

2nd February 2016

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submission lodged online at: www.aemc.gov.au

Project Number: ERC0191

Dear Mr Pierce

**Local Generation Network Credits
Rule 2015 – Consultation Paper**

Snowy Hydro appreciates the opportunity to comment on the Consultation Paper.

We believe there is no problem with existing National Electricity Rules (NER). The NER already provide sufficient incentives for customers to invest efficiently in embedded generation and to operate it efficiently. The NER also provides sufficient incentives for Distributed Network Service Providers (DNSPs) to procure embedded generation when it is the least cost solution compared to network augmentation. The NER now contain a number of mechanisms to incentivise efficient use of non-network solutions. These include:

- Cost-reflective distribution network tariffs;
- Network support payments;
- Avoided Transmission Use of System (TUoS) charges;
- The Regulatory Investment Test for Distribution (RIT-D) and Transmission (RIT-T);
- The distribution network planning and expansion framework;
- The Capital Expenditure Sharing Scheme (CESS) and the Efficiency Benefit Sharing Scheme (EBSS);
- The Demand Management Incentive Scheme (DMIS) and the Demand Management Innovation Allowance (DMIA) schemes; and
- The small generation aggregator framework.

The “gap” in the Rules that the Rule Proponent claims to have identified simply does not exist. It is our interpretation that this gap centres around adequate recognition of the network benefits that small-scale embedded generation provide. However, this logic does not hold true when nothing

prevents “Aggregators” from consolidating smaller embedded generators together to form a useful product which is of value to the DNSPs.

Hence Snowy Hydro’s position is that the Rules do not prevent and indeed rewards efficient levels of small-scale embedded generation in the NEM. Hence the Rule change is not required and should therefore be rejected.

We have serious concerns with the legitimacy of any Local Generation Network Credits (LGNC) calculation. Some forms of embedded generation such as wind and solar exhibit energy output intermittency because their generation output is dependent on variable climatic conditions. This makes their output over time very difficult to predict. Hence we agreed with the Commissions statement that¹:

It follows that the advantages that these different types of embedded generation can offer to DNSPs (and potentially TNSPs) at a particular time and place may also vary considerably. Sometimes there will be clear benefits and in other circumstances embedded generation will serve only to increase network costs.

The intermittency issue outlined above, together with changing demand patterns, generation exit and entry, transmission investment decisions, and policy uncertainty, all make it impossible for DNSPs to calculate the LGNC tariff with any degree of accuracy, relevance, and certainty.

What is clear is the explicit costs associated with implementing this Rule change would be very substantial but the “benefits” associated with the LGNC can already be extracted through existing Rules and in any case would be highly uncertain if this value is extracted through the LGNC.

It is important to note that Distribution investment is based on bespoke requirements dependent on local distribution factors. Under the current Rules the DNSPS has explicit obligations to seek non network solutions where it is economic compared to network solutions. It is therefore unconceivable that a generic LGNC calculation can be of any economic value in signalling alternative non network solutions for a localised and specific distribution requirement.

Finally, it is clear from the current regulatory arrangements and processes available to incentivise efficient levels of embedded generators that there appears to be no gaps in the regulatory framework and/or the NER. Hence Snowy Hydro is unsure why the AEMC has in effect given this Rule change pre-emptive importance by introducing Stakeholder workshops in the consultation process. This could be perceived as creating a false expectation that there is a gap in the Rules and that something needs to be done to fill this gap.

¹ AEMC, Local Generation Network Credits Rule 2015, Consultation Paper, page 5.

In summary, Snowy Hydro strongly believes that the LGNC is a complex solution looking for a problem that simply does not exist. Snowy Hydro strongly advocates that the LGNC rule change fails to meet the NEM Objective and should not be ratified.

Snowy Hydro appreciates the opportunity to respond to this Consultation Paper. Should you have any enquires to this submission contact me on kevin.ly@snowyhydro.com.au or on (02) 9278 1862.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'K Ly', with a horizontal line underneath.

Kevin Ly

Head of Wholesale Regulation

