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ERC0191 - Consultation Paper - National Electricity Amendment (Local Generation Network Credits) Rule 2015

Submission from the Property Council of Australia

Dear Mr Shafran

Thank you for providing the Property Council of Australia with an opportunity to comment on the consultation paper on the National Electricity Amendment (Local Generation Network Credits) Rule 2015 (Consultation Paper).

The Property Council is the nation's peak representative of the property industry. Our 2,200 members are Australia's major investors, developers and owners of commercial, residential, retail, industrial, retirement living and hotel assets worth over $320 billion.

The Property Council appreciates the role of the Australian Energy Market Commission in progressing this application. We strongly support the introduction of this rule and believe it addresses a current failure in the energy market.

We believe that the introduction of local generation network credits would be consistent with the National Electricity Objective (NEO). The NEO aims for efficient investment in and operation/use of electricity services in the long-term interest of consumers.

Please find below our further comments on the questions covered in the Consultation Paper.

Question 1 – Assessment framework

There are a number of important issues to be considered in the assessment of whether the rule change request can meet the NEO. The assessment framework needs to be robust enough to consider the following issues.

Technology factors, environmental factors and economic factors all point to more widespread use of low-emission distributed decentralised/local generation to provide electricity services to consumers in the future. However, the way that the National Electricity Rules in the National Electricity Market are currently implemented present barriers to early deployment of more widespread distributed/local generation.

Many individuals and organisations have already installed distributed/local generation in the National Electricity Market. Much of the generation lies idle or is being operated and used below its expected capacity because the current implementation of the rules does not facilitate cost-effective supply of energy locally, even between separate meters on the same switchboard in a single building.

Proponents of distributed generation are being impacted by massive overinvestment in network capacity that occurred in the early 2000s, especially in NSW and Queensland. This makes it difficult to establish sizeable avoided costs in the near term. Also, a large quantity of outmoded large-scale generation capacity has been placed on the market at near-to-zero prices. Accordingly, it is very important to recognise the full scale of the expected long-term benefits to electricity consumers. Supply costs and energy costs in the long-term must also be considered collectively.

Question 2 – Perceived issues with the current National Electricity Rules

The current National Electricity Rules (NER) are not likely to provide appropriate price signals for efficient embedded generation. The way that the NER are currently implemented presents barriers to early deployment of more widespread distributed/local generation.

There are some incentives in the NER for efficient investment in and operation/use of distributed generation, however, these are quite limited in extent, their availability can be uncertain, the procedures for assessing benefits is complex and the administrative costs of accessing incentives (if and when available) can be high relative to any reward obtained.

By contrast, networks are able to receive a predictable and stable flow of revenue from investment in network replacement/augmentation, which is demonstrably their preferred choice.

Distributed generators that connect under Chapter 5A (typically smaller scale generators) have access to even fewer incentives than do embedded generators that connect under Chapter 5 (which may be smaller or larger). The rule change request relates to both larger and smaller distributed generators.

AEMC needs to consider what extra incentives may be needed so that networks more actively foster deployment of widespread distributed generation and, in doing so, achieve long term benefits to consumers.

Question 3 – Determining avoided costs

Massive overinvestment in network capacity occurred in the early 2000s, especially in NSW and Queensland. This makes it difficult to establish that there are substantial avoided costs in the near term. Accordingly, it is especially important to recognise the full range of benefits to consumers and not to over-discount benefits because they are long term. The level of avoided future costs is affected by the level to which existing infrastructure is not replaced, and augmentation is avoided.

It is possible to develop a methodology that adequately describes and allocates rewards for local generation. For example, a detailed methodology is in place in the United Kingdom.

This is a complex issue which requires more investigation. AEMC should take account of the findings of the local network charges project that is being undertaken by the Institute for Sustainable Futures with the assistance of funding from the Australian Renewable Energy Agency, the City of Sydney and many other organisations.

Question 4 – Specificity of calculations

AEMC should consider whether to apply a minimum level of credit. Specifically, the AEMC should consider whether to relieve local generators of all transmission charges that are embedded in existing network tariffs. This is because energy transmitted from local generators does not use transmission networks. This would differ from the existing methodology.

Currently, some distributed generators can receive relief from some transmission charges, generally limited to so-called usage charges. Relief from transmission charges could be time-of-use reflective (this is preferable from the point of view of price signaling) or it could be pro rata (this would be an interim arrangement).

The design of network credits should take broad account of current (or imminent) network tariffs. For example, if network tariffs distinguish between peak, shoulder and off-peak time periods, so should network credits. If network tariffs distinguish between low-voltage and high-voltage connections, so should network credits.

The design of network credits should not be overly complex. Even if greater specificity of network benefits could be achieved with a locational approach, this is not the approach that most networks take with electricity consumers.

Question 5 – Potential benefits of the proposal

The following potential benefits of the proposal should be taken into account:

- The proposal will improve the price signals to invest in and operate local generation, both for existing assets and new assets.
- The long-term interests of consumers are best served by encouraging networks not to overinvest in new infrastructure. AEMC needs to consider how best to provide appropriate signals to networks.
- Networks which have a smaller (rather than larger) investment in network infrastructure are better placed in the medium term and the long term to cope with changes in consumer expectations about how electricity is generated, stored, supplied and used.

Question 6 – Potential costs

The rule change proposal has been designed so that the administrative load that it imposes is minimal. Should AEMC develop a more preferred rule, the same considerations apply.

To better manage costs of administration:

- existing (or imminent) tariff structures should be taken as a starting point
- calculations should stay relatively simple (note - this tends to favour existing time-of-use and voltage categories against locational specificity)
- payments should be less rather than more frequent (for example, half-yearly not monthly)
- AEMC should consider the question of minimum size and cost of registration
- electronic processing should be utilised as much as possible
- it may be appropriate to make payments via intermediate parties such as retailers or third-party payment providers.

I would be happy to discuss this issue in further detail and can be contacted on (02) 9033 1909 or esubagio@propertycouncil.com.au.

Yours sincerely,

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