



## Department of State Development, Business and Innovation

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Mr John Pierce  
Chair  
Australian Energy Market Commission  
PO Box A2449  
SYDNEY SOUTH NSW 1235

Dear Mr Pierce,

The Victorian Department of State Development, Business and Innovation, as the portfolio agency responsible for energy market development in Victoria, is pleased to make this submission in response to the Australian Energy Market Commission's draft final rule and position paper (published 30 January 2014) for the connecting embedded generators rule change request.

Any questions about this submission should be directed to Raili Simojoki, Policy Officer, Energy Sector Development by email at [raili.simojoki@gmail.com](mailto:raili.simojoki@gmail.com) or by phone on (03) 9092 1906.

Yours sincerely,

**Mark Feather**  
Executive Director  
Energy Sector Development

3 / 3 / 2014

# Australian Energy Market Commission draft final rule on Connecting Embedded Generators

## DSDBI submission

The Victorian Department of State Development, Business and Innovation (DSDBI) (formerly the Victorian Department of Primary Industries) welcomes the opportunity to make a submission to the Australian Energy Market Commission (the AEMC) on its proposed final draft rule determination for connecting embedded generators to distribution networks, as discussed in its published Position Paper of 30 January 2014.

DSDBI supports the direction of the AEMC's final draft rule change, which aims to reduce barriers to connecting embedded generators to distributed networks, by increasing the clarity and transparency of the connections process. In particular, DSDBI supports the requirements for distribution businesses to provide better information to proponents during the connections process, particularly in relation to costs and technical specifications, and the introduction of clearer timeframes.

DSDBI notes that increasing competition in connection services may reduce costs for proponents by minimising delays and encouraging more cost-efficient delivery of services.

### **Extension of timeframes by agreement**

In response to comments by distributors during public consultation that the AEMC's proposed connections timeframes may be insufficient for large and complex distributed generation projects, the AEMC has included new provisions in its final draft rule allowing distribution businesses to request extensions of the 15-day timeframe for providing information at the preliminary enquiry stage; and the 30-day timeframe for providing a detailed enquiry response. The final draft rule provides that such a request cannot be unreasonably withheld by distributed generation proponents.

The ability to extend timeframes through agreement appears to strike an appropriate balance between the business needs of distributed generation proponents and distribution businesses. However, implementation of these provisions should be monitored carefully to ensure that they do not lead to routine extensions by distribution businesses, as opposed to extensions justifiable due to the size and complexity of proposed distributed generators.



## **Dispute resolution**

The AEMC's first draft rule provided the ability for distribution businesses and proponents who are in dispute about the connections process to appoint an independent engineering expert to assess the reasonableness of any technical requirements imposed by distribution businesses. The AEMC has removed this from the final draft rule based on public consultation feedback that the existing dispute resolution process under Chapter 8 provides an appropriate and flexible framework for dispute resolution and can incorporate expert appraisal process where parties elect to use this approach.

However, in light of concerns expressed by some stakeholders regarding the effectiveness of the existing dispute resolution processes under Chapter 8, the practical effectiveness of Chapter 8 in facilitating the procurement of such expertise should be monitored following introduction of the rule change.

## **Refining cost sharing mechanisms for connection**

The rule change proponents required that embedded generators be exempt from paying for shared network augmentation because this augmentation may provide benefits to other network users, all of whom should share in the cost of augmentation. In its draft determination the AEMC concluded that no provision should be made for the exemption of embedded generators paying shared network costs in either Chapter 5 or 5A. It confirms this position in the final draft rule.

In support of its decision, the AEMC points out that if distributed generators are exempted from paying shared augmentation costs, this may require other network users to bear the costs of connecting the embedded generator, which is inconsistent with the beneficiary-pays principle. The AEMC also states that the benefits of embedded generation may not be maximised if generators receive locational signals based only on the costs of shallow augmentation as these signals may not account for a substantial part of the full connection costs.

Taking into account the AEMC's reasoning in its draft determination and the position paper, DSDBI's view is that the AEMC may not have adequately considered the need for reforms of cost sharing arrangements as part of this rule change process. DSDBI would support the AEMC undertaking further consideration of such reforms in light of the issues outlined below.

While DSDBI agrees that distributed generator proponents should not receive a blanket exemption from contributing to shared augmentation necessary to support the connecting system, DSDBI also notes that requiring embedded generators to bear the full cost of shared augmentation may not be equitable where the

augmentation is likely to benefit future customers, or where the costs of shared augmentation have been triggered by previous customers (often distributed generation customers).

For example, the first distributed generator to connect into a constrained area of the grid may be advised by a distribution business that they need to either reduce the size of their system, or not connect at all, unless they pay the full cost of network augmentation to accommodate the connection. This issue has recently emerged among household solar customers in some Victorian distribution areas, for whom paying for network augmentation is effectively a barrier to connection.

However, previous customers who connected at that point before the network reached its limit were not charged a contribution for pushing the fault level towards its threshold. Further, if network augmentation is paid for by a household customer, future distributed generation customers seeking to connect at that point pay none or very limited augmentation costs. This appears to be an inequitable cost allocation *between* distributed generation customers that effectively creates a 'last in worst, dressed' scenario.

In its draft determination, the AEMC points to clause 6.7.1(6) of the National Electricity Rules, which provides that 'the price for a negotiated distribution service should be subject to adjustment over time to the extent that the assets used to provide that service are subsequently used to provide services to another person, in which case the adjustment should reflect the extent to which the costs of that asset are being recovered through charges to that other person'. In light of this clause, the AEMC considers that the Rules can manage the 'last in, worst dressed' scenario.

However, DSDBI is not convinced that the Rules, or the operation of the Rules *in practice*, can overcome this issue. While the Rules may make provision for a negotiated agreement that takes into account the value of shared augmentation to other users, it is unclear whether this is occurring, given power imbalances between distributors and proponents, particularly at the smaller scale, and potentially a lack of incentives for distribution businesses to provide such cost sharing arrangements.

In addition, 6.7.1 (6) focuses on cases where the new asset provides services that are 'subsequently used to provide services to another person'. It could be argued that it does not specifically address connections which occur prior to the point in time the new connection is requested, but which result in a threshold being reached, triggering the need for augmentation.

For these reasons, DSDBI supports the development of a cost sharing mechanism that more precisely allocates network augmentation costs to those parties that benefit from the augmentation, where appropriate and practicable.

Such a mechanism should, consistent with the 'beneficiary pays principle', ensure that the connection of distributed generation does not lead to network augmentation costs being borne by non-distributed generation customers where



they do not benefit from that augmentation. However, it should also remove unfair burdens on individual owners of distributed generation systems arising from augmentations costs that may benefit other future network users (including future owners of distributed generation systems).