

21 July 2011

Mr John Pierce
Chairman
Australian Energy Market Commission
Level 5, 201 Elizabeth Street
Sydney NSW 2000

Via website: www.aemc.gov.au

Dear John,

Network support payments and avoided TUOS for embedded generators Rule change proposal consultation paper (ERC0129)

Grid Australia welcomes the opportunity to comment on the Commission's consultation paper.

Grid Australia does not support the proposed Rule change as drafted. We agree that investment signals should appropriately reflect the locational shortfall. However, our concern is that network support contracts (NSCs) are not principally about providing those signals. Rather, they are mainly intended to address system security and reliability issues within operational, rather than investment, timeframes. Thus, a blanket Rule change to remove the obligation on the distributor to pay an embedded generator avoided TUOS where an NSC operates risks under-signalling the investment need.

In theory the proposed Rule change could be amended to require that *only* that portion of the value of the NSC that relates to locational signalling should be deducted from the TUOS payment. However, it would be impractical to set out an approach to calculating such an amount that would be consistent across the NEM due to the changing operational characteristics applying at each such location over time as well as the specific (and commercial in confidence) nature of the NSC arrangements between the particular transmission business and generator.

Grid Australia submits that, on balance, it is consistent with the objectives of the NEM to allow the potential for a degree of over-signalling to ensure the operational security of the network. Put in another way, the Commission would need to make the clear case that the cost of any over-signalling exceeds the benefits provided by the additional reliability and security provided by the NSC. This would need to take into account the impact on the willingness of embedded generators to provide network support services should the proposed Rule proceed.

Should you wish to discuss any matter raised in this submission, please contact me on (08) 8404 7983.

Yours sincerely,



Rainer Korte
Chairman
Grid Australia Regulatory Managers Group