



Ref: ERC0191
B/D/16/988

9th February 2016
Submitted online

Dear Sir/Madam,

I write to inform you of CS Energy's opinion in regards to the Rule change proposal Local Generation Network Credits (LGNCs).

At this stage, CS Energy believes the Rule is not in the consumer's interest and is unlikely to satisfy the National Electricity Objective.

Without going into detail, CS Energy considers it is questionable whether there is a market failure that needs to be addressed by the proposal as:

- the distributors are developing Cost Reflective Network Pricing under the Rules;
- if embedded generators are an alternative to networks, then networks should, in time, incorporate it into their asset plan and subsequent revenue proposal; and
- implementation or transaction costs could be overcome through agents.

In any case, CS Energy still has reservations as to whether the proposal is in the consumers' interest because:

- incentive based regulation is supposed to reveal efficient costs over time;
- over time network will reduce costs (for profit seeking) and this will flow into lower allowances in the future; and therefore
- consumers should only pay efficient costs, which is the AER's preference.

Under LGNCs, even if they did work perfectly:

- does the consumer pay inefficient costs (which is the cost of avoided network); rather than
- efficient cost (cost of the embedded generation)?

CS Energy would prefer embedded generation to be included in incentive based regulation of networks for the reason that the costs and benefits are then dependent; unlike LGNCs which appear to approximate the benefit through the calculation of LGNCs. This leads CS Energy to suggest the best way for embedded generation to efficiently substitute networks is for it to be an asset that provides a Standard Control Service.

Yours faithfully,



Stephen Hoult
Group manager, Energy & Carbon

Brisbane Office
PO Box 2227
Fortitude Valley BC Qld 4006
Phone 07 3854 7777
Fax 07 3854 7300

Callide Power Station
PO Box 392
Biloela Qld 4715
Phone 07 4992 9329
Fax 07 4992 9328

Kogan Creek Power Station
PO Box 41
Brigalow Qld 4412
Phone 07 4665 2500
Fax 07 4665 2599

Wivenhoe Power Station
PO Box 38
Fernvale Qld 4306
Phone 07 5427 1100
Fax 07 5426 7800