

10 November 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 Draft Rule determination (ERC0129)

Grid Australia welcomes the opportunity to comment on the Commission's Draft Rule determination.

As set out in Grid Australia's response to the Consultation Paper, Grid Australia agrees with the important principle that investment signals should appropriately reflect any locational shortfall. However, Grid Australia does not support the making of the more preferable Rule and draws the Commission's attention back to the points raised in Grid Australia's earlier submission.

The proposed Rule change could be amended to require that *only* that portion of the value of the Network Support Contract ("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 which 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, it would need to be clear that the cost of any over-signalling exceeds the benefits provided by the additional reliability and security provided by the NSC.

In addition, it is not apparent that the Commission has assessed the potential negative effects that may arise from embedded generators being less willing to enter into NSCs if they are no longer able to receive the benefits of both the network support payments and the avoided TUOS. Without an assessment of the likely net effects of the Rule change, the Commission should not proceed to make the Rule.

In addition, Grid Australia supports changes to the Rules that improve the operational and investment efficiency of the NEM for the long-term benefit of consumers. However, the Draft Determination does not demonstrate that the preferred Rule is likely to do so.



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

