

8 August 2017

Suzanne Falvi
Senior Director
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235



Dear Ms Falvi,

Managing power system fault levels draft determination

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon disadvantaged and marginalised people. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to respond to the draft determination for the Managing Power System Fault Levels rule change.

PIAC generally supports the AEMC's draft determination, and the intention to maintain consistency where possible with current arrangements under any new Rules.

Socialising costs and efficient investment

With the transition underway in the energy sector and the changing generation mix, issues can arise that effect the reliable and secure operation of the power system. New services and arrangements to address these issues, such as those proposed by this rule change, must support efficient investment not only in network infrastructure but also in new generation and, in many cases, non-network and behind-the-meter solutions.

PIAC supports providing an effective signal to proponents that reflects the benefits of their proposed connection. However, it is important to bear in mind that, while some prospective generation projects may adversely impact system strength, many will not. In identifying and providing an effective price signal to those connection proponents which may adversely impact system strength, it is essential that efficient and cost-effective new generation is not discouraged from entering the market.

Therefore, it is in the long-term interests of consumers for some costs and risks to be socialised (i.e. borne ultimately by consumers). For example, in the case of encouraging and coordinating new generation where consumers will ultimately receive long-term benefits through lower cost or lower emission generation, the cost of a high level assessment of system fault impacts could be borne by the NSP at the initial connection inquiries. However, these proposals must still be individually assessed at some stage of the grid connection approval process to ensure that the benefits are also passed on to consumers and arrangements do not promote inefficient investments.

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“Do no harm” obligation

PIAC agrees with the AEMC’s approach to ensuring that new generation connections “do no harm” to system strength for existing connected parties.

PIAC strongly supports placing the onus on the NSP to prove that a connection proponent would adversely impact system strength in the proposed location – that it would “do harm” – as opposed to the proponent having to prove that its connection would not do harm.

Placing the obligation of undertaking this analysis on connection applicants may be discouraging, for smaller generator applicants in particular. Where the cost to engage specialist consultants early in the connection enquiry process (or the risk of progressing with uncertainty about connection costs) proves prohibitive for a generation proponent, this may lead to less efficient investments in the energy system and so contribute less effectively to the NEO.

Key information and expertise required to effectively undertake this analysis already exists within the NSP, hence it is most efficiently performed by them rather than the connection applicant.

Further, PIAC supports providing proponents with more information of the type and scale of likely system security issues early in the connection process. Providing this information early could help provide an effective signal to proponents of the actual cost of their connection and help to identify uneconomical new generator connections before more detailed and expensive studies are required.

Transparency

Under the proposed arrangements the NSP would identify that system strength work is required for a connection, and may quote a cost for providing this as a negotiate service. PIAC considers there may be cause for concern if there is insufficient transparency or capacity to properly interrogate the NSP’s decisions or obtain an independent estimate for the cost of works.

Therefore, PIAC supports these arrangements being subject to the dispute resolution processes for negotiated services under the current rules and the Independent Engineer’s review in transmission connections (introduced in the Transmission Connections and Planning Arrangements rule change).

Connecting multiple proponents

The AEMC notes that NSPs may be able to identify and implement more efficient solutions to system strength where multiple connections are anticipated in an area. As stated earlier, PIAC considers there are cases where socialising costs (and risk) may ultimately be in the long-term interest of consumers. Therefore, PIAC agrees that capturing such economies of scale and scope should be permitted.

However, there is the potential that anticipated new connections do not eventuate and consumers are left with higher costs through either higher network charges (if classified as a regulated network service) or higher wholesale prices (through higher costs for generation projects and/or discouraging new generators from entering the market).

Encouraging such prospective network augmentation was the intent of the Scale-Efficient Network Extensions (SENE) rule change in 2011 and more recently, a proposal by TransGrid for a Renewable Energy Hub in the New England region of NSW. Neither of these has been implemented, and PIAC understands one of the key hurdles has been the allocation of risk should the prospective new connections fail to eventuate.

PIAC recommends that the AEMC considers the allocation of cost and risk in any prospective system strength work which may be done to connect multiple proponents to ensure that consumers are not bearing the risks of inefficient investments.

Continued engagement

PIAC would welcome the opportunity to meet with the AEMC and other stakeholders to discuss these issues in more depth.

Yours sincerely,

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