



## Inclusion of Embedded Generation Research into DMIS

Final rule determination 22 December 2011

**This rule expands the existing Demand Management Incentive Scheme to include projects that explore innovation in the efficient connection of embedded generators. The rule is the most practical and effective way of encouraging DNSPs to consider more innovative and cost effective ways of connecting embedded generators to distribution networks.**

### Background

The DMIS provides upfront funding allowances to Distribution Network Service Providers (DNSP) to conduct research and investigation into innovative techniques for managing demand so that, in the future, demand management projects may be increasingly identified as viable alternatives to expensive network augmentation.

Embedded generating units are defined in the National Electricity Rules as generating units that are directly connected to the distribution network and do not have access to the transmission network. Embedded generation offers customers a choice of substituting their consumption of electricity from the network with their own generation.

DNSPs are afforded discretion 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.

### Problem identified

DNSPs currently have weak incentives to minimise the connection costs of embedded generators due to their focus on ensuring connections meet the network security and reliability standards applicable to relevant DNSP. While maintaining these technical connection standards are important, if they are in excess of the necessary minimum requirements to maintain system security and reliability of supply, then the additional costs to meet those prescribed standards may discourage embedded generators from connecting to the distribution network.

### Rule change request

The Ministerial Council on Energy made a request to make a rule including embedded generation research into the Demand Management Incentive Scheme for Distribution Network Service Providers.

The rule change process commenced in June 2011 and on 19 September the Commission published a draft rule determination and draft rule. The Commission proposed to make the rule as proposed by the MCE.

### Final rule determination

The Commission considers that the rule proposed by the rule proponent should be made. The rule requires the AER, in developing and implementing a DMIS, to consider improving the incentives for DNSPs to innovate in ways of more efficiently connecting embedded generators under the DMIS framework.

Expanding the scope of the DMIS will be the most practical and effective way of encouraging DNSPs to consider more innovative and cost effective ways of connecting embedded generators to distribution networks.

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The likely success of this rule will ultimately depend on the appetite of DNSPs to propose innovative projects that promote innovation in connection of embedded generators and the extent of the DMIA the AER will set for this purpose.

However, given the relatively minor cost of implementing the change, even an incremental improvement in DNSP's incentives to focus on reducing connection costs of embedded generators has the potential to offer benefits to the electricity generation sector in meeting its environment obligations and network benefits in terms of reducing or delaying the need for expensive network augmentation costs.

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