



4 February 2016

Mr John Pierce  
Chairman  
Australian Energy Market Commission  
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Office of the Chief  
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Dear Mr Pierce *John,*

**RE: AEMC Consultation Paper – *National Electricity Amendment (Local Generation Network Credits) Rule 2015* (Reference ERC0191)**

Ausgrid welcomes the opportunity to provide this submission in response to the AEMC Consultation Paper – *National Electricity Amendment (Local Generation Network Credits) Rule 2015* (Reference ERC0191).

We understand that the proponents' rule change request is to introduce a payment from distribution network service providers (DNSPs) to embedded generators, which reflects any supposed benefits the generators provide to the network. The proponents believe it would further encourage small scale embedded generators.

The proponents' proposal is to amend the National Electricity Rules (NER) so as to require DNSPs 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).

We note that LGNCs would be a separate negative network tariff, and would create a new payment relationship between DNSPs and embedded generators. Under the proposed rule, any embedded generator would be eligible to receive LGNCs, irrespective of size, availability, and whether or not it was already in place prior to the rule change.

Ausgrid does not support the rule change. We agree with the AEMC that a number of reforms to the regulatory frameworks for embedded generation recently made (particularly a number of rule changes from the power of choice reforms) already address (or given further time) will address the proponents' concerns, these include:

- **Cost-reflective distribution network tariffs:** Ausgrid considers that a cost-reflective embedded generation tariff can already be proposed and determined as part of Tariff Structure Statement (TSS)<sup>1</sup>

<sup>1</sup> Refer to page 31 of Ausgrid's Tariff Structure Statement. This document is available from our website, see link below

and annual pricing proposal rather than being prescribed by a separate rule change. However, any credit paid would need to be cost reflective where it can be demonstrated that the customers whose use of embedded generation results in greater benefits than costs on the network<sup>2</sup>.

- **Connecting embedded generators rules (Chapters 5 and 5A):** provides a transparent connection process for large and small embedded generators, with defined time-frames and requirements on the part of the DNSPs to disclose relevant information. In other words, there are clear mechanisms to enable the use of embedded generators on the network.
- **Avoided Transmission Use of System (TUoS) charges:** DNSPs are required to make payments (i.e. the Locational Transmission Use of Service payment) to embedded generators that reflect the transmission charges the DNSP saves; this payment may apply to small embedded generators where the applicant is eligible, and seeks to negotiate, its connection under Chapter 5 of the NER.
- **Network support payments:** Network support payments can be negotiated between DNSPs and embedded generators to reflect the economic benefits the embedded generator is providing to the DNSP.
- **Distribution network planning and expansion framework:** provides transparency on DNSPs' planning activities and decision-making, and better enables non-network providers to put forward options, including embedded generation, as credible alternatives to network investment.
- **Demand management incentive schemes:** enable DNSPs to implement non-network investments, including embedded generation where it is efficient to do so (including where the benefits outweigh any costs).
- **Small generation aggregator framework:** reduce the barriers to small embedded generators participating in the market by enabling them to aggregate and sell their output through a third party (a Market Small Generator Aggregator). This makes it easier for these parties to offer non-network solutions, and for DNSPs to procure those options when it is efficient to do so.

In summary, a number of mechanisms in the NER incentivise market participants to invest efficiently in (or procure) embedded generation. We do not consider that the rule change proposal has adequately considered the current framework for connecting customers under Chapters 5 and 5A of the NER and its interaction with the economic and pricing regulation under Chapter 6. In the absence of a more comprehensive analysis to support the proposed change the AEMC will not in a position to assess and form a view on whether the proposed changes will or are likely to contribute to the achievement of the National Electricity Objective (NEO).

Our concerns are consistent with those expressed in the AEMC's Consultation Paper which states that the AEMC has had difficulty reconciling the proponents' description of the perceived issues and the proponents' proposed solution, including the marked-up changes to the NER provisions that are intended to give effect

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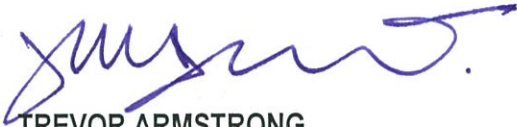
<https://www.ausgrid.com.au/Common/Industry/Regulation/Planning-for-the-future/Tariff-Reform>

<sup>2</sup> As the AEMC discusses in its Consultation Paper, there may be incremental costs to DNSPs and other market participants arising through additional spending on distribution infrastructure to enable embedded generation export (particularly in a low demand growth environment) through the network while meeting the applicable reliability standards; there may also be transaction costs associated with negotiating and administering network connection agreements and network support costs; and, network balancing costs to deal with the increase in the proliferation of intermittent sources of embedded generation while maintaining reliability standards.

to the proposal. We agree, and for this reason (and the reasons above) we have not applied the significant resources required to address the detailed questions in the Consultation Paper at this time. In the absence of the necessary detail and analysis required to support a rule change of this type and scope, we respectfully submit that the AEMC's draft determination should proceed with a decision to not make the rule; no further options paper is required.

If you would like to discuss our submission further or arrange a meeting with Ausgrid representatives please contact Mr Robert Telford on (02) 9269 2136 or via email at [rtelford@ausgrid.com.au](mailto:rtelford@ausgrid.com.au)

Yours sincerely



**TREVOR ARMSTRONG**  
Acting Chief Executive Officer