

21 July 2011

ERC0129

Chris Stewart
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Chris,

National Electricity Amendment (Network Support Payments and Avoided TUoS for Embedded Generators) Rule 2011

SP AusNet welcomes the opportunity to make comment on the proposed rule change 2011. SP AusNet is a Victorian DNSP that has, since its inception, provided significant connection services to a number of embedded generators. This includes some of the largest embedded generators connected to the Australian grid. Furthermore SP AusNet has experience in the negotiation of Network Support Agreements where the support provided is to both the distribution network and the transmission network.

SP AusNet agrees that embedded generators should not be "... over compensated, and therefore consumers overcharged, for the service they provide." However, SP AusNet does not believe that the current Rules fail in this respect.

SP AusNet believes that the AEMC is incorrect in its comments regarding the payment of Network Support by Transmission Network Service Providers. In the Victorian jurisdiction, where DNSPs have responsibility for planning, it is the Distribution Network Service Providers that have historically purchased network support to avoid augmenting the transmission connection assets. Therefore, the network support payments can be viewed as being a substitute for transmission exit charges, not TUoS. In so much as the same generator is compensated for coincidental shared network benefits that are created via an avoided TUoS payment there is no 'double dip', over-compensation or over-signalling issue.

Embedded generators at present are potentially in receipt of revenue from three primary sources, the sale of their energy by contract or on the spot market, from a network support payment, and from the payment of avoided TUoS. Of these payments, network support will only be paid in circumstances where the support is required in the network.

With respect to the specific questions raised in the Commission's consultation paper SP AusNet has the following comments:

Question 1 Are the current arrangements efficient?

- 1.1 **Would the combination of a network support payment and an avoided TUoS payment over-signal and/or over-compensate embedded generation?**
- 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?**
- 1.3 **Is the Rule change likely to have any unintended consequences in terms of the network support agreement negotiations?**

This will be reliant on details of the individual network support contracts themselves. As stated above, in so much as the network support payments (for avoided transmission exit charges) and avoided TUoS payments are compensation for distinct network benefits there is no over-compensation. Contracts entered into by SP AusNet have been for the deferral of transmission network connection augmentation only, therefore, additional avoided TUoS revenue streams the generator receives are not double counting.

Therefore, the Rule change will potentially have the reverse effect of that intended, under-compensating the prospective embedded generator for network benefits generated and making non-network solutions less attractive to potential proponents. In addition, the current Rules keep the two payments (and benefits) distinct and, therefore, transparent. The Rule change, by preventing separate payments, will reduce transparency to customers and the regulators.

Question 2 What is the materiality of the identified problem?

- 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.**
- 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).**
- 2.3 **Should specific provisions related to a transition period be considered?**

There are no embedded generators within the SP AusNet network that currently receive both network support and avoided TUoS payments. SP AusNet makes Network Support payments to only one embedded generator. Avoided TUoS payments were made to 14 embedded generators in 2010. The embedded generator that is in receipt of Network Support payments from SP AusNet does not receive Avoided TUoS for the units that are contracted to provide that support. These units were commissioned prior to the rule change that obligated DNSPs to make these payments, so it is excluded from the obligation. However, SP AusNet has had an embedded generator connected to its network that has received both payments in the past.

SP AusNet does not believe that the obligation to make both payments presents a problem. When negotiating agreements for Network Support under the current rules SP AusNet is mindful of the Avoided TUoS that the Embedded Generator will be able to access. Therefore, the value of the Network Support will be discounted by the likely payments of avoided TUoS. After both parties take account of all revenue streams that will be either received or made each party makes an independent decision as to whether the embedded generator project will go ahead. As a Victorian DNSP, SP AusNet has no commercial or technical incentive to offer an embedded generator a Network Support Agreement that will over or under-compensate it in any way for the services it provides to the transmission network as these costs are passed through to customers at cost.

SP AusNet believes that ultimately the rule change will make no difference; generators will establish a Network Support Agreement that reflects the rules as they exist. The proposed removal of access to Avoided TUoS will result in generator proponents seeking higher Network Support Payments (to reflect shared network benefits).

If you would like to discuss these issues in more depth please contact the regulation manager, Tom Hallam on 03 9695 6617.

Yours sincerely,



Alistair Parker
Director Regulation and Network Strategy