26 January 2015

Re: Local Generation Network Credit Rule Change Request

Thank you for the opportunity to make the following submission to the AEMC on the rule change request for a Local Generation Network Credit.

The Northern Alliance for Greenhouse Action (NAGA) formed in 2002 to share information, coordinate emission reduction activities and cooperate on research and the development of innovative projects. NAGA is comprised of the cities of Banyule, Darebin, Hume, Manningham, Melbourne, Moreland, Whittlesea, Yarra, Moreland Energy Foundation Limited and the Shire of Nillumbik. NAGA's goal is to achieve significant emissions abatement and energy cost savings by delivering effective programs and leveraging local government, community and business action.

NAGA agrees with the rule change proponent that the current policy environment and pricing structures for small scale embedded generators is inadequate and unfairly undervalued. NAGA has advocated for many years for fairer prices and policy support for distributed renewable energy generation.

On this basis we welcome this rule change request, and fully support the proposed rule change. The rule change goes some way to help small scale embedded generators to monetise the benefits they provide in the form of capacity support and avoided transmission costs.

We note the AEMC describes the rule change in the following terms: “introduce a payment from distribution networks to embedded generators, which reflects any benefits the generators provide to the network.” However, we question this interpretation and suggest that the rule change request was focused more on the benefits of embedded generators to *consumers*, rather than to *networks*. Although consumers often ultimately gain through a network benefit, the distinction is important for the way the issue is framed and considered by stakeholders. This would be more in line with the National Electricity Objective (NEO) to regulate based on the “long term interests to consumers”.

The proposed methodology would require distributors to:

- calculate the long-term benefits that embedded generators provide in terms of deferring or down-sizing network investment or reducing operating costs; and
- pay all types of embedded generators a local generation network credit (LGNC) that reflects those estimated long-term benefits (netting off any additional costs).

NAGA notes that there is a number of systemic issues within the national electricity market (NEM), which prevent small-scale distributed generators from being properly valued and accessing the market. The current National Electricity Rules (NER) risk insufficient investment in small-scale embedded generation, inefficient use of capacity to export electricity and, ultimately, higher prices for consumers national, state and local action to reduce greenhouse gas emissions.

Question 1: NAGA believes that the proposed framework will allow the Commission to assess whether the rule change request will meet the NEO. This requires the Commission to reinterpret the rule change as being in the long-term interests of consumers, not just networks.

However, we consider the following policy issues of key relevance to this rule change request:

- The National Electricity Objective (NEO) is no longer appropriate to the current and future Australian energy market. The NEO does not recognise the interest of the community at large and confines consumer interests to economic interest alone.
- The interpretation of 'efficient investment' has resulted in unbalanced rule making and a market bias that supports centralised infrastructure rather than demand management or other distributed generation solutions to network issues.
- The NEO is to be achieved with respect to "firstly, price, quality, safety, reliability, and security of supply of electricity and secondly the reliability, safety and security of the national electricity system." In the absence of a NEO that recognises the need to reduce greenhouse gas emissions, incumbent fossil fuel generators, gen-tailers and network businesses have consistently used these current objectives to protect and advance their own interests and disproportionately influence regulatory reform. Advocates for renewable energy, demand management and innovation have had to argue within this framing of the NEO, leading to limited success against incumbents arguing about threats to reliability and security of supply. This can be seen in the recent methodologies used to calculate feed in tariffs, where the terms are narrow and the environmental and social benefits are largely ignored and externalised.

Question 2: No, the current NER provisions do not provide for sufficient incentives for embedded generation. We support the views of the rule change proponents that unlike large scale embedded generators, small scale embedded generators do not receive the same levels of support (below 5MW). For example:

- Avoided TUOS and DUOS payments and Network Support payments are only eligible for distributed generators greater than 5MW
- Similarly, cost reflective network pricing is only a price signal regarding electricity consumption and does not explicitly address small-scale distributed generators exporting electricity to the grid.

- The RIT-D as it currently stands, has negligible impact on incentivising distributed generation as it only applies when the estimated cost of the most expensive credible option exceeds $5 million. This was noted in the Clean Energy Council's Review of Policies and Incentives report.
- Whilst a new Demand Management Incentive Scheme (DMIS) and Innovation Allowance is being developed by the AER this is unlikely to come into force until 2020.
- As the Greenhouse Alliances have previously advocated in our submission to the AER, there are significant issues with the current demand management incentive schemes including:
    - the lack of support for demand management initiatives in the current regulatory period
    - the small allowances provided to network businesses to pilot and trial projects to fully assess the costs and benefits of network innovations via the Demand Management Incentive Scheme. On average, allowances under the scheme equate to just 0.11% of the total revenue allowances for each DNSP.
    - Stalling the implementation of the DMIS rule change until 2020, rather than establishing transitional arrangements - another example of a failure in meeting the needs of a dynamic market, resulting in productivity loss.

Question 3: NAGA recognises that determining the avoided costs associated with embedded generation is complex. However, difficulty in quantifying should not lead to a decision to ignore the value. Designing a methodology for calculating cost reflective network tariffs is equally complex, but has been achieved by Victorian DNSPS in their Tariff Structure Statements. We point to the potential value of the Clean Energy Councils report on "calculating the value of small scale generation to networks".

NAGA supports the proposed rule change request, and consider it to be one of the most significant proposed electricity market reforms in the past decade. We look forward to ongoing consultation regarding this rule change request.

Yours sincerely,

Paul Murfitt
NAGA Chair