



3 November 2016

Australian Energy Market Commission

Online at: <http://www.aemc.gov.au/Contact-Us/Lodge-a-submission.aspx?nodeid=27731>

Dear Sir or Madam,

Re: Draft Rule Determination – National Electricity Amendment (Local Generation Network Credits) Rule 2016

The Southern Sydney Regional Organisation of Councils (SSROC) is an association of eleven Councils in the area south of Sydney harbour. SSROC provides a forum for the exchange of ideas between our member Councils, and an interface between governments, other Councils and key bodies on issues of common interest. We facilitate collaboration between councils on joint ventures, procurement, and projects including advocacy. Together, our member Councils cover a population of over 1.6 million, or one third of the population of Sydney.

In February of this year, SSROC made a submission to AEMC strongly supporting the rule change proposed by the City of Sydney, Total Environment Centre and Property Council of Australia. We are very disappointed to see that the proposal has been rejected, since it would have improved the existing framework, which is unfairly biased in favour of centralised generators, and does not account for the economic value of local generation. Furthermore, the alternative, preferred rule put forward by the AEMC fails to address the issues.

In its draft determination, the AEMC gives no consideration to small and mid-scale distributed generation. Their comments that existing mechanisms are sufficient really only refer to major projects, when a single installation will have a significant effect on the network operation. Distributed generation is the combination of multiple generators, especially smaller generators, which will play an increasing role in our energy system.

SSROC has long supported change to the National Electricity Rules to enable the market to change to promote renewable energy and energy efficiency, and away from the entrenched sales-driven fossil fuel model. The key reasons for our support for the Local Generation Network Credits (LGNC) Proposal include that:

- it would have supported a move away from the out-dated model by recognising that local generation can reduce the need for network investment and so lower network costs;
- mechanisms under the existing NEM are not accessible to small and mid-scale local generation. Existing mechanisms focus on individual large installations, and ignore the potential combined capacity of multiple small local generators;
- there is no way to prompt local generators to export to the network at times of peak demand;
- it would remove the perverse incentive to duplicate infrastructure in order to circumvent the current restrictions;
- once operating effectively, it would reduce network costs.

The draft determination summary section concludes that *“Overall, the Commission considers that the proposed rule change would not, or is not likely to, contribute to the achievement of the National Electricity Objective.”*

SSROC does not agree with this assessment, nor does the draft determination adequately justify this conclusion. An LGNC would promote more efficient investment in electricity services by spreading that investment across more stakeholders – to local generators. It could increase operational efficiency by enabling more efficient use of the existing network assets. This in turn

could avoid future investment and ease upward pressure on prices. The multiplicity of distributed local generators could (subject to other supporting changes to operations) spread the risk of failures and greatly reduce the risk of catastrophic failures. It is very difficult to see any justification for the conclusion this rule change “would not ... contribute to the achievement of the National Electricity Objective”

Furthermore, the existing framework is clearly not in “the long term interests of consumers of electricity with respect to ...quality, safety ...” since it incentivises continued polluting generation and perpetuates the security risks associated with a centralised system.

It appears that the AEMC is misinterpreting the Objective, and taking the requirement to mean preserving the existing mechanisms, rather than achieving the Objective by the best means available. It would also appear that the modelling that AEMC has done in assessing the Proposal is flawed.

AEMC’s more preferable rule

The AEMC’s more preferable rule is tangential at best: it is unlikely to significantly improve the capacity of non-network solution providers to put forward their services as an alternative to investment in the network. However, based on the information provided, the benefit over the existing DAPR appears to be negligible. It amounts to patching a flawed system, rather than fixing the underlying flaws – reliance on a centralised, polluting system – that represent the really major risks to “electricity services for the long term interests of consumers ...”.

The proposal is also premised on the assertion that “These mechanisms are generally effective in incentivising efficient investment in embedded generation”, which we would not agree with. The draft determination is lacking in any solid evidence to support that assertion.

Conclusion

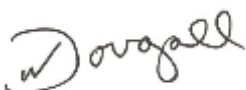
SSROC is disappointed, and believes that in rejecting the proposal, the AEMC is missing an opportunity to further the National Electricity Objective. Attached is SSROC’s earlier submission, which was endorsed at the Ordinary Meeting in June 2016: many of the issues raised remain legitimate in our view. We urge the AEMC to reconsider its draft determination, as SSROC considers that

- insufficient consideration of the potential benefits has been given;
- AEMC’s modelling requires substantially greater refinement to include a more realistic future energy mix than solar PV only;
- the more preferred rule change put forward is of minimal value;
- evidence would appear to directly conflict with the assertion that existing mechanisms are sufficient;
- the draft determination does not address the major issues that the proposal identified.

SSROC continues to support the proposal by the City of Sydney, Total Environment Centre and Property Council of Australia, and would strongly recommend that the AEMC reconsider its draft determination.

Please note that in order to make this submission on the draft determination within the timeframe of the review, it has again not been possible for it to be reviewed by councils or to be endorsed by the SSROC. I will get in touch with you should any issues arise as a result. For any enquiries regarding this submission, please contact me or Helen Sloan, Program Manager SSROC on 02 8396 3800

Yours faithfully,

A handwritten signature in black ink that reads "Namoi Dougall".

Namoi Dougall
General Manager, Southern Sydney Regional Organisation of Councils