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National Electricity Amendment (Network Support Payments and Avoided TUoS for Embedded Generators) Rule 2011

Jemena Electricity Networks (**JEN**) welcomes the opportunity to provide comments on the Australian Energy Market Commission's (**AEMC**) consultation paper on *National Electricity Amendment (Network Support Payments and Avoided TUoS for Embedded Generators) Rule 2011*.

On 4 November 2010, the Ministerial Council on Energy submitted a Rule change request to the AEMC. The request follows the AEMC's Final Report on the Stage 2 Review of Demand Side Participation in the National Electricity Market. The Rule change sought three separate Rule changes.

One of the Rule change seeks to ensure that embedded generators are not over compensated, and therefore consumers overcharged, for the service they provide.

The paper appears to make the assumption that only Transmission Network Service Providers (**TNSP**) pay network support payments. It is noteworthy that Distribution Network Service Providers (**DNSP**) can also pay network support payments – that is, 'avoided DUoS' payment which is for deferred or avoided distribution augmentation. Network support payment arise when a specific generator (or a small group of generators) is able to defer or avoid specific DNSP augmentation projects that would be required if the generators were not connected.

JEN believes the network support payment from a DNSP and avoided TUOS payment should not be linked because each of the payment relates to a discrete benefit. Where an embedded generator receives both network support payment and avoided TUOS payment from the DNSP, it does not constitute "double-payment". However, if an embedded generator receives a network support payment from a TNSP then the payment of an avoided TUOS payment may constitute a "double-payment".

For that reason, JEN does not support the proposed Rule change:

Omit clause 5.5(h) and substitute:

“Except where a *Connection Applicant* receives a *network support payment*, a *Distribution Network Service Provider* must pass through to a *Connection Applicant* the amount calculated in accordance with paragraph (i) for the locational component of *prescribed TUOS services* that would have been payable by the *Distribution Network Service Provider* to a *Transmission Network Service Provider* had the *Connection Applicant* not been connected to its *distribution network* (‘avoided charges for the locational component of *prescribed TUOS services*’).”

JEN supports a Rule change that clarifies the network support payment referred to in the Rule change is a payment from a TNSP – that is, the Rule change be:

“Except where a *Connection Applicant* receives a *network support payment* **from a *Transmission Network Service Provider***, a *Distribution Network Service Provider* must pass through to a *Connection Applicant* the amount calculated in accordance with paragraph (i) for the locational component of *prescribed TUOS services* that would have been payable by the *Distribution Network Service Provider* to a *Transmission Network Service Provider* had the *Connection Applicant* not been connected to its *distribution network* (‘avoided charges for the locational component of *prescribed TUOS services*’).”

JEN’s detailed response to the Rule change is set out in Attachment 1.

Should you have any questions in relation to the information provided, please contact me on (03) 8544 9442 or siva.moorthy@jemen.com.au.

Yours sincerely

Siva Moorthy
Manager Network Regulation

Attachment 1

The introduction of the consultation paper, states:

“The Rule change proposal is likely to be of interest to:

- Embedded generators, particularly those who currently receive a network support payment and an avoided TUoS payment;
- TNSPs as the parties who pay network support payments to embedded generators;
- DNSPs as the parties who pay avoided TUoS payments to embedded generators; and
- Load customers, including both scheduled and non-scheduled load customers as the parties liable for network charges.”

The paper appears to make the assumption that only TNSPs pay network support payments. It is noteworthy that DNSPs can also pay network support payments. Network support payments arise when a specific generator is able to defer or avoid specific DNSP augmentation projects that would be required if the generators were not connected. For example, in the case of Somerton Power Station¹, at the beginning JEN paid avoided TUoS payment and network support payments. But after several years, the network support payments ceased because JEN no longer required the network support.

Specifically, the consultation paper notes (on page 5):

“The Stage 2 DSP Review concluded that where there is no network support agreement in place, it is appropriate for embedded generators to receive avoided TUoS payments for the benefits they provide. However, the review also found that the current Rules on avoided TUoS payments required to be made by DNSPs to embedded generators were unclear on whether a generator receiving a network support payment from the TNSP should also receive avoided TUoS payments.”

The issue here is whether a generator receiving a network support payment from the TNSP should also receive avoided TUoS payments from a DNSP.

The consultation paper also notes (on page 5):

“The Stage 2 DSP Review concluded that where an embedded generator receives both types of benefit (an avoided TUoS payment and **a network support payment**), it would constitute a “double-payment” for the locational benefits it provides. As a result, embedded generators will receive distorted locational signals and will not necessarily connect in areas that would have the largest impact on reducing future transmission investment costs. Accordingly, the Stage 2 DNSP Review recommended amending the Rule on avoided TUoS payments to prevent any such double payment. **[emphasis added]**”

The above is confusing as it is not clear whether the network support payment is paid by a TNSP or a DNSP.

¹ Built in 2002, the Somerton Power Station provides 150 MW of gas fired generation and is located close to the major load centre in Victoria, being in the industrial suburbs of Melbourne.

Embedded generators provide a significant benefit in that they are located close to load centres and therefore have the potential to reduce the need for transmission networks thereby reducing future augmentation costs. To a lesser extent embedded generation also reduces power flows on distribution networks and associated expenditure required to augment the distribution network. JEN contends that a support payment paid by a DNSP and avoided TUOS payment are discreet payments for discrete benefits.

JEN believes the network support payment from a DNSP and avoided TUOS payment should not be linked because each of the payment relates to a discrete benefit. Where an embedded generator receives both network support payment and avoided TUOS payment from the DNSP, it does not constitute “double-payment”. However, if an embedded generator receives a network support payment from a TNSP then the payment of an avoided TUOS payment may constitute a “double-payment”.

For that reason, JEN does not support the proposed Rule change:

Omit clause 5.5(h) and substitute:

“Except where a Connection Applicant receives a network support payment, a Distribution Network Service Provider must pass through to a Connection Applicant the amount calculated in accordance with paragraph (i) for the locational component of prescribed TUOS services that would have been payable by the Distribution Network Service Provider to a Transmission Network Service Provider had the Connection Applicant not been connected to its distribution network (‘avoided charges for the locational component of prescribed TUOS services’).”

JEN would support a Rule change that clarifies the network support payment referred to in the Rule change is a payment from a TNSP – that is, the Rule change be:

*“Except where a Connection Applicant receives a network support payment **from a Transmission Network Service Provider**, a Distribution Network Service Provider must pass through to a Connection Applicant the amount calculated in accordance with paragraph (i) for the locational component of prescribed TUOS services that would have been payable by the Distribution Network Service Provider to a Transmission Network Service Provider had the Connection Applicant not been connected to its distribution network (‘avoided charges for the locational component of prescribed TUOS services’).”*