15 May 2015

Attention: Mr Chris Pattas,
General Manager - Networks Branch
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001
mailto: TASelectricity2017@aer.gov.au

Dear Sir,

Response to AER: Tasmanian Framework and Approach preliminary positions

I refer to the AER's preliminary positions on a replacement framework & approach published on 2 April 2015 (AER reference: AC 046/15) with an invite for submissions by 15th May 2015.

I welcome the opportunity to comment on the preliminary positions and ask that you accept this letter as Steel Wave Power's initial views on the replacement framework & approach for the Tasmanian electricity distribution.

Steel Wave Power's generally supports the key elements of the replacement framework & approach arising from AER's review:

- classification of distribution services (which services AER will regulate),
- control mechanisms (how AER will determine prices for regulated services) and the formulae that give effect to the control mechanisms,
- the application of a range of expenditure forecasting expenditure tools used to test TasNetworks' regulatory proposal,
- how AER will calculate depreciation of TasNetworks' regulatory asset base going forward.

Overall, the application of a range of incentives schemes to encourage desired behaviours such as improvements in service quality or efficient capital and operating expenditure are a first step forward. In my view, it is recognised that at the present stage of development of the Tasmanian Framework and Approach, Tasmanian Networks Pty Ltd produced an Annual Pricing Proposal for 1 July 2015 to 30 June 2016 that has Network Tariff Application and Price Guide with:

27 Embedded Generation

Network tariff charges for embedded generation connections will always be treated on an individually calculated basis.

Clause 5.5(h) of the National Electricity Rules requires TasNetworks, in its capacity as a DNSP, to pass through to an embedded generator the locational TUoS charges that would have been payable in relation to its connections points with the transmission network, had the embedded generator not been injecting energy into the distribution network.

TasNetworks calculates the avoided TUoS for all embedded generators that export energy to the distribution network at the same rates for the locational component which would be applied to a load of similar size at the same connection point.

Avoided TUoS payments to embedded generators are recouped through the recovery mechanism for the TUoS charges.

Steel Wave Power would like to comment in the attachments on the following issues:

1. The interpretation of the TUoS in the 'framework & approach'.
2. The imbalance of negotiating power.
3. The level playing field objective.
4. The introduction of mandatory compliance programmes.
5. The timetable for implementation of the programme.

I would be pleased to discuss our comments at your convenience. Should you wish to discuss this submission in any way, please do not hesitate to contact Marcus Steel on 0488 145 494.

Yours Sincerely,

Marcus DW Steel
Principal Application Engineer
Steel Wave Power (SWP)
ABN: 72044918897

References:

a) Steel Wave Power's submission 17 March 2015 on AER's "Tasmanian electricity distribution – Framework and approach".

b) ISLAND OF INNOVATION Media Release on 26 October 2012 by Martin Ferguson then Minister for Resources and Energy, Minister for Tourism

c) World-leading technology to power Flinders Island Media Release on 26 October 2012 by Hydro TAS http://www.hydro.com.au/about-us/news/2015-03/world-leading-technology-power-flinders-island

Attachment 1 - Steel Wave Power's Response to AER: Tasmanian Framework and Approach preliminary positions

The interpretation of the TUoS in the 'framework & approach'

Australian mainland or international precedents that apply to transmission class networks should automatically apply to the Tasmanian 220kV network even though National Electricity Rules Version 71, Table S5.1a.2 currently classes Tasmania's 220kV as a sub-transmission network. ". *[underlining for emphasis].*

This creates an unhelpful ambiguity in TUoS benchmarking since Tasmanian TNSP – DNSP asset boundaries were 22kV rather than 110kV e.g. Queensland. Guidance is sought as to the circumstances under which TUoS in Tasmanian framework & approach would be benchmark-able to mainland NEM jurisdictions.

Imbalance of Negotiating Power

Steel Wave Power is concerned that an imbalance of negotiating power exists between distribution network service providers and an embedded generation applicant. In our view, this arises not only from "the information imbalances in the negotiation process" (refer Attachment 1 Section 2) but also from the different time/economic pressures on the parties. The embedded generation applicant is exposed to the risk of breach of the Rules or failure to connect plant to NEM or delays in getting a local social license but the DNSP has secure, regulated revenue, independent of the finalisation of a satisfactory connection agreement.

Time will reveal the effectiveness of the enhanced negotiating framework in assisting parties in negotiating appropriate network tariff charges for embedded generation connections on an individually calculated basis, which balance the need for DNSP recouping through the TUoS recovery mechanism versus the cost of achieving particular avoided TUoS payments at a given connection point.

The level playing field objective

Steel Wave Power is concerned that international precedent(s) applying to the provisions of NER clause 6.6.4 will not be technologically neutral for embedded generation system mixing mini-wind generators, solar PV and micro-turbine generators (blended or homogeneous fuel) in the Jurisdiction of Tasmania.

This is because the aim of the project in TasNetworks' "Demand Management Incentive Scheme 2012013", was to address a network constraint on Bruny Island and optimise the operation of the following new systems on Bruny Island:

- An energy storage system (battery).
- An embedded diesel generator.

- Future demand side management capabilities (both residential and commercial).
- Potential for future solar generation of between 200 kW and 1,000 kW in size.
- Potential for future wind generation of between 200 kW and 1,000 kW in size..

Hydro Tasmania Monopoly

Minister for Resources and Energy, Martin Ferguson AM MP, 26 October 2012 joined Tasmanian Premier Lara Giddings to witness the commissioning of Hydro Tasmania's uninterruptible power supply system as part of the $45 million King Island Renewable Energy Integration project. The Australian Government is supporting the project through more than $15 million in Australian Renewable Energy Agency (ARENA) funding. The Australian Renewable Energy Agency (ARENA) 4 March 2015 announced $5.5 million support for Hydro Tasmania to develop an innovative off-grid hybrid project on Flinders Island. $20+ million total.

The introduction of mandatory compliance programmes

Steel Wave Power is concerned about the cost of implementing the mandatory compliance programmes to ensure their plant continues to meet its registered performance standards over the expected life cycle (e.g. 25 years) of equivalent DNSP assets had the embedded generator not been injecting energy into the distribution network. This would appear to result in ongoing costs, which would ultimately have to be recovered from customers.

It may perhaps be more appropriate for the DNSP to challenge the embedded generation applicant, with verification costs being borne by the embedded generation applicant if non-compliance were demonstrated.

The timetable for implementation of the programme.

Steel Wave Power is currently reviewing its rate of progress for embedded generation connection on North Stradbroke Island with the Queensland DNSP, Energex Limited. It is envisaged that the final Tasmanian Framework and Approach will be reflected in the new connection agreements correlated to 60/40 split (Hydro Tasmania / Community Resilience Microgrids) for just regional Tasmanian townships since that gives maximum opportunity for Decentralised Energy Systems with hot-standby power for very large scale events.

However, given the multi-lateral nature of these projects, we cannot comment unilaterally on the time period, which is required to enable us to assemble response to the Tasmanian Energy Strategy of Tasmanian Government Department of State Growth, particularly Section 4.3.7. Actions. Also SWP notes Don Maisch PhD of EM Facts Consultancy assertion ACCC is closely allied with AER in "*Conflict of interest in the ACCC and its possible affect on Tasmania*" http://www.emfacts.com/download/ACCC_conflict_of_interest_.pdf .

Steel Wave Power's submission continues in Confidential Attachment 2