

11 November 2011

John Pierce  
Chairman  
Australian Energy Market Commission  
P.O. Box A2449  
Sydney South NSW 1235

**BY EMAIL TO: [aemc@aemc.gov.au](mailto:aemc@aemc.gov.au)**

**(And through the electronic lodgement facility)**

Dear John,

**Re: Draft National Electricity Amendment (Network Support Payments and Avoided TUOS for Embedded Generators) Rule 2011**

The AEMC has released a draft Rule determination on the National Electricity Amendment (Network Support Payments and Avoided TUOS for Embedded Generators) Rule 2011. SP AusNet and United Energy would like to express thanks to the AEMC for taking into consideration the submissions provided by the two businesses in response to the Rule change consultation<sup>1</sup>.

In its draft Rule determination, the AEMC has decided that it should not make the original Rule, proposed by the Ministerial Council on Energy (MCE), but should instead make a “more preferable” Rule, within the context of section 91A of the National Electricity Law. The proposed, more preferable Rule has been set out as follows:

**[1] Clause 5.6.2 Network Development**

After clause 5.6.2(1), insert:

*(11) When negotiating the amount of a network support payment with an Embedded Generator, the Transmission Network Service Provider must take into account the:*

- 1) Nature of the network support services being provided by the Embedded Generator; and*

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<sup>1</sup> The AEMC has stated that: “This Rule change process has allowed for a deeper assessment of this issue than was achievable during the Stage 2 DSP Review. In particular, the Commission has received useful submissions from stakeholders. This has enabled the Commission to more thoroughly consider the evidence in relation to whether the services are the same, which, in turn, has informed the draft determination”. See Draft Rule Determination, National Electricity Amendment (Network Support Payments and Avoided TUOS for Embedded Generators) Rule 2011, Australian Energy Markets Commission, 29<sup>th</sup> September 2011.

- 2) *Extent to which the Embedded Generator is being, or will be, compensated for providing those network support services by receiving avoided Customer TUOS charges.*

The proposed, more preferable Rule incorporates the principle from the initial, proposed Rule that there should be an efficient level of compensation for embedded generators for the benefits that they provide in terms of a reduced need to augment the transmission network. However, the more preferable Rule is also deficient in a material respect in that it refers to negotiations between an embedded generator and a transmission network service provider, (TNSP), whereas negotiations would, by definition, take place between an embedded generator and a distribution network service provider (DNSP). An embedded generation unit is connected to a distribution network, and does not necessarily have access to the transmission network<sup>2</sup>.

The discussions between an embedded generator and a DNSP may result in the distribution business paying network support to the embedded generator. As was noted in the initial submission provided by United Energy, network support payments are more commonly made by DNSPs than by TNSPs because embedded generators will tend to connect to the distribution network, close to regions of high load<sup>3</sup>. SP AusNet reported that, in Victoria, the electricity distributors have traditionally purchased network support so as to avoid the augmentation of transmission connection assets<sup>4</sup>. The forms of contractual payment inherent in these arrangements do not conform to the strict definition in the National Electricity Rules, because the Rules identify a network support payment as having been made by a TNSP. In any event, the majority of the revenue earned by an embedded generator is likely to be derived from energy sales to retailers or directly to end-users.

In Victoria, DNSPs are responsible for planning transmission connection assets<sup>5</sup>, and a DNSP may seek expressions of interest from embedded generators in the course of formulating its plans for a particular terminal station or connection point.

There is less likelihood that a TNSP will make network support payments to an embedded generator because individual generation units, when considered on their own, will generally not produce sufficient output to justify the deferral of an augmentation to the shared transmission network. However, avoided TUOS charges provide a certain level of reward to embedded generators for the more limited network services that they may provide.

When a DNSP negotiates with a potential embedded generator, a TNSP may or may not

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<sup>2</sup> See the definition of an embedded generating unit in chapter 10, the glossary of the National Electricity Rules.

<sup>3</sup> Submission by United Energy to National Electricity Amendment (Network Support Payments and Avoided TUOS for Embedded Generators) Rule 2011, 21<sup>st</sup> July 2011; page 12.

<sup>4</sup> Submission by SP AusNet to National Electricity Amendment (Network Support Payments and Avoided TUOS for Embedded Generators) Rule 2011, 21<sup>st</sup> July 2011; page 1.

<sup>5</sup> See, for instance, section G.2.1, Final Report, Review of National Framework for Electricity Distribution Network Planning and Expansion, Australian Energy Market Commission, 23<sup>rd</sup> September 2009.

be a party to the discussions. Embedded generation may be an alternative to development options such as an expansion of the shared transmission network, or the addition of a transmission connection asset. The DNSP may be evaluating competing options from a TNSP, from an embedded generator, and, potentially, from proponents of other non-network solutions. In this context, the notion that a TNSP might be negotiating with an embedded generator about the value of a network support payment is fallacious. In other circumstances, however, the TNSP may be privy to discussions if embedded generation is being contemplated as a short-term, transitional measure, while augmentation is the ultimate, medium to long term solution.

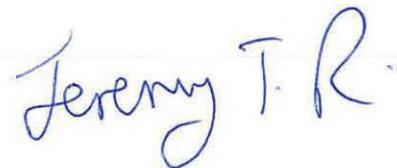
In its preliminary submission to the AEMC, United Energy had concluded that the initial Rule proposed by the Ministerial Council on Energy had no merit<sup>6</sup>. The two businesses, SP AusNet and United Energy, would now like to affirm that conclusion. The more preferable Rule propounded by the AEMC is underpinned by better analysis, and more thoughtful reasoning, but is nonetheless still deficient. The more preferable Rule is somewhat detached from normal commercial practices in the NEM, and could possibly be harmful. Accordingly, the businesses reiterate their jointly held view that no Rule change is necessary.

Should you or your staff have any queries in relation to this submission, please do not hesitate to contact Jeremy Rothfield, regulatory economist, on (03) 8846 9854.

Yours sincerely,



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SP AusNet



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United Energy

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<sup>6</sup> Ibid.; page 18.