

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

30 July 2014

Dear Mr Pierce,

Re: ERC0158, Connecting Embedded Generators under Chapter 5A Rule Change Proposal

We are writing on behalf of ClimateWorks Australia, the Property Council of Australia and Seed Advisory in response to the Australian Energy Market Commission's (AEMC) Consultation Paper, National Electricity Amendment (Connecting Embedded Generators under Chapter 5A) Rule 2014, published on 15 May 2014.

ClimateWorks, the Property Council and Seed Advisory welcome the reforms recently adopted by the AEMC in relation to the connection of embedded generators under Chapter 5 of the National Electricity Rules (NER). This was a result of a rule change that we submitted to the AEMC in 2012, *Connecting Embedded Energy*.

In advancing energy market reform, this submission covers:

1. an overview of the Chapter 5 reforms that we instigated;
2. the need to align Chapter 5 and 5A;
3. addressing augmentation 'last in, worst dressed' problems; and
4. the necessity for medium sized embedded energy standards.

The reforms of Chapter 5 of the NER were a result of the first successful customer led rule change. They received majority support with via a record number of submissions. Coming into effect on 1 October 2014, they will facilitate a more efficient and cost effective connection process for embedded energy generators. This will make it cheaper and faster to connect co/trigeneration plants and renewable energy to the national electricity grid. Connection applicants will be empowered with more rights, greater certainty and critical information in the new connection process. As a result, more connections should be successful within six to twelve months, depending on the size of the energy systems. Significantly, it is a vast improvement compared to past lengthy delays, which were up to three years or more.

The reform of Chapter 5 highlighted the very persistent problems experienced by embedded generation connection applicants. Throughout the two year process (from the lodgement of our rule change in April 2012, a draft determination in June 2013 and the final determination in April 2014), the AEMC acknowledged the connection barriers and the need for reform. This sentiment was reinforced by the vast majority of diverse submitters: industry bodies, private companies, governments, especially local councils, and community groups.

The AEMC extended the timeline of our rule change on several occasions, providing extensive consultation, including workshops, to cover issues with parties. Being the first reforms of this nature, backed by the AEMC's comprehensive consultation, an important precedent and foundation was set for addressing future reforms. Thus, the rule change proposal initiated by the Clean Energy Council on Chapter 5A, dealing with sub 5 MW systems, should be addressed with this background and work in mind.

Our rule change proposal, *Connecting Embedded Generators*, was lodged before the introduction of Chapter 5A as part of the National Energy Customer Framework. As such, it was not possible to instigate a rule change of Chapter 5A, as it did not exist in law. We did, however, highlight Chapter 5A's inadequacies. Our earlier 2011 report, *Unlocking Barriers to Cogeneration*, and our 2012 rule change proposal on Chapter 5, regarded connection barriers as common to embedded generators regardless of their size. In our observation supported by our case studies and submissions to the rule change, large, well-resourced and experienced connection applicants and small, community and local council applicants experience very similar issues (Question 2). Hence, we believe there is considerable merit in aligning the negotiated connection processes in the Chapters 5A and 5 (Question 1).

As a minimum response to the issues experienced by all embedded generation connection applicants, the Commission should consider whether clause 5.3.1.(c) of the NER needs to be reviewed to prevent DNSPs in non-NECF jurisdictions refusing an application by an embedded generator to be connected under the revised Chapter 5 process.

At the time of our original rule change submission we argued that there was no evidence from National Electricity Customer Framework (NECF) jurisdictions that distribution network service providers (DNSP) intended to provide model standing connection offers for standard connection services. Nothing that has come to our attention since the introduction of the NECF has changed our view (Question 4). We also argued, and it remains our view, that the NECF process for standard connection services in the absence of a wider standard for embedded network connection – either national or national electricity market (NEM) wide – is inconsistent with the National Electricity Objective (NEO). A process that, taken to its logical end point, could result in 44 different model standing connection offers, each with a different set of technical requirements, across a market the size of the NEM, cannot help but be inefficient.

The revised Chapter 5 process allows for four months in the assessment of a connection application preliminary to making an offer. We have always considered this period to be excessive. In the case of embedded generators just outside the coverage of AS4777, a four month period for the assessment of an application is an excessively long period of time to assess the network effects of a small connection.

There are a number of issues raised in the Commission's final determination relating to the connection of embedded generators under Chapter 5 that are yet to be addressed, including the 'last in, worst dressed' problem. This situation disadvantages entrants who are required to shoulder the shared network augmentation costs when the network capacity is exceeded. Currently, there is an existing obligation in the NER for the connection applicant to be reimbursed for the use of assets funded by the connection applicant to provide services to other connections. However, evidence suggests that the cost sharing obligations of the NER are not being observed in practice. We believe that shared network costs should be spread equitably over customers that use the same distribution network.

This can be achieved by enforcing the current (high level) obligation on DSNPs to reimburse a proponent that has invested in deep augmentation when other customers are connected to that portion of the network, and requiring a DSNP to provide the information on which the reimbursement should be calculated.

Finally, the market need for standards for medium sized embedded generators is another issue that should be addressed. In an evolving energy market we feel the NEO requires the AEMC to consider the introduction of more appropriate technical performance standards for embedded generation connections.

There is a strong appetite by various industry stakeholders for medium sized embedded generation standards. This was demonstrated through the 2013 report commissioned by the Commonwealth Department of Resources, Energy and Tourism, titled *Mid-Scale Embedded Generation Connection Standards*. We look forward to working with you on this important issue.

We would be happy to discuss any issue raised by this submission. If you have any queries, please call Anna Skarbek on 03 9902 0738 or Patricia Boyce on 03 9658 2352.

Yours sincerely,

A handwritten signature in black ink, appearing to be "P. Boyce".

Patricia Boyce
Director
Seed Advisory

A handwritten signature in blue ink, appearing to be "Jennifer Cunich".

Jennifer Cunich
Executive Director
Property Council Victoria

A handwritten signature in blue ink, appearing to be "Anna Skarbek".

Anna Skarbek
Executive Director
ClimateWorks