



## Network payments to embedded generators

### Final rule determination 22 December 2011

The Australian Energy Market Commission (the Commission) has made a final rule in response to the Network Support Payments and Avoided TUoS for Embedded Generators rule change proposed by the Ministerial Council on Energy (MCE).<sup>1</sup> The key purpose of the rule is to promote payments to embedded generators that efficiently reflect the extent to which their services defer investment in the transmission network.

#### Background

The transmission network is the set of high voltage wires and associated assets that transports electricity long distances. In the National Electricity Market (NEM), this network is owned and operated by a number of Transmission Network Service Providers (TNSPs). It is their responsibility to ensure that the transmission network supplies all the distribution networks with enough electricity to meet consumers' needs.

The distribution network is the set of low voltage wires and assets used to transport electricity from the transmission network to end use consumers. These assets are owned and operated by Distribution Network Service Providers (DNSPs).

TNSPs receive payments from DNSPs to reflect the cost of providing the transmission network, which are ultimately reflected in the bills end use customers pay. The most significant of these payments are Transmission Use of System (TUoS) charges.

#### What are network support payments and avoided TUoS payments?

Generators that are connected to distribution networks (embedded generators) have the potential to reduce the long term need for investment in transmission infrastructure. This is because such embedded generators may be able to reduce the distribution network's need to be supplied from the transmission network.

There are currently two payments that embedded generators can receive to reflect this benefit they provide to the market.

One is a network support payment directly from a TNSP for a specific service provided by the embedded generator to defer investment in the transmission network.

The other is an avoided TUoS payment from the DNSP. This is paid where the embedded generator has reduced the demand taken by the DNSP from the transmission system at times of peak demand. Reducing a DNSP's demand at system peak reduces its liability for TUoS payments it makes to TNSPs. The National Electricity Rules (NER) require this benefit to be passed on to the embedded generator.

#### Problem identified in the rule change request

As the rule change proponent, the MCE considered that to provide an avoided TUoS payment when an embedded generator already receives a network support payment would constitute a double-payment to embedded generators.

This double payment would be inefficient and ultimately lead to higher long term costs for electricity consumers. It therefore proposed that embedded generators who receive a network support payment from a TNSP should not receive an avoided TUoS payment from a DNSP at the same time.

<sup>1</sup> On 15 November 2011, the Council of Australian Governments' (COAG) Standing Council on Energy and Resources (SCER) formally commenced to carry on key reform elements of the Ministerial Council on Mineral and Petroleum Resources and the Ministerial Council on Energy (MCE). With the commencement of the SCER, the remit of the MCE has been withdrawn.

**The rule as made requires TNSPs to take avoided TUoS payments into account when negotiating a network support payment with an embedded generator.**

### **The Commission has made a more preferable rule**

The Commission has chosen to implement the more preferable rule developed within the draft determination. This 'rule as made' incorporates the principle suggested by the MCE. That is, the level of compensation for embedded generators should be reflective of the benefits they provide to the transmission network.

However, the rule as made recognises that avoided TUoS payments and network support payments may compensate for different services. Accordingly, in some instances, it may be appropriate for an embedded generator to receive both payments.

In particular, a network support payment can include compensation for an enhanced or specific level of service that an embedded generator would not be remunerated for through avoided TUoS. Equally, a network support payment might not (and should not have to) always capture all of the wider benefits to the transmission network provided by the embedded generator that the avoided TUoS payment is intended to reflect.

Retaining the ability to receive both payments is not an endorsement of two payments for the same service. It is recognition that both payments can, in certain circumstances, be justified due to the provision of separable services.

### **The rule as made**

The rule as made requires TNSPs to take avoided TUoS payments into account when negotiating a network support payment with an embedded generator.

This clarifies that embedded generators can receive both payments, but should only be compensated once for each distinguishable benefit they provide.

The Commission considers that the rule as made will facilitate an embedded generator being efficiently compensated for the benefits it provides to the transmission network. This will provide incentives consistent with an efficient level of investment in embedded generation which, in turn, can contribute toward facilitating an efficient level of transmission investment. Additionally, the rule as made will promote greater certainty and consistency when negotiations for network support payments occur between a TNSP and an embedded generator.

In making this determination, the Commission notes that there is a low level of materiality that currently exists with regards to the identified problem. However, the Commission considers that the NER should be robust to limit this risk going forward. This is especially the case given the level of embedded generation is expected to increase over time and that there might therefore be greater opportunities for TNSPs to contract with embedded generators as an alternative to network investment.

### **Further information**

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