

Elisabeth Ross  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

12 April 2012

Dear Ms Ross,

### **Small Generation Aggregator Framework rule change request (ERC0141)**

EnerNOC welcomes the opportunity to comment on the rule change proposed by AEMO.

We will address below each question from the consultation paper. However, the brief summary is that we strongly support the rule change as proposed.

#### **1 Does the existing registration process create barriers to small generators entering the NEM?**

Yes. Applications to register small generators using the current process are typically around 100 pages in length. This cost of preparing such applications, as well as the registration fee, leads to a large up-front, per-site cost. For many small generators, this undermines the business case for market participation.

#### **2 Will introducing a Small Generation Aggregator promote greater participation in the NEM by small generators? Is this consistent with the NEO?**

Yes, and yes.

The effect of the up-front registration costs is to set a minimum capacity threshold, below which it is not economic to participate. Reducing the up-front costs will lower this threshold.

The installed base of small generators tails off rapidly with increasing capacity – i.e. there are many more smaller generators than slightly larger ones. Hence lowering the threshold will have a disproportionately large effect on the number of small generators that will be able to participate.

Allowing more small generators to participate is consistent with the NEO, as they will be able to compete to provide peaking capacity, putting downward pressure on wholesale prices.

**3 Do entities currently exist, or will they enter the market, to fill the role of Small Generation Aggregator?**

Registering as a Small Generation Aggregator is the logical way to continue and expand our existing NEM generation programme. We would expect other small generator proponents to act similarly.

**4 Is there an alternative way to reduce administrative costs to small generators that would better encourage NEM entry by small generators?**

We cannot think of a suitable alternative. We view this rule change as a necessary step, but not a sufficient one, to effectively encourage NEM participation by small generators.

The *Small Generator Framework Design* published by AEMO in 2010 sets out eleven principles for minimising barriers to cost-effective NEM participation by small generators. This rule change addresses only the first three principles. Further reform is required to address the remainder of the principles.

In addition, there are jurisdictional requirements which also require reform. For example, in South Australia all market generators require a generation license, which brings with it a raft of procedural and reporting obligations which may be suitable for large power stations, but are excessive when applied to small generators.

**5 Under the proposed framework, is it appropriate for Small Generation Aggregators to be exempt from reporting requirements under CDEII?**

Yes, they should be exempt. The effect of small generators will not be material, and the cost of data collection would be disproportionate.

**6 Will this rule change lead to positive benefits to NEM participants?**

Yes. It will reduce unnecessary administrative work by AEMO and small generators.

Broad market participation by small generators will also increase the number of distribution network upgrades that can be deferred through the use of demand response: at present, such short-term network support programmes must bear the full cost of recruiting and enabling small generators in the relevant network area; the introduction of an ongoing wholesale market opportunity for such generators will significantly lower the hurdle for cost-effectiveness.

**7 Are there any additional benefits that the rule change is likely to facilitate?**

Owners of smaller generators, who cannot currently justify registration, will gain an additional option for realising the value of their generation capacity to the market. At present, their only option is to negotiate with their retailer. Even for those who do not choose to register through an aggregator, the introduction of this competitive pressure should improve the treatment of small generation by retailers.

**8 To what extent are the potential issues identified by the proponent likely to impose significant costs on market participants?**

There are separate initiatives to streamline connection processes for distributed generation; this needs to happen anyway.

The issue of AEMO's diminishing predictive capacity is not a new one: even with the current generator registration process, it does not collect the right data to allow it to model the likely contributions of non-scheduled resources under different conditions. This affects both market non-scheduled generators and price-responsive load curtailment.

AEMO needs to improve its modelling, and we understand that they are working on this. However, this is a separate issue from this rule change proposal. We think it unlikely that this rule change by itself will elicit such an increase in market non-scheduled generation capacity that it will have a material effect on AEMO's predictive capacity.

**9 Are there any other costs that are likely to result from implementing this rule change?**

None that are material.

**10 Are there any perceived risks to the rule commencing operation prior to the clauses referred to above being prescribed as civil penalty provisions and if so, how significant and likely are such risks?**

We consider this to be only a theoretical risk. Our understanding is that the civil penalty provisions have never been used. We cannot think of a realistic scenario in which they would have to be. Hence our view is that there is no significant risk associated with having them unavailable for an interim period.

**11 Are the transitional arrangements proposed by AEMO appropriate?**

Yes. The fee handling is not particularly elegant, but the dollar figures involved will be small, and this is better than further delaying reform.

Please feel free to contact me on 03 8643 5909 if you would like to discuss this submission.

Yours sincerely,



Dr Paul Troughton  
Manager, Regulatory Affairs  
EnerNOC Pty Ltd