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**Mr Chris Pattas**

**General Manager, Networks**

**Australian Energy Regulator**

**PO Box 520 Melbourne Victoria 3001**

**Submitted by email: [AERinquiry@aer.gov.au](mailto:AERinquiry@aer.gov.au)**

**15 January 2018**

Dear Mr Pattas

AGL Energy (**AGL**) welcomes the opportunity to respond to the Australian Energy Regulator's (**AER**) draft revision of its Network Service Provider Registration Exemption Guideline (**Network Exemption Guideline**).

AGL is one of Australia's leading integrated energy companies and the largest ASX listed owner, operator and developer of renewable generation. Our diverse power generation portfolio includes base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources. AGL is also a significant retailer of energy, providing energy solutions to over 3.7 million customers throughout eastern Australia.

In addition, AGL is continually innovating our suite of distributed energy services and solutions for customers of all sizes (residential, business and networks). These 'behind the meter' energy solutions involve new and emerging technologies such as energy storage, electric vehicles, solar PV systems, digital meters, and home energy management services delivered through digital applications.

AGL supports amendments to regulation that support system security and reliability and drive more efficient outcomes in network planning and investment. However, we also consider that competitive markets and innovation in the delivery of new energy products and services for customers should not be stifled through restrictions on BTM assets. Our submission is based on these fundamental principles.

#### **Improvements to the transmission connection framework**

The outcomes of the Australian Energy Markets Commission (**AEMC**) 2017 Rule Change on transmission connection and planning arrangements present an important step forward to enhance network efficiency and promote more coordination and integration in the approach to transmission planning. The determination aims to improve transparency, contestability and clarity in the transmission connection framework while maintaining clear, singular accountability for shared network outcomes. AGL strongly supports these principles.

AGL also supports changes to the National Electricity Rules (**NER**) and associated guidelines that improve transparency and add clarity to the connections framework. Such changes assist in redressing the imbalance in the connection process, which currently favours Transmission Network Service Providers (**TNSPs**). In particular, AGL supports the contestability of dedicated connection assets (**DCAs**), which will be built, operated and maintained by a party chosen by the project proponent.



Consequently, we also generally support the proposed amendments to the AER's Electricity Network Service Provider Registration Exemption Guideline (**Guideline**) that follow from these principles.

### **Dedicated connection assets**

We support the requirement to register DCAs, considering the purposes for which both large and small DCAs are required to notify AEMO, and the level of information that will be required for this purpose through the exemption application process. In our view, the purpose for DCA registration should be met without unnecessary and burdensome compliance overheads on market participants and AEMO to provide initial registrations and ongoing applications following subsequent changes to an asset. In this regard, we would welcome further direction from the AER and AEMO on the process to register assets following the adoption of the final guideline with a view to making this process easy to manage for participants that own, operate, or control existing DCAs.

We strongly support the classification of DCAs into two categories (large DCAs and small DCAs), and also support the use of deemed exemptions for small DCAs using the proposed network exemption class NRO8. We also support the AER's proposal that a 'large' DCA should be defined as a connection asset which includes a component that exceeds 30km in total route length, or in practical terms, a power line that is over 30km in total length. In our view, this separation between DCAs is clear and strikes a reasonable balance between the obligations within NRO6 exemptions that would apply to large assets and promoting an exemptions framework that is efficient, effective, and predictable for market participants.

### **Other Amendments to the Guideline**

AGL has a deep understanding of the changing nature of embedded generation and storage, as a leading integrated energy business that has developed novel generation projects including the recent Virtual Power Plant (**VPP**) that has been in operation in South Australia since March 2017.

We agree that embedded generation of a certain size can have non-trivial impacts for system security and reliability, although in many cases, we consider that the orchestration of these assets is beneficial for maintaining system stability and that any adverse impacts can be managed.

Accordingly, we consider that the AER's suggestion of amending exemptions classes NDO1, NRO1, and NRO2 with AEMO's new threshold of significance (i.e. systems of 5MW or greater aggregate generating capacity) is reasonable. Where market participants are considering a project of this scale within an exempt network, we consider that the requirement to seek a review by AEMO that any aggregated generation will not adversely affect power system security is not excessively onerous. Similarly, the proposed amendment to part 4.2.2 of the guideline to consult with AEMO for the safe, reliable or secure operation of an exempt distribution network operating at a nominal voltage of 11kV or more (instead of the previous 66kV threshold) seems reasonable for development of a generation asset >5MW within that network.

However, this is not to suggest that such systems should be presumed to adversely affect local system security by AEMO. Indeed, as embedded generation and storage continues to expand and competitive businesses continue to offer value propositions for customers that may be based on aggregation of these assets, the benefits of these systems to both customers and overall system operation should continue to be investigated. With these developments, the coverage and effectiveness of existing standards with respect to new and emerging technologies will also need to evolve with consultation from broader industry stakeholders.



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While in principle we are not concerned with notifying AEMO of a proposed embedded generation system of significance, we would be concerned if AEMO's review of these projects stagnated the development of assets that are potentially desirable for customers and effective market operation alike. Orchestrated embedded generation on a significant scale may have beneficial outcomes for the market and AEMO should promote competition and innovative business development in this sector.

The question raised in the consultation paper regarding the application of Generator Performance Standards to embedded generation we consider is out of scope for the range of this consultation. The technical standards that should apply to embedded generation and aggregated generation on a non-trivial scale are complex matters, and we consider that they should be determined by AEMO in consultation with relevant market participants to elicit adequate detail about the range of standards that should apply to various generation systems and the associated impacts on system security.

In our view, the Network Exemption Guideline does not materially contribute to a lack of oversight of embedded generation in exempt networks, and amendments to the guideline would not necessarily provide for an adequate mechanism to control performance standards for generation systems, or provide for any additional oversight of embedded generation system if indeed that is desirable. Product and service innovation that benefits customers and provides useful services for the wholesale market should not be stifled; we support regulation only where it can be shown that there is a market failure regarding the operation of those assets.

As this question becomes more of a concern for the market operator, a more targeted solution to any issue should be consulted upon with an appropriate solution; at that stage, the AER's guideline may need to be updated accordingly, after appropriate solutions to any identified issues have been resolved.

Should you have any questions in relation to this submission, please contact Aleks Smits, Manager Policy and Research, on 03 8633 7146 or myself on 03 8633 6836.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Stephanie Bashir', written over a light blue circular stamp.

**Stephanie Bashir**

Senior Director, Public Policy