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Mr John Pierce
Chairman
Australian Energy Market Commission
Via website: www.aemc.gov.au

Dear Mr Pierce

We welcome the opportunity to present Ausgrid's position to the AEMC on its consultation paper on the National Electricity Rules (NER) change proposal on Network Support Payments and Avoided Transmission Use of System (TUoS) for Embedded Generations. This consultation paper is relevant to Ausgrid given that we make avoided TUoS payments to embedded generators, as required under Clause 5.5 of the NER.

Ausgrid accepts that the current arrangements for avoided TUoS have the potential to provide an inefficient level of incentive for embedded generators, such as in the case where the embedded generator receives both an avoided TUoS payment from a DNSP and a Network Support Payment from a TNSP. It is important to note that the economic efficiency loss under the current arrangement is likely to be small in light of the following considerations:

- The immaterial nature of avoided TUoS payments (in comparison to network support payments) is unlikely to distort embedded generator behaviour in the NEM.
- Embedded generators could take into account the avoided TUoS payment when deciding the size of incentive they require from a TNSP to provide network support services. Therefore, it is possible in practice that the payment of avoided TUoS does not result in over-signalling of incentives to embedded generators.

It is also important to recognise that there are practical concerns associated with the Rule change proposal, as summarised below:

- It is difficult for DNSPs to identify which embedded generators have received network support payments given that avoided TUoS payments are made by DNSPs and network support payments are made by TNSPs;
- There are likely to be confidentiality issues that would make it difficult to identify which generators may received Network Support Payments, particularly in the situation where TNSPs have made Network Support Payments to a third party (i.e. market aggregator) rather than directly to an embedded generator; and
- Given that the structure of Network Support Payments to embedded generators are often complex as they can relate to both network reliability (availability) and peak demand management

(called at peak), it is difficult to appropriately adjust the Network Support Payments to account for the avoided TUOS payment.

Ausgrid is concerned that the proposed rule change could result in administration and co-ordination costs between DNSPs and TNSPs that would outweigh the overall benefits of removing a potential double payment which may inefficiently over-signal the avoided costs. It is important that if the AEMC proceeds with this rule change, that it make a rule that minimises the administrative costs.

The most practical approach would be to allow DNSPs to continue to pay avoided TUoS to all embedded generators and to impose an obligation on TNSPs to subtract the avoided TUOS payment from any Network Support Payments made. To facilitate this process, the DNSP should be required to keep a register of avoided TUoS payments to individual embedded generators and to provide this information to TNSPs upon request within a reasonable time period. This approach would be relatively simple to administer, avoids any confidentiality issues and places the obligation on the TNSP to make appropriate adjustments to avoid double payment. This is appropriate given that it is the TNSP that directly receives the economic benefit from efficient embedded generator behaviour in the form of lower transmission network costs and/or improved transmission network reliability.

In summary, Ausgrid accepts that the current avoided TUOS arrangements have the potential to provide inefficient incentives to embedded generators, but questions the need for a rule change to address these concerns given that the economic benefits of the proposed rule change are likely to be very small, and may not outweigh the associated administration and co-ordination costs between DNSPs and TNSPs. Any change to the Rules to address this potential inefficiency must be done in a way that minimises transactions costs, which can be yet another form of inefficiency within the market.

Should you wish to discuss any aspect of this submission please do not hesitate to contact me or Ms Catherine O'Neill, Executive Manager – Regulation and Pricing on 02 9269 4171.

Regards,



Peter Birk
Executive General Manager
System Planning & Regulation (Acting)