Government of South Australia
Department for Manufacturing,
Innovation, Trade, Resources and Energy

Energy Markets and Programs

GPO Box 1264
Adelaide SA 5001

DX 452

Level 8
ANZ Building
11 Waymouth Street
Adelaide SA 5000

Tel +61 8 8226 5500
Fax +61 8 8226 5523

ABN 83 524 915 929

DMITRE@sa.gov.au
www.sa.gov.au/energy

Mr Neil Howes
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Howes,

Reference: ERC0158

National Electricity Amendment (Connecting Embedded Generators Under Chapter 5A) Rule 2014

Thank you for the opportunity to comment on the above-mentioned consultation paper released for public consultation on 15 May 2014. The Department for Manufacturing, Innovation, Trade, Resources and Energy, Energy Markets and Programs Division (the Division) welcomes the consultative approach and submits the following comments:

Chapter 5A – policy development and intention

The Division was involved in the development of Chapter 5A of the National Electricity Rules (and Chapter 12A of the National Gas Rules) since the initial development of the National Energy Customer Framework (NECF) and the release of the first and second exposure drafts of the National Energy Retail Law and Rules in April and November 2009 respectively.

The policy intent was to enable a streamlined connection process for small consumers and micro-embedded generators. It was developed to provide appropriate process and arrangements to enable the timely and efficient provision of reliable network connection services. The policy objectives were to:

- provide a national framework to harmonise network connections arrangements between jurisdictions;
- integrate regulation of non-price elements of connections with the Australian Energy Regulator's (AER) economic distribution regulation powers;
- to simplify, where possible, the connections arrangements pertaining to embedded generators and the process of connection for customers; and
- to provide a user-friendly framework for negotiation between users and distributors to deliver certainty to all parties.

As reflected in the explanatory material of the second exposure draft of the NECF, stakeholders were confused about how the new connections arrangements were intended to interact with the NER Chapter 6 negotiations,

and concerned with the regulatory burden associated with each distributor being required to develop their own negotiation framework.

As a result, the Chapter 5A negotiation framework was developed to provide a separate and simpler negotiating framework for retail customers and non-registered embedded generators. Further, because of the wide range of historical practices by the various distribution companies, it was considered appropriate that the NER contain the high level principles for connection charges, with the AER required to develop a detailed set of methodologies when it developed its Connection Charging Guideline.

Chapter 5A was designed to cater for a range of connections with differing configurations of size, generator type, electricity connection and network location. The intention for the negotiation process was for all parties to negotiate in good faith within timelines to ensure the process did not stall. It was designed with some prescription in mind to ensure both parties were required to provide necessary information and move the process along, but at the same time allowing flexibility between the parties involved, if it was needed.

Chapter 5A only applies to those jurisdictions that have adopted the NECF. South Australia adopted the NECF in February 2013. Other jurisdictions that have adopted the NECF include Tasmania, ACT and NSW.

Since commencing the NECF, the Division has not received any negative feedback regarding the connection of embedded generation under the framework established in Chapter 5A.

The Division notes that Clean Energy Council Rule Change Request has endeavoured to explain and justify embedded generator connections problems using some Victorian embedded generators experiences and perspectives. It is important to note that Victoria is yet to adopt the NECF, accordingly evidence of issues in connecting embedded generators in Victoria is not representative of the operation of Chapter 5A.

The Division remains of the view that Chapter 5A was always intended to differ from Chapter 5 because both Chapters cater for different embedded generators, i.e. Chapter 5 for registered participants and intending participants and Chapter 5A for non-registered embedded generators.

Given the limited time that Chapter 5A has been operational, the Division questions whether there is sufficient evidence of issues related to connecting embedded generation under the Rules established in this chapter to warrant regulatory intervention.

Augmentation Costs

The Division understands that the Clean Energy Council rule change proposal is seeking to exclude embedded generator applicants from the operation of clause 5A.E.1(c)(4), which relates to the capacity of the distribution network service provider (DNSP) to charge a negotiated connection applicant for augmentation costs.

DNSP's are expected to plan for routine incremental augmentation of their networks to reliably and safely meet forecast growth in consumer demand for electricity in the network area. In regards to smaller, more typical retail customers, the connection charge principles reflect the policy decision that they will not pay directly for upstream augmentation in respect of their connection. Augmentation costs for these customer types will be recovered through *distribution use of system* charges.

However, customers receiving negotiated connections, where the network augmentation is required to connect that customer, are required to contribute to the costs of augmentation of the network. This is because if they do not contribute to these costs, other users of the network would have to bear these costs.

It is important to note that the Australian Energy Market Commission (AEMC) considered the issue of cost of augmentation of the shared network in the recent Connecting Embedded Generators final rule determination (17 April 2014) and determined that embedded generators should not be exempt from payment of augmentation costs to the shared network as this would mean other users of the network would have to bear these costs. As a result no change was made to Chapter 5 of the NER.

The Division considers that consistent with this final determination, and for the corresponding reason, embedded generator applicants should not be excluded from the operation of clause 5A.E.1(c)(4).

Fees and Charges

The Clean Energy Council rule change proposal proposes to restrict the ability of DNSPs to charge a fee to cover the cost of negotiation.

The Division understands that the ability for a DNSP to charge a connection applicant a fee to cover the cost of negotiation was to enable the DNSP to recover some of the costs involved with the connection process. Costs associated with the connection process may include costs associated with collating information; detailed analysis needed for the connection recognising that every connection is different; the requirement for the DNSP to retain all of the information necessary for the connection to proceed; and staffing costs for all of the aforementioned and to assist with the negotiation process.

Recently the AEMC considered the issue of fees in the Connecting Embedded Generators final rule determination. The final rule determination permits DNSPs to charge a fee to recover reasonable costs to respond to a detailed enquiry.

In considering the fees which may be charged under Chapter 5A, the Division considers recovery of costs needs to be fair and reasonable to all parties. Accordingly, reasonable recovery of costs associated with processing a connection application should be allowed.

Should you require any further information or have any questions, please contact Ms Rebecca Knights on (08) 8204 1715 or Rebecca.Knights@sa.gov.au.

Yours sincerely,

Vince Duffy
Executive Director
Energy Markets and Programs
Department for Manufacturing, Innovation, Trade, Resources and Energy

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