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Via email to MCEMarketReform@ret.gov.au

The Standing Committee of Officials' policy response: National Frameworks for Electricity Distribution Network Planning, Connection and Connection Charge arrangements

This submission has been prepared by the Consumer Utilities Advocacy Centre Ltd (CUAC), an independent consumer advocacy organisation, established to ensure the interests of Victorian consumers, especially low-income, disadvantaged, rural, regional and indigenous consumers are effectively represented in the policy and regulatory debate on electricity, gas and water.

CUAC welcomes recognition by the Standing Committee of Officials (SCO) that information asymmetry and negotiating power, amongst other things, are important factors that affect the connection process. Previous research conducted by CUAC[1] highlights that it is essential the connection process for all customers is easy to understand, fair, transparent and subject to enforceable timeframes. Equally, costs and benefits attributable to a new connection need to be shared in a way which encourages efficient new connection, but which does not unfairly lock out new connection applicants. In general, the connection process must complement broader policy objectives such as reducing greenhouse gas emissions at least cost.

We do not believe the SCO response adequately defines an efficient cost sharing mechanism for new connections, and suggest this is included in further work to be done by the Australian Energy Market Commission (AEMC) in its review of the national framework for electricity distribution network planning and expansion. We suggest one potential model could be that a connection applicant pays for shared network costs when their demand is greater than a certain percentage (e.g. 20%) of total network demand in their area, and that they pay a percentage of shared network costs proportionate to their impact on the network they connect to.

[1] See http://www.cuac.org.au/database-files/view-file/2433/

We note work to be undertaken on gas connection arrangements and look forward to participating in that process.

This submission considers each recommendation made by SCO in turn and elaborates on some of the desirable principles for connection outlined above.

Recommendation 1 - 8:

CUAC understands these issues will be considered by the AEMC in a separate review on electricity distribution network planning and expansion – we will engage with that review accordingly.

Recommendation 9:

CUAC notes that not all discussion of submissions made to this recommendation in the SCO response correlates to the original recommendation. The original recommendation made by NERA consulting related to investigating the need to encourage risk sharing/trials for demand management (DM) by network companies.

We understand the SCO response to mean that they feel the incentive schemes in place and/or being developed are/will be sufficient/efficient in ensuring demand side response (DSR) and distributed generation (DG) is trialed, developed and undertaken. CUAC remains unconvinced the demand management incentive schemes being developed by the AER will be sufficient and we will pursue this through AER processes.

Recommendation 10:

We respond to payment of connection charges under recommendations 25-30.

With regard to technical and safety standards, we recommend that processes be developed to ensure: consistency across distribution businesses; that Distribution Network Service Providers (DNSPs) accept the performance characteristics of equipment as it is certified to perform; and that where equipment meets standards deemed equivalent to Australian Standards, that it be accepted by distribution businesses.

We note parallel work initiated by the MCE on technical and safety regulation.

Recommendation 11:

CUAC supports standardisation of technical requirements for micro embedded generation (EG) customers, pending finalisation of definitions, noting that this should be consistent across distribution companies. We reiterate our position on the need to ensure the right classification of generation classes.

We also support the development of standard connection services for small load customers.

Recommendation 12:

CUAC supports this recommendation and SCO response.

Recommendation 13:

CUAC supports this recommendation and SCO response.

Recommendation 14:

CUAC supports the development of minimum contents for connection contracts and is generally supportive of the advice provided by AAR on this matter. However we have provided advice to AAR suggesting that:

- Definitions of micro EG should incorporate equipment certified to a standard equivalent to AS 4777;
    - This is needed to account for the fact that Australia is a small market for EG on a global scale, so manufacturers do not always have an incentive to get their equipment certified to AS 4777, but may be certified to some equivalent standard;
    - If equipment has been certified to an equivalent standard in a different jurisdiction, but a DNSP will not accept that standard, the burden of proof should be on the DNSP to show the equivalent standard is insufficient.
- Minimum contract requirements for EGs should include indicative value of network support payments that a EG can attract:
    - Indicative values should be based on the capacity of the EG to supply the network with power or take load off the network, its ability to be active at varying degrees of notice, and the location of its connection point
        - This would help overcome information asymmetry and negotiating power imbalance that typically impedes the ability of an EG to attract fair and reasonable network support payments.

Recommendation 15:

We believe that where services are by direct control, the negotiating framework still provides useful guidance on how the provision of the service should proceed. For this reason, we suggest it may be appropriate to amend or adapt the schedule in some way to provide guidance to DNSPs on how direct control services should be provided.

This submission considers the role of the cooling off period in response to recommendation 24.

Recommendation 16:

CUAC supports the amendment of schedule 5.6 to ensure it can be used by small users, micro, small and medium DG's.

We reiterate our concern that current dispute resolution processes are inadequate and that this should be rectified. We understand these issues will be considered in the scope of the review to be conducted by the AEMC.

Recommendation 17:

We note that during the consultation process, significant misunderstanding was apparent as to how the network connection process would proceed. We believe the SCO policy response does not clearly define a logical connection process for each connection type.

