



Mr John Pierce
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Dr Brian Spalding
Australian Energy Market Commission
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Dear Commissioners,

Reference: EPRC0129

A: Background

TRUenergy welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) Network Support Payments & Avoided TUOS for Embedded Generators Consultation Paper released 23 June 2011. The AEMC released this consultation paper in response to a Rule change request brought forward by the Ministerial Council of Energy (MCE).

The AEMC intends to consult with the market on this Rule change request. As we understand it, the MCE initiated this Rule change as a response to the findings of the AEMC's Final Report on the Stage 2 Demand Side Participation (DSP) Review to the MCE.

Embedded generators connecting to the distribution network have the potential to reduce the amount of transmission that is required to be built. This is because an embedded generator can reduce the demand level of the distribution network that drives the need for transmission.

The National Electricity Rules (Rules) currently allow embedded generators to receive two payments for the services that they provide the market. One is a network support payment from the TNSP & the other is an avoided TUOS payment from the distributor.

TRUenergy supports the current Rule provisions that incentivise embedded generators to locate in an efficient way and defer network augmentations. Embedded generators do not pay TUOS charges and cannot obtain the same benefit, or signal, from causing a reduction in network costs as customers. Therefore, in the absence of such a signal, embedded generators would have a limited incentive to locate in areas of the network that would have the largest impact of reducing transmission network costs.

This MCE Rule change seeks to ensure that an embedded generator that recovers revenue from either a network support payment or avoided TUOS are not able to recover both of these revenue streams. In the MCE's eyes, the Rule change seeks to ensure that embedded generators are not over compensated to ensure that consumers are not overcharged for the services they provide.

B: Introduction

TRUenergy does not support the MCE rule change proposal in its current form.

We consider:

- The Rules that compensate embedded generators for providing network support services and avoided TUOS simultaneously are appropriate. They compensate embedded generators separately for providing different benefits to distinctly separate parts of the transmission network.
- The Rules that compensate embedded generators for providing both network support and avoided TUOS simultaneously provide a signal for generators to locate efficiently. However, due to the lack of firmness in the revenue streams associated with network support and avoided TUOS, any changes to the current Rules will weaken the signal for generators to locate efficiently.
- The current Rule proposal represents a disproportional response to an immaterial problem. Currently, we are not aware of any embedded generator in the NEM that earns a revenue stream from both network support and avoided TUOS. Therefore, we remain unconvinced that AEMC's consideration of a full Rule change to deal with this issue represents a proportional response given the immaterial nature of this issue.
- The current Rules that allow an embedded generator to earn a revenue stream for both network support and avoided TUOS simultaneously provide an additional incentive for an embedded generator to be completed on time. In our experience at Tallawarra, by securing a network support agreement, we were incentivised to complete our plant in a quicker time frame in order to honour our network support agreement.

C: Key Issues

- 1 The Rules that compensate embedded generators for providing network support services & avoided TUOS simultaneously are appropriate. In short, they compensate embedded generators separately for providing different benefits to distinctly separate parts of the transmission system.**

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TRUenergy holds a portfolio of generation assets with control over approximately 11% of the total capacity of the National Electricity Market (NEM). Whilst most of our generation capacity is connected directly to the transmission system, we own an embedded generator which is located on the distribution system at Tallawarra in NSW which has a capacity of around 430MWs. In terms of network support payments and avoided TUOS, we managed to put some agreements in place that would compensate us for providing these services. Unfortunately, due to delays in the commissioning of the plant, we have not benefited from the network support services. Therefore, our plant at Tallawarra in NSW receives a revenue stream from avoided TUOS. However, it does not receive any revenue from network support.

TRUenergy factored in both network support payments and avoided TUOS to its investment case at our plant at Tallawarra. We felt that this was appropriate given the range of benefits it provided to the different parts of the network. The distinct benefits the respective payment streams addressed were:

- Network support services allowed the TNSP to defer a major augmentation on the transmission system. In response to their call for expressions of interest, our network support agreement was able to play a part in delaying the project related to the conversion of the existing transmission lines

from Bayswater to Mt. Piper and Mt. Piper to Bannaby from 330KV to 500KV operation for at least two years.

- Deferral of the need to augment the part of the transmission system and the sub transmission system that was located closer to our plant at Tallawarra. As a consequence of our investment, we reduced the need to import power from the 330KV network to the 132 KV network from a remotely located power station. In addition to this, there would be less of a need to augment either the 330KV network or the 132 KV sub transmission network that was located closer to our plant. This benefit was rewarded through the avoided TUOS payment.

The AEMC is required to assess this Rule change against the relevant counterfactual arrangements – the status quo. We consider that our experience at our plant at Tallawarra provides clear evidence that an embedded generator can potentially provide different benefits for separate parts of the transmission system. These are appropriately rewarded through the different revenue streams – network support in one case, and avoided TUOS in another. The example of our plant at Tallawarra allowed major augmentations to be deferred in different parts of the transmission system. (See above) Clearly, this does not represent a double payment. Under the current Rules, we are compensated for this through both network support and avoided TUOS under different agreements. In our view, we can not see any logical reason to change this.

2 The Rules that permit embedded generators to get a revenue stream for providing both network support and avoided TUOS simultaneously provide a signal for generators to locate efficiently. However, due to the lack of firmness in the revenue streams associated with network support & avoided TUOS, any changes to the status quo will weaken the signal for generators' to locate efficiently.

Based on our experience, we regard securing a contract for both network support and avoided TUOS is difficult to achieve. Even if a generator manages to secure either one of these agreements, regulatory changes can sometimes impact the amount of revenue that they are able to recover from them. For that reason, generators regard the revenue from these agreements as non – firm. So, any changes proposed to the current arrangements that decrease certainty of payment will further weaken this locational incentive.

