



3<sup>rd</sup> November 2016

Australian Energy Market Commission  
PO Box A2449  
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Via online portal: [www.aemc.gov.au](http://www.aemc.gov.au)

**Consultation:** Draft Rule Determination – National Electricity Amendment (Local Generation Network Credits) Rule 2016

**Project Reference Code:** ERC0191

APA Group is pleased to have an opportunity to make a submission to the Australian Energy Market Commission (AEMC) with regard to its "Draft Rule Determination – National Electricity Amendment (Local Generation Network Credits) Rule 2016" (the paper), re potential changes to the National Electricity Rules (NER).

APA notes that the paper discusses a proposed change to the National Electricity Rules and there is no proposed change to the National Gas Rules. Despite this, the potential introduction of a Local Generation Network Credit (LGNC) is relevant to the natural gas industry because of the use of distributed natural gas in embedded generation facilities such as co-generation or tri-generation facilities.

#### **About APA Group**

APA own and/or operate around \$20 billion of energy assets and deliver half the nation's natural gas usage. APA own 15,000 kilometres of natural gas pipelines that connect sources of supply and markets across mainland Australia. APA operate and maintain gas networks connecting 1.3 million Australian homes and businesses and employ over 1600 people. APA also own or has interests in gas storage facilities, gas-fired power stations and wind farms. APA Group (ASX:APA) is listed on the ASX and is included in the S&P ASX 50 Index.

APA's Energy Assets include the 7,500-kilometre East Coast Grid of interconnected gas transmission pipelines. This grid provides the flexibility to customers to move gas around eastern Australia, anywhere from Otway and Longford in the south, to Moomba in the west and Mount Isa and Gladstone in the north. In Western Australia and the Northern Territory, APA's pipelines supply gas to power major cities, towns and remote mining operations. APA also own and operate the Mondarra Gas Storage Facility and the Emu Downs Wind Farm in Western Australia, Diamantina and Leichhardt Power Stations in Queensland, the Dandenong LNG Storage Facility in Victoria and the Central Ranges Gas Distribution Network, servicing Tamworth in New South Wales.

APA also has extensive investment interests in a variety of other energy assets across Australia, such as pipelines; power stations; wind farms; electricity interconnectors; gas processing plants and a gas distribution network.

#### **Comments**

APA would like to acknowledge and thank the AEMC for its efforts in considering the merits of the LGNC rule change request. Having said that, APA is nevertheless disappointed that discussions and negotiations around the original rule change have now been completed, and unfortunately, the original rule change request has been unsuccessful, in spite of the genuine and conscientious efforts of many people.

"The Commission does not agree that the existing mechanisms are insufficient to incentivise efficient investment in embedded generation and other non-network solutions"<sup>1</sup>.

However, in spite of the lengthy period of consultation undertaken during the review, APA would have much preferred that even more time to have been invested in discussions and negotiation in order to agree a mutually acceptable compromise on the LGNC concept.

<sup>1</sup> Draft Rule Determination – National Electricity Amendment (Local Generation Network Credits) Rule 2016 – page i – 22 September 2016

APA nevertheless continues to support the criterion on which the LGNC proposal was assessed, i.e. Specificity; Proportionality; Technology Neutrality; Symmetry and Cost minimisation. In particular, APA regards the technology neutrality principle highly, given that the LGNC proposal potentially applied to a broad range of low emission technologies, in a non-discriminatory manner.

In spite of the failure of the LGNC to 'pass' the AEMC's evaluation, APA is reassured by the AEMC's acknowledgement that an issue does nevertheless exist and is still of sufficient importance, to require a solution in spite of the failure of the LGNC proposal.

"The Commission considers that an issue does exist regarding the ability of providers of non-network solutions (including embedded generators) to take advantage of the mechanisms that exist in the NER."<sup>2</sup>

As a positive outcome of the recognition of this issue, the AEMC has proposed a 'draft more preferable rule'<sup>3</sup>, thus effectively keeping the issue in focus. Specifically, the AEMC has proposed that DNSPs must annually publish a "Systems Limitation Report" (SLR) for the benefit of non-network solution providers.

On the surface, this type of initiative, where more information is provided to potential solution providers than perhaps has been provided in the past, should logically be helpful to non-network solution providers. Indeed, given the asymmetry of information issue, which has been consistently raised by potential solution providers to DNSPs over a number of years, the introduction of the SLR process should be a step forward.

However, one of the fundamental reasons why the LGNC concept was first proposed was because the non-network solutions providers consistently believed that the existing mechanisms<sup>4</sup> weren't effective in helping providers provide solutions. Therefore, a conundrum existed and indeed still exists i.e. the AEMC findings were that these mechanisms did work, and the solution providers were generally saying they didn't.

APA's concern, therefore, is twofold.

Firstly, APA is not confident that by simply introducing a single report like an SLR, that it will provide the same the potential benefits to non-network solution providers as were being targeted under an LGNC process.

Secondly, APA is concerned that the SLR will simply fall into the same category as the existing mechanisms i.e. where providers perceive that the SLR provides little value. Indeed, anecdotal reports suggest in any case, that the type of information the SLR is likely to provide, is already provided by certain DNSPs.

With those points in mind, we note that AEMC acknowledges in the below quote, that there is a risk of 'new' mechanisms being introduced that in fact theoretically perform the same function or provide the same information, as existing mechanisms or processes – even if the existing mechanisms or processes are often perceived by the non-network solution providers as not providing value.

"The Commission considered whether the proposed LGNC mechanism could be amended to be made more specific. However, LGNCs would then resemble existing mechanisms such as network support payments. That, in turn, would weaken any justification for introducing LGNCs as an additional mechanism."<sup>5</sup>

In summary therefore, APA is confident that the introduction of an SLR initiative will not add additional new value to non-network solution providers and as such, all parties would be left with the same problem, and still, with no solution.

Given that, APA recommends that the AEMC reviews its decision to reject the LGNC concept and re-engages with the parties, to pursue further discussions and negotiations regarding the LGNC concept.

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<sup>2</sup> Draft Rule Determination – National Electricity Amendment (Local Generation Network Credits) Rule 2016 – page 20 – 22 September 2016

<sup>3</sup> Draft Rule Determination – National Electricity Amendment (Local Generation Network Credits) Rule 2016 – page 17 – 22 September 2016

<sup>4</sup> Cost-reflective distribution network tariffs; Network support payments; Demand Management Incentive Scheme; Demand Management Innovation Allowance; and Small generation aggregator framework

<sup>5</sup> Draft Rule Determination – National Electricity Amendment (Local Generation Network Credits) Rule 2016 – page 46 – 22 September 2016

**Close**

APA thanks the Commission for the opportunity to comment on the Paper. Please contact either Josh Hankey (07 3215 6632) or myself (08 8113 9197) should you wish to discuss our submission further.



Yours sincerely

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