SUBMISSION: NATIONAL FRAMEWORKS FOR DISTRIBUTION NETWORKS – NETWORK PLANNING AND CONNECTION ARRANGEMENTS

Adjunct Professor Alan Pears
2/78 William Street
Brighton Vic 3186

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Sent to MCEMarketReform@industry.gov.au

Introduction

The outcomes of this process are critical to overcoming the barriers to demand-side action and distributed generation that have marred the energy market since its inception. Indeed, the fact that it has taken this long to address these issues indicates a serious failure of public policy process.

This submission makes some broad policy recommendations, then reviews the recommendations of the ACG/NERA report of August 2007.

Broad Issues

Given the urgency, driven by climate change policy and the need to aggressively respond to growing peak electricity demand, it is critical that this process delivers real outcomes quickly. Good intentions are no longer sufficient. Fines and incentives should be applied to ensure action.

Past experience, for example in NSW, has indicated that, even when DNSPs are given the opportunity to recover DSM costs, they still fail to pursue the least cost solutions involving DSM. This suggests that there are deeper financial, strategic and cultural drivers blocking DNSP support for DSM and distributed generation. On this basis, it seems likely that more pro-active measures than simply revising the regulatory frameworks will be necessary. Additional action should be pursued including:

- Provision of funding (sourced through a levy on all distribution charges) for DSM and DG providers to bid for to implement projects in selected priority areas. This should be managed by AER in consultation with the Clean Energy Council and other interested parties. Incentives could be offered where DNSPs and other parties work cooperatively.
- Formal independent review of a sample of situations where DSM/DG has been implemented, and where it has not been, and funding for remedial action where appropriate
- Public reporting, including regular publication of over-arching reviews of outcomes
- Introduction of substantial fines for DNSPs who fail to adopt ‘least cost’ DSM/DG as determined by an independent review
- Specialists with demonstrated practical experience in delivery of effective DSM and DG outcomes should be involved in the reviews of DNSP cost-benefits studies, and trials of samples of DSM and DG options must be carried out to provide reality-based data on costs and benefits of specific measures

My experience in working with industry, business and local government has highlighted that a substantial amount of potentially very cost-effective low emission DG is available that would involve several separate customers sharing the electricity and heat/coolth output from a shared cogeneration plant. It is critical that such facilities up to, say 30 MW can be excluded from the costs and complications of having to deal with DNSPs and the NEM (unless they wish to). That is, they should be free to run power lines over limited distances independent of other agents.

It will also be important that such operators are free to negotiate back-up/standby power supply arrangements with other DG facilities and DSM providers without incurring high charges from DNSPs or other agents within the NEM. That is, the market power of DNSPs and other agents in the NEM must be controlled more effectively, while new technologies are supported to cooperate to minimise costs and barriers

I have not had sufficient time to determine the structure of regulated funding of DNSPs under the new arrangements. But it is critical that the approach used in Victoria NOT be followed. Payment based on the amount of electricity transported through a cable clearly creates an incentive to increase electricity consumption. Likewise, any Terms of Reference that require a regulator to ensure the industries it regulates remain viable can create conflicts of interest: the success of a new technology or system not operated by the existing industry could reduce the viability of the existing industry while achieving societal benefits and lower total costs.

ACG/NERA Recommendations

Rec No	Position	Comments
1	Strong support	Essential to underpin effective DSM and DG planning.
2	Strong support	Essential to minimise transaction costs and ensure accountability. However, DSM and DG industry representatives should be involved in development of the format
3	Strong support	A timeframe for response should be specified, along with penalties for failure to comply. Public reporting and review of reports is critical
4	Strong support	As above
5	Strong support	
6	Strong support	It will be important to apply a standard regulatory test but this should include consideration of the multiple benefits of DG and DSM such as improved reliability and diversity
7	Strong support	
8	Strong support	Establish clear dispute resolution procedures including strong penalties
9	Strong support	Specific funding should be provided for joint projects on condition that DNSPs and DSM/DG providers work cooperatively
10	Strong support	The DNSP cost estimates should be open to comparison and verification against competing bids
11	Strong support	
12	Strong support	NER should implement trial projects so that practical experience can inform ongoing policy
13	Strong support	
14	Strong support	
15	Strong support	There are questions as to whether supply connections between consenting partners need to meet all technical specifications of NEM-compliance. This issue should be open to trial

Conclusion

If the energy market cannot sort out DSM and DG, so that it is delivered promptly and effectively, there is no doubt that other complementary or competing policy tools will be applied to meet the urgent need for delivered outcomes.