

9 February 2010

Your Ref: ERC0097

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

By email: aemc.gov.au

Dear Sir/Madam

Proposed National Electricity Amendment (Payments under Feed-in Schemes and Climate Change Funds) Rule 2010

Integral Energy appreciates the opportunity to comment on the proposed National Electricity Amendment (Payments under Feed-in Schemes and Climate Change Funds) Rule 2010 as part of the consultation conducted by the Australian Energy Market Commission.

Integral Energy notes that the proposed Rule changes submitted by ETSA Utilities responds to the need to manage the effective implementation of jurisdictional feed-in tariff schemes and climate change funds.

Integral Energy supports the proposed amendments and submits that they be implemented immediately for distributors in NSW to assist the effective implementation of the NSW Solar Bonus Scheme.

NSW Solar Bonus Scheme

The NSW Solar Bonus Scheme commenced operation on 1 January 2010. Under this scheme, NSW electricity distributors (DNSPs) are required to provide customer connection services to small retail customers who wish to connect a generator with a generating capacity of no more than 10 kilowatts to the distribution network.

The DNSPs must record a credit against charges payable at the amount of \$0.60 per kilowatt hour in respect of a small retail customer for electricity that is produced by the complying generator and supplied to the distribution network.

The DNSPs must provide retailer suppliers with details of the credits provided to their small retail customers, and the retail suppliers are then required to either pay the small retail customer an amount representing the amount of the credit, or, reduce the amount

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payable by the small retail customer by an amount representing the amount of the credit.

As such, the Solar Bonus Scheme places an initial requirement on DNSPs to pay for the scheme, which costs they would recover from their broader customer base.

The scheme operating in NSW is a gross scheme and applies to Integral Energy as at 1 January 2010.

Cost recovery

The AER made its NSW Distribution Determination for 2009-10 to 2013-14 on 28 April 2009. As such, the determination did not consider or make any allowance for the Solar Bonus Scheme.

The National Electricity Rules (Rules) do not provide a specific mechanism for a cost recovery of feed-in tariffs. Consequently, the DNSPs would need to apply to the AER for a cost pass through of a positive change event, in order to recover their costs under the Solar Bonus Scheme.

The cost pass through mechanism outlined in the Rules introduces elements of uncertainty with respect to the recovery Solar Bonus Scheme costs, such as the requirement to meet a materiality threshold.

This uncertainty is compounded by forecasts which DNSPs must undertake to ascertain the number of customers who choose to install small generation and the amount of electricity they would supply to the distribution network.

Under the NSW Climate Change Fund, DNSPs are advised of the dollar amount they must to pay into the Fund, and they recover their costs by incorporating them in their annual pricing application submitted to the AER for approval. These prices, which are charged to customers, are based on a DNSP's forecast of customer numbers and their energy usage.

Where there is a difference between the forecast and actual customer numbers and quantities, an over or under recovery of costs will ensue.

As DNSPs have no control over the number of customers, energy usage of customers or the amount of energy supplied by customers to the distribution system, a cost recovery mechanism which accommodates these issues would significantly improve certainty and the efficient investment, use and operation of electricity services.

An existing mechanism (framework) in the Rules which effectively deals with this issue is the arrangement (mechanism) used to recover costs by DNSPs for TUOS services. This mechanism employs an 'overs and unders' adjustment which is made annually to prices, and which is approved by the AER.

The proposed Rule change is based on a TUOS recovery arrangement whereby 'overs and unders' arising from the actual feed-in tariff payments in the previous year are reconciled to charges to customers in the following year.

The benefit of the proposed Rule change is that it minimises the uncertainty surrounding customer numbers and usage forecasts by applying a TUOS type cost recovery arrangement, improves allocative efficiency and minimises the administrative burden on DNSPs. It also minimises the potential distortion in prices through an over and under recovery mechanism which is adjusted annually.

As with the TUOS recovery arrangements, the costs of the Climate Change Fund and the Solar Bonus Scheme costs would be reflected in Integral Energy's annual pricing application to the AER.

Accordingly, Integral Energy supports the proposed National Electricity Amendment (Payments under Feed-in Schemes and Climate Change Funds) Rule 2010.

However, given the NSW Solar Bonus Scheme commenced on 1 January 2010, Integral Energy submits that the proposed Rule change apply immediately to NSW DNSPs to moderate the price impact on customers.

If you have any questions with respect to this matter, please contact Mr Erik Beerden, Regulatory Affairs Manager, on telephone number (02) 9853 6904.

Yours sincerely



Michael Martinson
Manager Network Regulation