CUAC recommends that SCO fully adopt NERA/ACG recommendation 17, with exception of the need to provide a customer with an indicative loss factor. The NERA/ACG recommendation provides clear guidance on how a DNSP should respond to a connection enquiry and it sets up the connection process to occur in a streamlined way.

Again, we reiterate our concern that guidelines for provision of connection services will remain ineffective in the absence of effective dispute resolution and/or real penalties tied to poor service provision by network businesses.

To provide clarity around future connection process proposals, we recommend SCO use annotated flow charts, as opposed to written descriptions, to communicate to stakeholders how it envisages different connection types to be processed. We also suggest clarification of language around connection types and to make an explicit distinction between the process for connection and energisation – the latter we expect to be covered in the NECF – and the connection enquiry and application phase of a connection.

The enquiry phase should determine such things as: which DNSP should process the application; what form of connection it will be; whether any services are contestable; and the framework for negotiating services. The application process should be an iterative process whereby: the customer completes an application form as determined in the enquiry phase; the DNSP reviews the application for correctness and completeness; the customer resubmits the application with amendments as required until it is accepted by the DNSP or escalated for dispute resolution.

We suggest there are four distinct connection types and interpret the SCO response as follows:

1. Common customer load connection (building of connection assets, not energisation of a property)
    a. This is the most common connection type undertaken by a DNSP, most probably connection of 'mums and dads'.

        i. All DNSPs should be required to define this connection service, and to develop a connection agreement to be approved by the AER
        ii. The NER will set out minimum content to be provided in these agreements including the number of days after receiving a completed application form a DNSP can take to complete the connection work
2. Common micro EG connection
    a. This is a connection typical for micro EG customers to the distribution network
        i. Micro EG will be defined in the NER
        ii. All DNSPs should be required to define this connection service, and to develop a connection agreement to be approved by the AER
        iii. The NER will set out minimum content to be provided in these agreements including arrangements for installation of appropriate metering and other necessary equipment for the export of small amount of electricity from the connection point and the number of days, after receiving a completed application form, a DNSP can take to complete the connection work
3. DNSP defined connection
    a. These are connections which a DNSP regularly processes, and will benefit from if it develops a standard service and agreement which is approved by the AER.
        i. It is not mandatory for a DNSP to define such standard connection services, but it can do so if it is in its interests
        ii. The NER will set out minimum content requirements for these contracts including the number of days, after receiving a completed application form, a DNSP can take to complete the connection work
4. Negotiated connection
    a. These are connection types which a DNSP does not have a standard service for
        i. The NER will set out minimum content requirements for these contracts including the number of days, after receiving a completed application form, a DNSP can take to complete the connection work

We understand SCO to recommend the NER will require that within 5 business days of receiving a connection enquiry, a DNSP must advise the enquirer of the process and information required for the submissions of a connection application, advise whether the connection is contestable and any other information requirements.

We recommend that the enquiry phase should also be used to determine which DNSP should process the application and what type of connection is required (standard or negotiated). If these matters are not determined in the enquiry phase, the customer and DNSP are likely to unnecessary effort in completing or reviewing connection application forms respectively.

Recommendation 18:

CUAC supports this recommendation and SCO response

Recommendation 19:

CUAC strongly rejects the SCO response to NERA recommendation 19 and suggests some clarification of language may be needed.

The SCO response suggests that a DNSP will only be required to release information, such as whether the application should be processed by another DNSP, the nature of the connection (standard/non standard) and technical information once a completed application to connect is made. However it seems reasonable that this information may be required by a connection applicant before a completed connection application can be made. Therefore the SCO response appears to recommend a process for connections that makes it almost logically impossible for the connecting applicant to be successful.

We are also unsure why a network business is not required to advise a customer upon their initial enquiry, if their application needs to be processed by another network company. It seems reasonable that upon an initial enquiry, the enquirers' location would be revealed and so they could be advised if their application needs to be processed by another DNSP.

We believe a mechanism is required to ensure the information provided by the DNSPs is correct and sufficient. Again, we point to a history of DNSPs providing incorrect or insufficient information to DG proponents, the consequence being that DG projects are scoped on the basis of incorrect information, resulting in wasted time and ultimately failed projects[2].

Recommendation 20:

CUAC supports tighter timeframes suggested by SCO for issuing a connection offer, but pragmatically, we are unsure if a turn around time of 5 business days is practical from the perspective of the DNSP. This should be tested with DNSPs

CUAC also supports the requirement on the DNSP to notify a customer if their application form cannot be processed for any reason within 5 days. In this event, the DNSP should be required to clearly state all reasons why the connection cannot be processed.

Recommendation 21:

[2] See CUAC research "Beyond free market assumptions: addressing barriers to distributed generation" - http://www.cuac.org.au/database-files/view-file/2433/

CUAC supports the intent of this recommendation and suggests that the language be clarified such that the timeframe over which a connection offer remains valid is expressed in business days. We recommend all timeframes required by DNSPs or connection applicant be expressed in the form of business day to avoid confusion.

