



**EnergyAustralia**

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## **Draft Rule Determination – Local Generation Network Credits**

### **1. Introduction**

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EnergyAustralia welcomes the opportunity to comment on the Australian Energy Market Commission's (the Commission) Draft Determination on the Local Generation Network Credit (LGNC) rule change proposal. We are one of Australia's largest energy companies, with over 2.5 million household and business customer accounts in NSW, Victoria, Queensland, South Australia and the Australian Capital Territory. We also own and operate a multi-billion dollar portfolio of energy generation facilities across Australia, including coal, gas and wind assets with control of over 4,500MW of generation in the National Electricity Market.

The Commission has undertaken comprehensive analysis of the initial rule change proposal and in our view, has rightly concluded that its costs will outweigh any benefits. We agree with the Commission's conclusion that paying LGNCs to embedded generators would be an arbitrary payment independent of the nature and magnitude of any network benefits.

In our view, the initial proposal was poorly targeted and would have resulted in payments to all embedded generators regardless of their location and positive or negative impact on the provision of network services. We also agree with the Commission that there are few obstacles to embedded generation receiving adequate compensation when it does provide network benefits. This might be through direct payments from networks or reduced network tariffs, for example.

Therefore, the initial rule change proposal would have been an inappropriate regulatory change, especially in an environment of rapid technological change. The focus on embedded generation seems misguided when there is an increasing range of behind-the-meter and contestable services that can reduce network constraints and offer other network benefits.

We support the Commission's alternative rule change to address some current deficiencies in network planning arrangements. The Commission's proposal for networks to publish a more structured and consistent system limitations report on regular basis will provide important

information to many market participants about potential sources of value and business opportunities. As the Commission notes, the proposed rule should operate in tandem with other aspects of the regulatory framework to ensure assessment processes are adequate and networks face incentives to augment or replace network assets at lowest cost, rather than favouring a particular solution.

The proposed rule is also consistent with other measures to promote efficient energy consumption and investment decisions. Particular examples include:

- Implementation of more cost reflective network tariffs for a broader range of energy consumers across the NEM. These tariffs will encourage efficient network utilisation through behavioural change and efficient investment in behind-the-meter technologies.
- The Australian Energy Regulator's ring-fencing guideline for electricity distribution networks, which seeks to promote effective competition in contestable services that will increasingly play an important role in managing network constraints.
- The Commission's review of a rule change proposal for electricity transmission and distribution network replacement expenditure planning arrangements (ERC0209). The Draft Determination also mentions that the Commission considered the merits of reducing the threshold for the Regulatory Investment Test for Distribution as part of this review. We encourage the Commission to consider this further as it finalises the rule change. Competition for behind-the-meter and other contestable services, and technological change have reduced the cost of non-network options for the management of network constraints or when assets need to be replaced.
- Pending reviews of rule change proposals relating to the contestability of energy services and by implication, the definition of distribution networks (ERC0218 and ERC0206).

If implemented, these measures will encourage low cost solution to network constraints (including non-network solutions) rather than mandating payments to a specific technology.

Should you require further information regarding this submission please me on (03) 8628 1479.

Yours sincerely

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Industry Regulation Lead