Our experience at our plant at Tallawarra provides a good example of why there is a need to keep both network support & avoided TUOS to maintain the strength of this current locational signal for generators. As we have previously indicated, we factored in a revenue stream for both network support & avoided TUOS into our investment case for our plant at Tallawarra. Yet, because of the difficulty of securing and maintaining these arrangements, we have already had to adjust our original expectations down wards in terms of the revenue that we will accrue from these agreements. The basis of these adjustments is set out below:

Avoided TUOS at Tallawarra

- TRUenergy secured an avoided TUOS agreement for our plant at Tallawarra from TransGrid under clause 5.5 of the Rules. In accordance with the Rules, avoided TUOS can be recovered from the locational component of the transmission charge. Prior to 1 July, 2010, TransGrid's locational tariffs included both a demand charge and an energy use of system charge. Under these arrangements, there was a high probability that we would avoid transmission energy usage charges when our plant was operational.
- TransGrid changed its locational transmission tariffs from 1 July 2009/10 in response to the AEMC Rule Determination – "AEMC Rule Determination, National Electricity Amendment - Pricing of Prescribed Transmission Services) Rule 2006 No: 22, 21 December 2006. The AEMC decision sought to exclude energy use of system charges from the make up of locational transmission tariffs. In the AEMC's view, applying a demand based charge to locational transmission tariffs would deliver more efficient pricing outcomes. As an outcome of this decision, the AER requested TransGrid to change its pricing methodology. Consequently, TransGrid changed the locational component of its transmission tariffs from a combined demand charge and energy use of system charge to a pure demand based charge. Importantly,

under these revised arrangements, it became more difficult for our Tallawarra plant to recover a revenue stream from avoided TUOS.

- It has been difficult to recover revenue from avoided TUOS from our plant at Tallawarra following the changes to the locational component of TransGrid's transmission tariffs post 1 July 2010. The revised tariff arrangements provide for a single demand based charge to recover the locational component of its transmission tariffs. TransGrid's locational transmission tariffs have been set to recover their costs based on the revenue they collect from the maximum half hourly demand in NSW. For TRUenergy, this means that our plant at Tallawarra needs to be running during this maximum half hourly peak in order to recover some avoided TUOS. If it fails to run during the maximum half hourly demand, then it will not recover any revenue from avoided TUOS.
- Overall, these tariff changes make it much less likely for us to recover the revenue stream that we banked on from avoided TUOS as part of our investment case at Tallawarra. Therefore, we believe it is imperative that the locational signal from the combination of network support and avoided TUOS is not watered down any further by any other changes to the regulatory regime. Any movement in this regard, will further dampen the locational signal that these two elements combined send to generators.

This example demonstrates the problems with constant regulatory change impacting on the investment environment. We urge the Commission to avoid unnecessary changes to the tariff regime which could further undermine sunk investments. A form of grandfathering should be considered should further changes be made to protect investments made by generators in good faith, and according to the NER at the time of the investment.

3 The current rule proposal represents a disproportional response to an immaterial problem. Currently, we are not aware of any embedded generator in the NEM that receives a revenue stream for both network support and avoided TUOS for providing the same service. Therefore, we are not convinced that the AEMC's consideration of a full rule change represents a proportional response given the immaterial nature of this issue

TRUenergy regards the current MCE rule proposal represents a disproportional response to an immaterial problem.

In the early parts of this submission, we argued that a revenue stream from both network support and avoided TUOS did not constitute a double payment for an embedded generator due to the different services provided. However, even if one accepts this proposition as being true, we fail to see that this is such a significant problem in our market that warrants the consideration of a full Rule change by the AEMC. In fact, we are not aware of any organisation in the NEM that receives a revenue stream from an embedded generator from both network support and avoided TUOS for the same service. Whilst we can see that it might be difficult for the AEMC to determine the extent to which this does occur in the NEM because of the commercially sensitive nature of this information to an embedded generator, we remain unconvinced that this issue such as serious problem that warrants the time and effort of a full AEMC Rule change investigation.

4 The current Rules that allow an embedded generator to recover a revenue stream for both network support and avoided TUOS can provide an incentive for an embedded generator to be completed in a timely manner. In our experience at Tallawarra, by securing a network support agreement, we were given a stronger incentive to commission our plant so that we could honour that agreement.

TRUenergy received an additional incentive to complete and commission our plant at Tallawarra in a timely manner in trying to honour a network support agreement.

Avoided TUOS payments would not have provided this incentive. Once again this demonstrates that the two mechanisms target different services and provide different drivers.

C: Conclusion

TRUenergy looks forward to working with the AEMC in its examination of this Rule change.

We consider that this Rule change does not satisfy the NEO in its current form. We believe that the current arrangements are more likely to do that for the following reasons:

Allocative efficiency

- We regard the combination of network support payment and avoided TUOS do not constitute a double payment. As we have argued above, the current arrangements that allow embedded generators to be remunerated for providing different benefits to distinctly different parts of the transmission network does not represent a double payment. Therefore, the current arrangements are consistent with the NEO.

Materiality

- We believe the current Rule change will create more uncertainty in relation to the revenue that embedded generators receive from network support and avoided TUOS. Given the lack of firmness associated with these revenue streams, we fail to see that this additional regulatory uncertainty can be regarded as a positive development which is consistent with the NEO.

We thank AEMC for the opportunity to comment on this rule change, and hope that the practical examples we have outlined assist in its considerations. If you have any enquiries regarding this submission, please feel free to contact Mr. Con Noutso - Regulatory Manager at TRUenergy on Tel: 03 8628 1240.

Regards



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