export, this will ensure that the NSP will continue to meet its regulatory obligations including technical and safety obligations.</p> <p>(c) Ergon Energy considers that export should be limited to prevent EGs from breaching performance standards, voltage regulation and where it could adversely affect the quality of supply to other network users or the safety of the network and its users.</p> <p>(d) The benefits that Ergon Energy sees with EGs include:</p> <ul style="list-style-type: none"> • provision of non-network alternatives to conventional network augmentation; • reducing greenhouse gas emissions; • provision of network support arrangements; and • management of peak demand. <p>The costs associated with the connection of EGs can include:</p> <ul style="list-style-type: none"> • in the event that there is widespread solar photovoltaic (PV) connection of



<p>(e) Is there any basis for EGs to be treated differently to load or other generators? For what reasons?</p>	<p>systems less than 30kW in size, DNSPs are bringing forward capital expenditure to upgrade the network to allow these connections;</p> <ul style="list-style-type: none"> • EGs are not paying shared upstream augmentation costs; • inadequate voltage regulation and reactive capability of EGs can lead to depressed voltages on the network; and • generating at times when demand is low requires the DNSPs to ensure that additional capacity is available so that the EG can export further on the network. <p>(e) Generators, including EGs are treated differently to load customers for technical reasons. It is mainly because generators are an active connection.</p>
<p><u>Question 11 Allowing distributors to charge an optional fee for service</u></p> <p>(a) What are the barriers that prevent network service providers from charging a 'fee for service' under the current arrangements?</p> <p>(b) Is the proposed rule sufficient in identifying what services would be provided for the 'fee for service'? If not, how should the relevant service be specified?</p> <p>(c) What factors should be considered on how such a service should be classified? That is should it be a direct control service or negotiated service? Should the service be on a cost recovery basis only?</p> <p>(d) Should the NER provide any guidelines on how such a fee should be determined or should it be negotiated between a distributor and EG? Should the fee be approved by the AER and, if so, on what basis?</p>	<p>Ergon Energy supports the current process where the AER decides the classification of a DNSP's services and the form of price control to apply to these services as part of a Distribution Determination. This process appropriately determines how the costs associated with a DNSP providing services are to be recovered from customers and on what basis prices are to be determined and approved by the AER throughout a regulatory control period.</p> <p>Ergon Energy also notes the following:</p> <ul style="list-style-type: none"> • Chapter 6 of the NER already provides for a number of factors which the AER must have regard for when classifying a DNSP's services; and • The 'fee for service' connection service alluded to by the Rule Change Proponent is not an 'additional service' provided by the DNSP. There is nothing preventing a DNSP charging for the equivalent of this service currently - provided this is consistent with the DNSP's Distribution Determination and its Pricing Proposal approved by the AER. <p>Ergon Energy also questions why it would be necessary for any specific provisions to be introduced into the Rules to cater for any particular classification or cost recovery arrangements that are specific to the 'fee for service' connection service.</p>



Question 12 Shared network augmentation costs

(a) Is the current approach to attributing connection costs, particularly in relation to shared network augmentation costs, inefficient, inequitable and not cost-reflective? For what reasons?

(b) Should EGs (noting that embedded generating installations can encompass a broad range of installations) be exempt from paying shared network augmentation costs? Why or why not?

(c) If EGs are exempt from shared network augmentation costs, how should these costs be allocated?

At a high level Ergon Energy considers that EGs like all connection applicants should be provided with user pays signals and should not be cross-subsidised by existing customers and vice versa. This is consistent with the AER's view released in their Final Decision *Connection charge guidelines: under Chapter 5A of the National Electricity Rules for retail customers accessing the electricity distribution network*⁶.

Further, Ergon Energy supported the AER's proposal that non-registered EGs should fund the costs of removing specific network constraints unless there is a demonstrable net benefit to the other network users. Ergon Energy also notes that the AER confirmed that the clause 6.1.e of the Rules does not prevent a DNSP from charging for connection to the network if the removal of a network constraint is a prerequisite for connection to the network⁷.

Ergon Energy is cognisant that Chapter 5A is not currently in force in some states, however the substance of the submissions made during the AER's consultation on the development of the Connection Charging Guidelines are relevant and should be considered by the AEMC during this Rule Change consultation.

⁶ refer to page 65, of the Final Decision, 20 June 2012

⁷ page 101