



Mr John Pierce
Mr Neville Henderson
Dr Brian Spalding
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Commissioners,

Reference: ERC0132

A: Introduction

TRUenergy welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) Draft Rule Determination in response to the Ministerial Council on Energy (MCE) Rule change request regarding Network Support Payments and Avoided TUOS for Embedded Generators.

We support the AEMC's decision to make a more preferable Rule change following its review of the MCE Rule change request.

We re-confirm:

- Network Support Payments and Avoided TUOS separately compensate embedded generators for providing different services to distinctly different parts of the network. As a result, we do not believe that the current arrangements that allow embedded generators to be remunerated for providing different services to different parts of the transmission network represents a "double payment".
- Regulatory uncertainty would increase if the MCE Rule proposal that prevented generators from receiving revenue from both Network Support and Avoided TUOS were to succeed. Given the lack of firmness associated with the revenue streams for these contracts, the MCE Rule proposal would only blunt the locational signal for providing these services to embedded generators.

We consider that the MCE proposed Rule change is inconsistent with the National Electricity Objective (NEO) for the reasons outlined above.

Therefore, we support the AEMC's decision to make a more preferable Rule.

B: TRUenergy rationale for supporting a more preferable Rule

TRUenergy supports the AEMC's decision to make a more preferable Rule.

We agree that the more preferable Rule satisfies the assessment criteria ¹ applied by the AEMC to assess this Rule change.

Therefore, we believe that the proposed more preferable Rule is more likely to satisfy the National Electricity Objective (NEO) for the following reasons.

1. Allocative efficiency

TRUenergy believes Network Support Payments and Avoided TUOS separately compensate embedded generators for providing different services to distinctly different parts of the network.

A Network Support Service can relate to deferring a major augmentation on the network where as an Avoided TUOS payment may provide compensation for more generic locational benefits including the reduced need to import energy from distant generation. For that reason, we consider that it is efficient for the National Electricity Rules (Rules) to allow embedded generators to receive both of these payments.

We assumed that we would receive a revenue stream from both Network Support Payments and Avoided TUOS as part of our investment case at Tallawarra. We did this because we considered our embedded would provide distinctly different benefits to the different parts of the transmission network.

For example:

- Network support services provided at our Tallawarra plant would allow TransGrid to defer a major augmentation on the transmission system. In response to their call for expressions of interest, our proposal to provide a network support agreement would allow TransGrid to delay the project related to the conversion of the existing transmission lines from Bayswater to Mt. Piper and Mt. Piper to Bannaby from 330 KV to 500 KV operation for at least two years.
- Avoided TUOS would defer the need to augment the part of the transmission system and the sub transmission system that was located closer to our plant at Tallawarra. As a result of our investment, we reduced the need to import power from the 330KV network to the 132 KV network from a remotely located power station.

2. Materiality and implementation

TRUenergy considers that the preferred Rule made by the AEMC will support the predictability of revenue from contracts for Avoided TUOS & Network Support for embedded generators in the future. In its current form, the MCE Rule proposal would only erode the certainty of any revenue that an embedded generator was able to recover from both Network Support and Avoided TUOS in the future. Given the fragile nature of the revenue streams that embedded generators receive from these contracts anyway, we believe the MCE proposed Rule change would only serve to increase the instability and regulatory uncertainty of revenue streams from both Avoided TUOS and Network Support. In our view, this would only serve to dampen what is currently fragile locational signal.

¹ AEMC Draft Rule Determination – National Electricity Amendment (Network Support Payments and Avoided TUoS for Embedded Generators) Rule 2011. P.9

“The AEMC uses both “allocative” efficiency and “materiality and implementation” issues as its key assessment criteria to deliver Draft Rule Determination”.

Our experience at our plant at Tallawarra provides a good example of why there is a need to keep both Network Support & Avoided TUOS to maintain the strength of this current locational signal for generators. As we have previously indicated, we factored in a revenue stream for both Network Support & Avoided TUOS to our investment case for our plant at Tallawarra. Yet, because of the difficulty of securing and maintaining these arrangements, we have already had to adjust our original expectations down wards in terms of the revenue that we will accrue from these agreements. The basis of these adjustments is set out below:

Avoided TUOS at Tallawarra

- TRUenergy secured an Avoided TUOS agreement for our plant at Tallawarra from TransGrid under clause 5.5 of the Rules. In accordance with the Rules, avoided TUOS can be recovered from the locational component of the transmission charge. Prior to 1 July, 2010, TransGrid's locational tariffs included both a demand charge and an energy use of system charge. Under these arrangements, there was a high probability that we would avoid transmission energy usage charges when our plant was operational.
- TransGrid changed its locational transmission tariffs from 1 July 2009/10 in response to the AEMC Rule Determination – "AEMC Rule Determination, National Electricity Amendment - Pricing of Prescribed Transmission Services" Rule 2006 No: 22, 21 December 2006. The AEMC decision sought to exclude energy use of system charges from the makeup of locational transmission tariffs. In the AEMC's view, applying a demand based charge to locational transmission tariffs would deliver more efficient pricing outcomes. As an outcome of this decision, the AER requested TransGrid to change its pricing methodology. Consequently, TransGrid changed the locational component of its transmission tariffs from a combined demand charge and energy use of system charge to a pure demand based charge. Importantly, under these revised arrangements, it became more difficult for our Tallawarra plant to recover a revenue stream from avoided TUOS.
- TRUenergy has found it difficult to recover revenue from avoided TUOS from our plant at Tallawarra following the changes to the locational component of TransGrid's transmission tariffs post 1 July 2010. The revised tariff arrangements provide for a single demand based charge to recover the locational component of its transmission tariffs. TransGrid's locational transmission tariffs have been set to recover their costs based on the revenue they collect from the maximum half hourly demand in NSW. For TRUenergy, this means that our plant at Tallawarra needs to be running during this maximum half hourly peak in order to recover some avoided TUOS. If it fails to run during the maximum half hourly demand, then it will not recover any revenue from avoided TUOS.
- TRUenergy considers these tariff changes make it much less likely for us to recover the revenue stream that we banked on from avoided TUOS as part of our investment case at Tallawarra. Therefore, we believe it is imperative that the locational signal from the combination of network support and avoided TUOS is not watered down any further by any other changes to the regulatory regime. Any movement in this regard, will further dampen the locational signal that these two elements combined send to generators.

C: Conclusion

We support the decision by the AEMC to make a proposed more preferable Rule for the following reasons. In general, we consider that:

- Network Support Payments and Avoided TUOS separately compensate embedded generators for providing different services to distinctly different parts of the network. As such, the current arrangements that allow embedded generators to be remunerated for providing different services to distinctly different parts of the transmission network do not represent a “double payment”.
- Regulatory uncertainty would increase if the MCE Rule proposal that prevented generators from receiving revenue from both Network Support and Avoided TUOS were to succeed. Given the lack of firmness associated with the revenue streams for these services, the MCE Rule proposal would only blunt the locational signal for providing these services to embedded generators.

We consider the MCE proposed Rule change to be inconsistent with the National Electricity Objective (NEO) for the above reasons. Therefore, we support the AEMC’s decision to make a more preferable Rule.

For any enquiries regarding this submission, please feel free to contact Mr. Con Noutso - Regulatory Manager at TRUenergy on Tel: 03 8628 1240

Regards



Con Noutso
Regulatory Manager
TRUenergy