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Mr John Pierce
Chairman
Australian Energy Market Commission
Via email: submissions@aemc.gov.au

RE: AEMC National Electricity Amendment (Inclusion of Embedded Generation Research into Demand Management Incentive Scheme) Rule 2011

Dear Mr Pierce

Ausgrid appreciates the opportunity to comment on the AEMC National Electricity Amendment (Inclusion of Embedded Generation Research into Demand Management Incentive Scheme) Rule 2011.

Ausgrid supports allowing incentives for innovation in connection of embedded generators in the Demand Management Incentive Scheme (DMIS) for distribution businesses (DNSPs) but does not believe the rule change is necessary. We believe that the current DMIS allows for incentives for innovation in connection of embedded generators and have commenced a project for innovative connection under the current DMIS framework.

Innovative connection of embedded generation is only one of the options possible under the DMIS. Our view has been that embedded generation is an important demand management tool, and indeed it has been one of the most commonly used non-network alternatives in our business. While the cost and complexity of connection remains an impediment to wider adoption of embedded generation, projects that trial innovative ways to bring down that cost and complexity would be legitimate activities under the current DMIA criteria. While specific mention in the Rules Clause 6.6.3 would make the scheme's scope unambiguous, we consider that an incentive to adopt or implement efficient embedded generation connections or connection of embedded generation as not being currently excluded. It therefore seems doubtful that changing wording and the name of the scheme adds any material benefit.

The consultation paper notes;

the MCE states that there is currently an imbalance between a DNSP's strong incentive to focus on network reliability and safety and weak incentive to manage costs associated with embedded generator connections. The MCE notes the Stage 2 DSP Review finding that the imbalance is currently driven by the discretion DNSPs are afforded with respect to prescribing the minimum technical standards for connecting to their network and their ability to require the connecting embedded generators to meet the cost of implementing those standards.

Ausgrid supports lower costs of embedded generation connection but maintains that ensuring minimum technical standards for both supply and generation connections to networks is an essential component of maintaining a safe and reliable network. This necessity has been demonstrated recently by the safety issues that have emerged following the increased penetration of residential PV systems under the NSW Solar Bonus Scheme.

The specific issues raised in the consultation paper are addressed below.

Prescription versus flexibility in applying the DMIS

1. To what extent do DNSPs currently seek funding for innovation in connection of embedded generators or other forms of demand management projects as part of their opex and capex proposals?

Ausgrid believes that the current DMIS framework allows for the support of innovative connection of embedded generators and has commenced an innovative connection project. Given the DMIS is a new scheme and has a relatively small allowance, flexibility is preferred to prescription in identifying proposals that are within scope. Specific mention of connection of embedded generation in either the title or the rules is unlikely to increase the number of available projects, the funding made available for these projects or the likelihood that they would precede.

2. How effective is the existing DMIS framework for incentivising DNSPs to pursue innovation projects on embedded generators?

Ausgrid believes that the current DMIS is no more or less effective in incentivising innovative connection of embedded generators than it is in supporting any other form of innovative demand management project.

Level of DMIA and DNSP incentives to support embedded generation research

1. To what extent will the proposed Rule incentivise DNSPs to undertake more projects on finding cheaper ways to connect embedded generators? Is it likely to materially change the DNSPs existing incentives to pursue riskier and innovative trial projects.

While Ausgrid strongly supports the development of cheaper ways to connect embedded generators, it is unclear how the specific mention of connection of embedded generation in either the title or the rules would increase the number of available projects, the funding for these projects or the likelihood that they will precede.

Approval for actual projects using the discretion provided in the DMIS rule is likely to be the most effective encouragement for any type of innovative demand management. While wording changes to rules may do no harm, funding of actual projects is more likely to materially change the DNSPs incentives to pursue riskier and more innovative trial projects. To the extent that mention of specific DMIS options in the Rules is taken to exclude alternatives or favour a particular approach, any specification should be avoided.

2. What types of embedded generators are likely to benefit most from the proposed Rule change?

It is unclear until projects are proposed, trialled and evaluated where benefits are most likely to be delivered. However, the connection issues for small scale residential systems such as rooftop solar, are largely understood and are being addressed. Connection issues for larger commercial and industrial embedded generation are possibly more significant and more likely to be the subject of innovative connection projects.

For example, Ausgrid has recently commenced a project specifically aimed at developing innovative solutions to the connection of embedded generators in the Sydney CBD. Because of the unique characteristics of the CBD supply system, meeting technical requirements for fault duty management can be very expensive using conventional means and has been a significant barrier to several proposed projects. Because we believe that the use of embedded generators may be a prospective tool for managing peak demands on the CBD system, we believe that this is a legitimate project under the existing Demand Management Innovation Allowance criteria.

3. Will the proposed Rule result in the need for increased funding for DMIS and hence require higher DMIA than the current level of allowances?

Ausgrid has previously suggested that the level of the DMIA is lower than required to allow significant innovation. There is competition for DMIA funding amongst projects and preference is given to projects that are likely to provide the best prospect of delivering longer term benefits at the lowest implementation cost. Increasing the level of the DMIA would improve the prospects for more innovative connection projects as well as a wider range of DM innovation of other sorts.

4. Is there likely to be any material financial impact on electricity consumers to fund the increased DMIA resulting from the proposed Rule? How should this be weighed against the benefits of having embedded generators connected more cheaply?

Any additional funding for the DMIS would increase electricity consumers' prices in the short term, however the cost impost is currently very low and any foreseeable increase would have no material impact. Further investment in innovation in DM in its widest interpretation is likely to lead to lower prices in the medium to longer term as successful trial projects lead to wider adoption of more efficient practices.

If you wish to discuss any aspect of this submission please do not hesitate to contact me or Ms Catherine O'Neill, Executive Manager – Regulation and Pricing on 02 9269 4171.

Regards,



Peter Birk
Executive General Manager
System Planning & Regulation (Acting)