NovaPower

NovaPower Pty Ltd
ACN 119 925 334

Our Ref: {AEMC – ERC 0128 Submission (19 July 2011) - 1}

19 July 2011

Attn: Z Khan,

Australian Energy Market Commission

PO Box A2449
SYDNEY SOUTH, NSW 1235

ERC 0128

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

NovaPower wishes to make a submission with regard to the inclusion of 'Embedded Generation into the Demand Management Incentive Scheme.

During our many discussions with the DNSPs over the last three years it has been difficult to make headway in developing projects that will ultimately provide support to a network close to the load centres.

Each of the DNSPs is required to publish annually a report which highlights the areas of their network which will have constraints in the near future due to the growing loads. The report also calls for alternative solutions, such as 'Demand Side Management Schemes' and 'Embedded Generator' solutions. But we find that the focus is on 'Demand Side Management (DSM)' projects or a more traditional argumentation solution, such as a new bigger transformer than a possible embedded generator. There are no incentives for the DNSPs to encourage the use of an embedded generator as another way of supporting the network.

Therefore we support a change to the incentive scheme that allows embedded generation to be included. The DNSPs would be encouraged to consider the alternative if they had an incentive. Under the present conditions of the rule, the DNSPs favour normal more expensive capital investment projects and see alternatives such as DSMs and embedded generators as stop gap solutions for a maximum of five years. The current arrangements only encourage complex connection requirements for the control signals and

switching circuits to connect the generator to the network. If there were incentives for the DNSPs then they would work with a connection applicant (embedded generator) to produce a much simpler connection which would be just as reliable and more cost effective. The result of working closely together would be a 'win- win' for the customers, the DNSP and the embedded generator. The customers would get cheaper tariffs in the long run, the DNSPs would be able to spread their limited capital over more parts of the network and the embedded generators would be installed at more locations overall making better business cases for all.

If more gas fired embedded generators were able to connect to the distribution networks then this will also help the drive for lower carbon technologies. The generators will be close to the load centres and distributed across the state reducing the need for capital intensive transmission and distribution asset argumentation.

NovaPower is currently trying to develop a pilot project in order to determine what issues need to be addressed. We are finding that unless there are incentives and innovation with respect to the connection points then only a few locations will be viable. But if the DNSPs (electricity and gas) and embedded generator companies work together to overcome the locational issues then everyone will benefit.

The existing rule also tends to encourage the AER to disallow any network support arrangements if the solution is not a traditional network asset. Companies proposes to install an embedded generator currently take on a high risk of the network support payment being disallowed or stopping two to three years after the start of the project. This is because the DNSP has been given the capital to augment the network in their next tariff 'Reset' submission instead of being incentivised to continue with the embedded generator. Most embedded generator solutions are only considered as temporary solutions. If an incentive was given to support the project then there would more certainty in developing an embedded generator with returns over a longer period. More locations would become viable business cases.

We agree with the wording changes proposed to Chapters 6 and 10 of the National Electricity Rules. The changes will help to overcome the issues that we have faced in trying to connect embedded generators that provide support and are viable business propositions for the long term not just one 'Reset Period'.

If you require any further information please do not hesitate to contact NovaPower via (03) 9703 4036 or mobile: 0427 406 800.

Yours Faithfully

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