

Rule change requests to efficiently integrate distributed energy resources

Overview of rule change proposals

In July 2020, the Australian Energy Market Commission (the Commission) received three rule change requests that aim to better facilitate the efficient integration of distributed energy resources (DER) such as rooftop solar PV and small-scale batteries, for the grid of the future. The four proponents are SA Power Networks (SAPN), the St Vincent de Paul Society Victoria (SVDP), and Total Environment Centre (TEC) together with the Australian Council of Social Service (ACOSS). They submitted rule change requests seeking to amend the National Electricity Rules (NER) applying to the economic regulation of distribution network service providers (DNSPs) in the National Electricity Market (NEM). The proponents consider the current regulatory framework is no longer fit-for-purpose.

The three rule change proposals aim to unlock the benefits of DER by identifying reform options that promote greater flexibility for the Australian Energy Regulator (AER) and DNSPs to efficiently manage each jurisdiction's circumstances and meet consumer preferences. The proposals focus on three key areas as described below.

Updating the regulatory framework to reflect the community expectation for DNSPs to efficiently provide 'export services' to support DER

The proponents consider the current regulatory framework does not reflect community expectations for DNSPs to efficiently provide 'export services' – in addition to their existing obligations to provide essential, consumption-based services. DNSPs, while still providing the core service of the transport of energy, now provide this service to customers in two directions instead of one: the traditional supply of energy downstream to customers' homes and businesses for consumption, and the transport of energy generated by customers' DER to other customers in the market (referred to as 'export services'). The proponents consider that the first step of the proposed reform package is to explicitly recognise export services in the regulatory framework.

Promoting incentives for efficient investment in, and operation and use of, export services

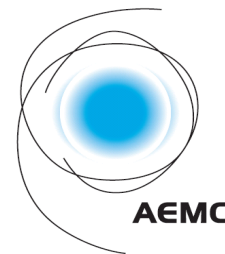
A key feature of the current regulatory framework is that it provides incentives for DNSPs to meet their obligations and service standards at least cost. The AER applies incentive-based regulation across the energy networks it regulates. The proponents consider there are currently mixed financial incentives for networks to maintain or improve export service standards – potentially leading to 'export service' levels below those expected by customers. If DNSPs are required to provide export services, their incentives may need to be re-aligned to promote efficient provision of these services.

Pricing of export services

The rule change proponents say that increased use of distribution networks by DER to export electricity into the system will eventually drive the need for new network expenditure as the inherent 'hosting capacity' of the existing assets is used up.¹ SVDP says there is a need to consider

¹ The term 'hosting capacity' refers to the amount of DER that can be accommodated on the distribution system at a given time and at a given location under existing grid conditions and operations, without adversely impacting safety, power quality, reliability or other operational criteria, and without requiring significant infrastructure upgrades.

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who pays for enabling higher DER uptake. Some consumer groups have expressed concerns that the current charging arrangements are leading to inequitable outcomes, with network costs associated with DER being borne by consumers regardless of whether they own DER.

SAPN and SVDP propose the removal of the ban on export charges², which prohibits the use of system charges for export services into the distribution network. The proponents consider this would enable export charges to signal the need for additional network expenditure where appropriate, and allocate costs more efficiently and fairly and reward customers for providing services through their DER.

Project timeline

The Commission is considering the three rule change requests concurrently and published a [consultation paper](#) on 30 July 2020 to initiate the process. The Commission is awaiting stakeholder feedback on these proposals and is expected to make a draft determination by mid-November. The expected timeline for the rule change process is provided below.



For more information on this rule change process, please contact:

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² National Electricity Rule (NER) clause 6.1.4.

'Export charges' refer to ongoing distribution use of system charges for the use of DNSP 'poles and wires' to transport electricity exported by a distribution network user