AUSTRALIAN ENERGY
REGULATOR

GPO Box 3131
Canberra ACT 2601
Telephone: (02) 6243 1233
Facsimile: (02) 6243 1205
www.aer.gov.au

Our Ref: 41662
Your Ref: ERC0147
Contact Officer: David Chan
Contact Phone: (03) 9290 1446

1 August 2012

Mr Steven Graham
Chief Executive
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear ~~Mr Graham~~ Steve

Rule change proposal consultation paper: connecting embedded generators (AEMC Project reference code ERC0147)

The Australian Energy Regulator (AER) welcomes the opportunity to respond to the above consultation paper.

The AER would like to comment in particular on the rule change proponents' suggestion that embedded generators (EGs) should be exempted from paying shared network augmentation costs.

The AER considers that any shared network augmentation that is attributable to meeting load customers' needs should not be recovered from EGs. Equally, however, if a specific shared network augmentation is required for the sole or principal purpose of enabling an individual EG (or a specific group of EGs) to remove network constraints on its (or their) output levels, the load customers should not be funding such network investment.

As identified in the consultation paper, all rule changes should meet the requirements of the National Electricity Objective, which includes, among other things, promoting the long term interests of consumers of electricity with respect to the price of electricity.

In making distribution determinations under chapter 6 of the National Electricity Rules (NER), the AER currently classifies distribution services into standard control, alternative control and negotiated services under clause 6.2.2 of the NER. In particular, clause 6.2.2(c)(5) requires that, in classifying a direct control service as a standard control service or an alternative control service, the AER must:

> have regard to the extent the costs of providing the relevant service are directly attributable to the customer to whom the service is provided—example, in circumstances where a service is provided to a small number of identifiable customers on a discretionary or infrequent basis, and costs can be directly attributed to those customers, it may be more appropriate to classify the service as an alternative control service than as a standard control service.

Based on clause 6.2.2, the AER considers that network augmentation services—including shared network augmentation—that are required for the sole or main purpose of enabling an individual EG, or specific group of EGs, to remove network constraints on the EGs' output levels, should not be classified as standard control service, as these services are paid for by load customers rather than EGs.

The AER's recently published connection charge guideline under chapter 5A of the NER specifies that [under clause 7.1.4]:

> Non-registered embedded generators which seek to remove a specific network constraint will generally be required to pay for the cost of removing the constraint. The AER considers services related to removing shared network constraints for specific users, such as embedded generators, would generally be an alternative control service, negotiated service or unclassified service. However, a DNSP's normal asset management may lead to a DNSP funding such shared network augmentation if there is a demonstrable net benefit to other network users...

This connection charge principle is consistent with clause 6.2.2 of the NER, noted above, that is intended to ensure costs are recovered by those who cause them.

If EGs are not required to pay for those shared network augmentation works that are otherwise not required to service load customers' needs, the augmentation costs will count towards the DNSPs' regulated asset bases and will be recovered from all other users, who would receive no direct benefit from this. This will result in load customers' network charges being set higher than they should have been.

The AER considers that load customers should only fund the portion of shared network augmentation cost that is required to meet their needs. To the extent that EGs also benefit from such augmentation, there is an issue of whether EGs should also contribute in some proportional manner. This is a matter that could be considered further. Where a specific augmentation is not entirely required to meet load customers' needs, EGs should fund the cost gap between the total cost and the alternate cost that would be required, had the needs for EGs not been considered.

If you or your staff would like to discuss this issue, please contact either myself on (03) 9290 1423 or David Chan on (03) 9290 1446.

Yours sincerely

Michelle Groves
Chief Executive Officer