Recommendation 22:

The SCO response appears to create a completely different emphasis on the onus for exchange of technical information to the NERA recommendation. While the original NERA recommendation requires a DNSP to provide any technical information needed to the connection applicant for processing a negotiated connection agreement, the SCO response appears to suggest the DNSP advise the customer of technical information the connection applicant must provide to the DNSP for processing the negotiated connection agreement, only when a completed application form is received. As in recommendation 19, it appears SCO has recommended a process which will be redundant – if a completed application form is received by the DNSP, the connection applicant will not needs additional technical information relating to their application.

The NERA recommendation is appropriate, and we would support the recommendation in this form.

Recommendation 23:

As noted earlier, we believe Rule 6.7.5(c) provides useful guidance as to how a direct control service should be progressed and therefore should be revised to incorporate direct control services.

Recommendation 24:

CUAC does not believe that an extended negotiation period qualifies as a substitute for an effective cooling off period. A negotiated offer will most probably be more complex than a standard connection offer and the details of the final offer will not be known until the negotiation process is complete. Therefore a 2 month cooling off period for accepting a negotiated connection offer should be allowed for in the Rules.

Recommendation 25:

CUAC does not accept the rationale for requiring connecting users (above small load or micro EG) to pay for all connection charges in accordance with the parameters laid out in SCO recommendations 27-29. We respond to all those recommendations here.

We believe requiring connecting applicants to pay the upfront shared network augmentation costs, with only insecure mechanisms for recovering those costs, could act as a significant barrier to efficient investment in distributed energy resources in particular. This is because distribution companies can leverage information asymmetry to

impose significant augmentation costs on connection applicants where they threaten to take electrical load off the networks.

CUAC has undertaken primary research on this and related issues. We have found that in many instances, EG proponents are forced to pay for and undertake network studies as part of the connection application process. However they have no guarantee the results of the study will be accepted by distribution companies. Distribution companies themselves often have these studies reviewed by third parties to determine their validity – i.e. network companies do not always have the internal skills to assess the impact a connection will have on their network. Subsequently, this process results in the potential for significant gaming by distribution companies, and can result in a lengthy, costly, and frustrating connection experience.

The SCO response severely underestimates the complexity and importance of this issue and the need to apply innovative strategies, not just economic theory, to ensure it is resolved.

The SCO response suggests that forcing new connections to pay for shared augmentation costs will motivate demand management, EG and efficiency. This may be true in very limited circumstances – for new connections of very large load customers. However these applicants are likely to be small in number relative to total existing network users. Existing network users already have incentive to undertake DM, EG and EE opportunities through a host of price and policy signals including peak demand charges, network and wholesale energy cost increases, energy efficiency schemes and so on. In many cases a connection applicant will have exhausted opportunities for cost effective demand reductions and any requirement to augment the shared network is likely to be so they can export energy, potentially delivering benefits other network customers.

We believe a more flexible and fair approach is required to determine when shared network costs can be reasonably imposed on a connection applicant and that this should be pursued through the AEMC review of the National Framework for Electricity Distribution Network Planning and Expansion. Indicatively, it may be that a connection applicant pays for shared network costs when their demand is greater than a certain percentage (e.g. 20%) of total network demand in their area, and that they pay a percentage of shared network costs proportionate to their impact on the network they connect to. Such a mechanism could account for the impact of a new connection on the network relative to the impact of those already connected.

In its response to recommendation 27, SCO argues it is inequitable for network users to subsidise the requirements of a new connection on principle. However this ignores the complexity of determining the totality of costs and benefits associated with a new connection relative to a counterfactual scenario, particularly the connection of EG, and that sharing network augmentation costs to accommodate EG may be the most efficient and effective way of providing energy services to network customers.

Furthermore, the SCO response to recommendation 28 suggests that large customers will not pay the full cost of network augmentation required for their connection – they are only required to make a capital contribution to network extension and augmentation assets. This is inconsistent with it's previous position on the equity of sharing augmentation costs and so makes the position untenable.

CUAC understands the need to ensure that price signals are provided to connection applicants to ensure they seek the most efficient connection point. However we believe this can be done without forcing connection applicants to pay for all augmentation costs. We strongly disagree that a user pays approach to augmentation costs will act as a positive incentive to demand management, micro embedded generation and energy efficiency and note that no rationale for this position has been made by SCO.

We firmly reiterate our recommendation that this is explored further as part of the AEMCs review of the National Framework for Electricity Distribution Network Planning and Expansion.

Recommendation 26:

CUAC supports this recommendation and SCO response.

Recommendation 27:

As discussed in response to recommendation 25.

Recommendation 28:

As discussed in response to recommendation 25.

Recommendation 29:

In theory, a repayment mechanism provides a way to ensure connection applicants face an efficient connection pricing signal, while still able to recover value where it accrues to other future connection applicants. However in practice, such a mechanism is highly unlikely to work, primarily because applicants will face significant up front capital costs and very limited certainty over recovering those costs. Again, we suggest this be considered further as part of the AEMCs review of the National Framework for Electricity Distribution Network Planning and Expansion

Recommendation 30:

As discussed in response to recommendation 25

If you have any further queries please contact Tosh Szatow, Policy Officer on (03) 9639 7600.

Yours sincerely

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