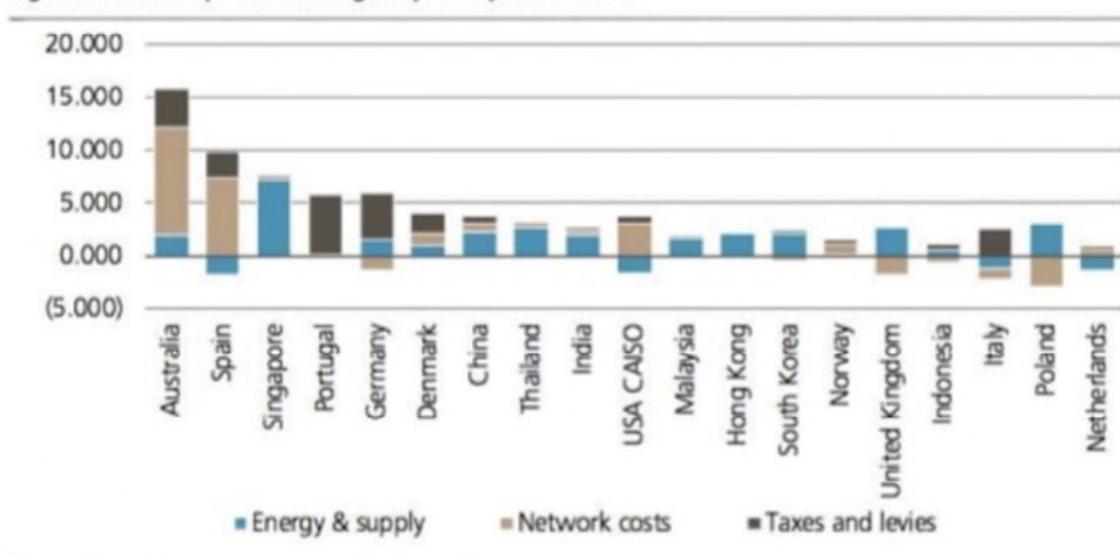


Local Generation Network Credits

Current rules are not in the best interest of consumers

The graph below (from <http://reneweconomy.com.au/ausgrid-sale-great-for-everyone-except-consumers-39841/>) shows that the recent increases in network charges for Australian electricity users are amongst the highest in the developed world.

Figure 5: US cents per kWh change in power prices 2007-13



Source: Power utility companies, government databases, UBS estimates

A lack of adequate regulations to protect consumers has allowed monopoly providers of an essential service to increase charges and maximize profits. There is general agreement that the excessive network charges levied on Australian consumers to cover the costs of the gold-plated grid could have been avoided with better regulation. This would also have avoided unnecessary hardship and financial stress for low-income households. Regulators should therefore consider it their duty to make amends for previous regulatory failures by putting the interests of electricity users first when they consider future rule changes.

Modelling by the University of Technology Sydney Institute for Sustainable Futures (ISF) shows that local generation network credits would result in net benefits of \$104 million in 2030 and an overall cost saving of \$1.2 billion by 2050. The AEMC's draft determination correctly noted that a rule requiring embedded generators to be paid the entire benefit would not reduce the costs to other electricity users. However, a variant in which the savings were split 50:50 between the network and the embedded generator would reduce network costs for electricity users as well as benefit generators. It is hard to imagine that the AEMC's suggested alternative of simply publishing information about network limitations could achieve similar benefits. Knowledge of earlier surplus capacity did not prevent the previous gold plating of the grid, despite the hardship to Australian electricity users.

The regulatory failures that led to the gold plating might result in even greater hardship in future. Essential Energy's *Revised Tariff Structure Statement - Attachment 8 Addendum to*

TSS - Explanations and reasoning - October 2016 discusses efficient tariff structures, saying: “To encourage customers to make more efficient use of the network (that is, make better use of the spare capacity currently available), more efficient price structures would have:

- > a larger fixed component, to better reflect the costs of building and maintaining the current network;
- > lower variable charges (reflecting the cost of future increases to the network from additional consumption).”

So, as a result of the vastly increased capacity from gold plating, Essential Energy is now contemplating increased charges for households with below-average electricity consumption “to make better use of spare capacity”. This seems like a double whammy – first increase the charges to cover the cost of unnecessary gold plating, then slug additional charges on those who invested in energy efficiency to reduce their bills and greenhouse gas emissions so that Essential Energy can make better use of spare capacity!

Such tactics are not in the interests of electricity users. As batteries become more and more affordable, increased consumer dissatisfaction could lead to an increasing proportion going off grid. Network costs would then have to be borne by fewer consumers leading to what has been termed the ‘grid death spiral’.

The Paris Agreement requires us to keep global warming well below 2 degrees. All cost effective measures will be needed to achieve this target. Increased electricity use just to allow Essential Energy to “make better use of spare network capacity” would result in Australian consumers having to pay more to reduce other sources of emissions. This is not in the national interest. The National Electricity Objective should therefore be revised to reflect the national interest, including the need to reduce greenhouse gas emissions, as well as serve the interests of all electricity users.

In conclusion, the AEMC’s proposed rule change will not achieve the same benefit to electricity users as a revised rule to split the savings 50:50 between networks and embedded generators. Adam Marshall, NSW MLA, also recommended that households should have the ability to trade electricity that they generate from their rooftops with other business or other individuals with their community: “what that potentially does is further diversify energy generation in our state. And it will put downward pressure on prices,” –

<http://reneweconomy.com.au/nsw-coalition-supports-peer-to-peer-trading-for-solar-households-42663/>

The AEMC should therefore support a revised rule that splits the savings 50:50 between the network and the embedded generator, or investigate alternatives that will achieve similar or greater benefits. The suggested alternative of simply publishing information about network limitations will not achieve the same benefits – this information is already available in the form of network opportunity maps (<http://nationalmap.gov.au/renewables/>). An alternative rule such as a 50:50 split of the benefits is therefore required, as well as further rule changes to ensure that network monopolies charge fair and appropriate rates for transmission within local areas.