12 April 2011

Mr John Pierce, Chairman
Australian Energy Markets Commission
PO Box A2449
Sydney South NSW 1235

Lodged online: www.aemc.gov.au

Dear Mr Pierce

REC0141 – Small Generator Aggregator Framework

Origin Energy (Origin) welcomes the opportunity to comment on the Australian Energy Markets Commission (AEMC) Consultation Paper on the Small Generation Aggregator Framework (Aggregator) proposal.

Origin supports the principle of lowering the barrier to entry for distributed generation. The Rule change proposal, however, may not lower barriers to entry or realise the potential benefits identified by AEMO. There appears to be some unintended consequences with the proposed Aggregator framework that may actually dissuade its use.

Identifying the problem

The current AEMO Guidelines on Exemption from Registration as a Generator (Guidelines) outline the criteria for a generator to be exempt. Specifically, the eligibility provisions for exemption from registration - where a generator below 5MW or where a generator is below 30MW and exports less than 20GWh to the grid per year - is applicable to distributed generators. This exempt generator classification enables a distributed generator to treat sent out generation as negative load. Ensuring generation sent out from a connection point is netted off against the market load of the local retailer acting as the financially responsible market participant.

The ability to apply for an exemption or register as a non-market generator provides a mechanism for small scale generators to build a viable business model in the National Electricity Market (NEM). These small scale generators rely on contracted revenue streams from their customers and partner retailers (where required), which underwrite the investment decisions in a way that minimises business operating and administrative costs. Revenue from distributed generation is limited by the size of generation units so it is prudent for business costs to be commensurate with income.

The Aggregator framework lowers business costs associated with the upfront cost of registration. By classifying generators as market non-scheduled, however, the Aggregator framework imposes additional administrative and operational costs which include:

- paying AEMO fees;
- meeting Prudential Requirements;
- providing compliant metering; and
- being responsible for metering except where the DNSP has become the responsible person.

Origin (LGC) (Aust) Pty Limited ABN 73 000 000 331 • Level 45, Australia Square, 264-278 George Street Sydney NSW 2000
GPO Box 5376, Sydney NSW 2001 • Telephone (02) 8345 5000 • Facsimile (02) 9252 9244 • www.originenergy.com.au

A participant currently classified as an exempt or non-market generator is unlikely to participate in the Aggregator framework where to do so exposes the business to a significant increase in operational and administrative costs.

The consequences of being a market generator can also introduce new business risks for a prospective Aggregator. As described above, new generation investment decisions require a certain revenue stream to make the project commercially viable. In most cases, small scale generation output is sold to a local customer or retailer for a defined price. Under the proposed Aggregator framework, a new generator would receive the variable spot price for its generation output. This can change the nature of the original business model, potentially making it a less viable proposition for existing and emerging co-generation and tri-generation technologies.

Preferred Solution

Origin supports the principle of lowering the barriers to entry for small scale distributed generation. In the case of this Rule change proposal, Origin supports the introduction of a Small Generation Aggregator participant, but believes it is critical for the registration process to enable the participant to elect to be either a market generator or an exempt/non-market generator. Requiring all Aggregators to be market generators is likely to erode any prospective value identified by AEMO since participants are unlikely to use the market classification.

AEMO can define a set of criteria to inform a participant's decision to become a market or exempt/non-market generator. These criteria could be similar to the existing thresholds, though we suggest that they may need to be reviewed also. Making the registration category more flexible on this classification aspect can improve the potential take up of the Aggregator registration category, thereby enabling AEMO to access its proposed cost savings without unreasonably increasing the operational costs for prospective participants.

After reviewing the current AEMO Registration Guidelines, AEMO may need to review the current classifications for small scale generation. There are two aspects to the current classification: one relates to capacity (between 5 and 30MW); the other is an energy factor (less that 20GWh per annum). As the size of embedded generation units or aggregated portfolios increase above 5MW, it will not take much to breach the 20GWh threshold.

The AEMO Guidelines therefore need to reflect the reality that small scale business models may require high capacity utilisation factors. The output could still be sold to a customer at a local connection point or the local retailer, which is a requirement to obtain either an exemption or register as a non-market generator. The low energy factor in the current Guidelines may be unnecessarily restrictive and act as a barrier for the update of embedded generation more broadly.

We note that the AEMC Demand Side Participation (DSP) Stage 3 Consultation is considering the issues regarding the classification of Aggregators and reviewing the current costs for entry for those market participants. Origin considers that requiring Aggregators to register as market generators could impose a barrier to entry through the impost of increased business costs and risks. Providing a more flexible registration classification and reviewing the current energy thresholds could assist in making the new registered participant class a more commercially viable option.

Distributed generation businesses based in buildings and precincts operate on small scale, high capacity factor generation. The AEMO Guidelines incorporated into the Aggregator framework act as a further barrier by placing restrictive limits on the level of sent out generation to the grid at 20GWh per year. We consider the Guidelines need to be reviewed in light of the proposed Aggregator framework to facilitate high capacity factor utilisation generation.

If you have any questions or would like to discuss this submission further, please contact Hannah Heath (Manager, Regulatory Policy) on (02) 9503 5500.

Yours sincerely,

Tim O'Grady
Head of Public Policy