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Dear Mr Stewart

Response to the AEMC's Network Support Payments and Avoided TUoS for Embedded Generators Rule Change Consultation

Ergon Energy Corporation Limited welcomes the opportunity to provide a response to the Australian Energy Market Commission's consultation on the *Network Support Payments and Avoided TUoS for Embedded Generators Rule Change*.

Should you require additional information or wish to discuss any aspect of this submission, please do not hesitate to contact me on (07) 4092 9813.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Jenny Doyle', with a long horizontal flourish extending to the right.

Jenny Doyle
Manager Regulatory Affairs – Policy and Regulation

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Encl: Ergon Energy's submission.

Ergon Energy Corporation Limited

**Response to the Network Support Payments and
Avoided TUoS for Embedded Generators Rule
Change Consultation**

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This submission, which is available for publication, is made by:

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1. INTRODUCTION

Ergon Energy Corporation Limited (EECL), in its capacity as a Distribution Network Service Provider (DNSP) in Queensland, welcomes the opportunity to provide comment to the Australian Energy Market Commission (AEMC) on its *Network Support Payments and Avoided Transmission Use of System (TUoS) for Embedded Generators Rule Change* consultation.

Section 2 below outlines EECL's response to the consultation questions posed by the AEMC, as well as a couple of general comments on issues relating to this consultation. EECL is available to discuss this submission or provide further detail regarding the issues raised, should the AEMC require.



2. EECL Responses

AEMC Consultation Questions	
Question	EECL Response
<p><i>Question 1 Are the current arrangements efficient?</i></p>	
<p>1.1 Would the combination of a network support payment and an avoided TUoS payment over-signal and/or over-compensate embedded generation?</p>	<p>EECL has no visibility of the network support payments made between a Transmission Network Service Provider (TNSP) and an individual embedded generator (EG) as this is a matter for commercial negotiation between the parties.</p> <p>From a pure cost recovery perspective, EECL is indifferent to whether EGs should continue to receive an avoided TUoS payment if they are already receiving a network support payment. This is because the <i>National Electricity Rules</i>¹ (the Rules) and the Australian Energy Regulator's Distribution Determination² currently provide a mechanism for EECL to fully recover the cost it incurs from a TNSP and for its avoided TUoS payments.</p> <p>However, EECL recognises there is a risk that the combination of these two payments could over-compensate EGs and penalise end-customers. This is likely to occur in circumstances where the TNSP recovers (i.e. passes through) network support payments from a DNSP and the DNSP then passes these costs, along with its avoided TUoS liabilities for that EG, to customers.</p>
<p>1.2 Do the services and benefits provided by embedded generators for a network support payment and an avoided TUoS payment differ, and if so, how?</p>	<p>As noted by the AEMC, the benefits provided to a TNSP through network support payment arrangements are based on a firm level of service / generation commitment by the EG to address a transmission constraint. DNSPs are only obliged to pay avoided TUoS to an EG if its generation actually reduces the amount of its locational TUoS charge it would otherwise pay a TNSP. It is also important to note that there may be instances where an EG may still generate but receive no avoided TUoS payment from a DNSP because of the methodology in which the TNSP has developed its locational TUoS charges.</p> <p>There may also be differences in the signals provided to EGs through network support payments versus avoided TUoS payments, which may influence an EG's investment decision and where it decides to locate itself in the market.</p> <p>As noted in the AEMC paper, avoided TUoS is designed to provide EGs with a signal</p>

¹ Clauses 5.5(h) and 5.5(i)

² Refer to pages 395–396



	<p>to locate in the best overall position in the market where the benefits (i.e. avoided TUoS payments) are highest. However, the strength and adequacy of this signal will be largely influenced by the approach taken by an individual TNSP in developing its locational charges, which then in turn determines the extent of the avoided TUoS a DNSP is liable to pay an EG.</p> <p>If the signal inherent in a TNSP's locational charge is insufficient to send an appropriate signal to an EG (via avoided TUoS paid by the DNSP), or is at odds with the signal provided by a TNSP through network support payment arrangements, then it's possible that by preventing an EG from receiving one of these types of payments it could result in EGs locating in areas which do not necessarily meet the interests / objectives of the broader National Electricity Market.</p>
1.3 Is the Rule change likely to have any unintended consequences in terms of the network support agreement negotiations?	Nil comment.
<i>Question 2 What is the materiality of the identified problem?</i>	
2.1 To what extent do embedded generators receive both a network support payment and an avoided TUoS payment? Please provide any instances where a network support payment is made to an embedded generator and an indication of the expected value.	<p>EECL has no visibility of the network support payments made between a TNSP and an individual EG as this is a matter for commercial negotiation between the parties.</p> <p>Please refer to the comment below on network support payments made by DNSPs. The proposed Rule change does not consider this issue.</p>
2.2 How material is receiving both a network support payment and an avoided TUoS payment to the commercial viability of an embedded generator? (Please provide evidence).	Nil comment.
2.3 Should specific provisions related to a transition period be considered?	Nil comment.



Other Issues	
Topic	EECL Response
Network support payments by DNSPs	<p>The proposed Rule change does not contemplate the fact that network support payments can also be made by a DNSP.</p> <p>That is, a DNSP may also choose to enter into network support agreements with an EG to resolve a constraint in its distribution network, instead of making capital expenditure in the distribution network (i.e. more poles, wires etc).</p>
Practical application	<p>The AEMC may need to further consider what specific mechanism will be put in place to allow a DNSP to know when a TNSP enters into a network support payment arrangement with an EG. EECL considers that there would need to be sufficient incentive or disincentive (e.g. through penalty provisions in the Rules for non-compliance etc.) to ensure the policy is workable in practice.</p>