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Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Lodged (online): www.aemc.gov.au

Rule Change Request – Connecting Embedded Generation

The Energy Supply Association of Australia (esaa) welcomes the opportunity to make a submission to the AEMC's rule change request consultation paper on connecting embedded generation.

The esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of 36 electricity and downstream natural gas businesses. These businesses own and operate some \$120 billion in assets, employ more than 51,000 people and contribute \$16.5 billion directly to the nation's Gross Domestic Product.

The Association is broadly supportive of embedded generation and sees that it may have value in contributing to reducing peak demand and in providing additional energy security. It is important that the connection of embedded generation into the electricity network is handled appropriately so as to minimise perverse incentives, distortions and threats to the safety, security and reliability of the national electricity system.

It is worth noting that the Australian Energy Market Commission (AEMC) is already considering ways to improve the current connections framework in its Transmission Frameworks Review. Many of the issues raised in this Rule change proposal align with concerns around the connection framework for large generators. As such, it is important for the AEMC to consider any prospective reforms in parallel to ensure they are consistent and complementary.

Comments on the rule change request

Streamline the connection process

The rule change request proposes amending the National Electricity Rules (NER) so that offers to connect to the electricity network should be made within 65 business days. While this is an understandable goal, connecting embedded generation is not a simplistic process. There are a range of technical requirements that must be assessed and met before connection can occur. Obviously a quick connection is in an embedded generator's best interest. However, the esaa considers that specifying that it must be done in a particular number of days is risky and impractical.

Additionally, there are potentially unintended consequences associated with the rule change request. There is a risk that this 65 day limit could also apply to connections from the transmission network. Transmission connections are even more complex and typically take 18 months to progress. While this appears to be a lengthy process, the AEMC's Transmission Frameworks Review is considering ways to improve the process. The rule change, such as it is worded, could put an impossible burden on the connection of transmission infrastructure. Instead, the esaa considers that the rule change request needs to be worded in such a way that it does not inadvertently capture transmission connections.

The esaa understands the desire for a quick resolution, and as such recommends that any rule change should apply only to decisions for embedded generation connections to the distribution network. Furthermore, to ensure the safe, secure and reliable operation of the electricity system, the 65 business day limit should only start once the network service provider has received all relevant information required.

Additionally, network service providers may need to work with the Australian Energy Market Operator (AEMO) on certain issues relating to embedded generation connections. The Association contends that it is appropriate that the 65 business day 'clock' is stopped while waiting for AEMO's response.

Allocation of shared network costs

The Association disagrees with the rule change proponents' view that embedded generation projects should be exempt from paying shared network augmentation costs. We acknowledge the proponents' concerns that there may be a first-mover disadvantage when embedded generators wish to connect to the distribution system. However, exempting embedded generators from paying a contribution to the upgrades is inequitable. This results in imposing costs on other distribution network users.

Instead, the esaa considers that there is merit in ensuring that embedded generators do not pay for more than a reasonable contribution for shared network augmentation costs. The Australian Energy Regulator (AER) has provided guidance on similar issues in its final decision on establishing a national connection charge guideline released on 20 June 2012. This update of Chapter 5A of the NER means that businesses will be required to pay for their share of upgrading the network, with any additional connections on the same new line potentially resulting in a rebate to the first connector.¹

A similar scheme for embedded generation would, in the esaa's view, be a more appropriate way to avoid the first-mover disadvantage faced by embedded generation projects.

Capability to export to the grid

The esaa also considers that as requested by the rule change proponents, embedded generators should have the right to export to the grid. There are a variety

¹ As Chapter 5A forms part of the National Energy Customer Framework (NECF), it only applies in Tasmania and the ACT. These are the only jurisdictions to have enacted the NECF.

of benefits that embedded generators can bring to the energy market. However, this right should not be automatic as the proponents request. The right to export should only be granted where the network can safely handle export from an embedded generator. The National Electricity Objective (NEO) highlights “the reliability, safety and security of the national electricity system”. The esaa considers that the NEO should remain the primary concern when deciding whether to allow for the export of electricity from embedded generation.

Transparency around connection process

The rule change request also calls for the publication of a standard connection process around fees, timing, and terms and conditions. The esaa understands the proponents’ wish to have a system that is open and clear. While having a set of standard conditions would be useful for embedded generation proponents, this does not take account of the potential diversity of embedded generation. It is difficult for a network service provider to offer a standard connection without knowing details such as the size of the system, the technical requirements of it, and where the system will be installed. That said, developing a standard process for establishing the terms and conditions, fees and timing could reduce the time spent negotiating on non-essential elements. This would provide more opportunity for embedded generators and network businesses to discuss the most critical issues. Fostering links between embedded generators and network service providers so that there is greater information sharing would be a better way to ensure that embedded generators are fully aware of the connection process.

Access Standards

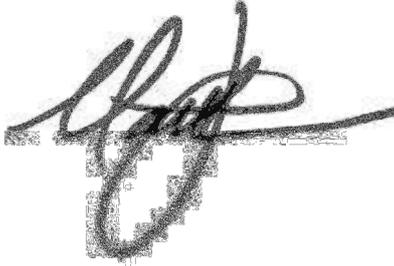
The rule change request proposes implementing an automatic access standard for embedded generators before national access standards have even been developed. Until appropriate access standards are developed, the Association considers that it is premature to introduce them. Developing access standards for embedded generators could be worthwhile. However, the proposed rule change should be deferred until the appropriate access standards – whether minimum or automatic – have been developed.

Conclusion

Embedded generation can play an important role in the National Electricity Market. Having the right settings in place to allow for this is essential for more efficient use of the electricity network. The rule change request such as it is, does not resolve issues with the existing setting, but rather creates different ones. The esaa understands the intent of the rule change request, but considers that it does not appropriately address the problems at hand.

Any questions about our submission should be addressed to Kieran Donoghue, by email to kieran.donoghue@esaa.com.au or by telephone on (03) 9205 3116.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Matthew Warren', with a large, stylized flourish extending to the right.

Matthew Warren
Chief Executive Officer