

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

via the website:
www.aemc.gov.au

4 February 2016

Dear Sir / Madam,

Re: Consultation Paper: National Electricity Amendment (Local Generation Network Credits) Rule 2015

The New South Wales Irrigators' Council (NSWIC) and Cotton Australia (CA) appreciate the opportunity to comment on the consultation paper *National Electricity Amendment (Local Generation Network Credits) Rule 2015*.

We would like to preface our submission with an acknowledgement that we were only made aware of this proposed rule change on the 1st February and as such our submission will not address all questions outlined in the consultation paper. However, our organisations have decided to develop a formal response as we see the proposed rule change as a potential mechanism to drive alternative demand management solutions and make best use of embedded generation capacity. We wish to highlight our interest in participating in ongoing consultation processes associated with this proposed rule change.

In response to the rapidly escalating electricity costs faced by our growers and irrigators, CA and NSWIC have participated extensively in a range of reviews and inquiries to advocate for changes in the current regulatory framework which would decrease electricity costs.

Reviews and inquiries CA and NSWIC have participated in include, but are not limited to:

- the AER Determination processes for Essential Energy (NSW) and Ergon / Energex (Qld)
- Network Tariff Structure Statements
- Consultation regarding the review of governance arrangements for Australian Energy Markets
- the Australian Energy White Paper
- Senate inquiry into the performance and management of electricity network companies.
- previous reviews of the National Electricity Rules (the rules) undertaken by the Australian Energy Market Commission (AEMC) including the draft rules for distribution network pricing.

NSWIC and CA have consistently lobbied for a change in the way that network businesses operate and are regulated, indicating that we believe that these organisations are not operating efficiently

or cost effectively. As a consequence, our organisations believe that electricity consumers, including growers and irrigators are paying unnecessary high costs for electricity.

As an example, we have highlighted the inefficient investment in network infrastructure that has been undertaken by the networks in various submissions. This has led to underutilised assets and resulted in consumers paying considerably more for their electricity as a direct consequence of an ever inflating regulated asset base (RAB). The AEMC, in the consultation paper, has indicated that there are several existing rules that perform the role of non-network based solutions as an alternative to construction of additional infrastructure. These include:

- cost-reflective distribution network tariffs
- network support payments
- avoidance transmission use of system changes
- regulatory investment test for distribution and transmission
- distribution network planning and expansion framework
- capital expenditure sharing scheme
- efficiency benefit sharing scheme
- demand management incentive scheme
- demand management innovation allowance
- small generation aggregator framework.

However we wish to highlight that to date, we have seen little evidence that would indicate the networks are willing to make use of these available 'mechanisms' to deliver significant change to their investment decisions.

As an example of this, Essential Energy proposed to spend \$2.8 billion on its capital program over the next five years¹. In comparison, the recently released AER report on "*Applications by DNSPs for Demand Management Innovation Allowance for 2012-13 financial year*" shows that Essential Energy has claimed demand management allowance of \$976,600 in 2012-13 – a fraction of their capital expenditure program. While we understand that there are limitations with the Demand Management scheme, we believe these figures indicate how little effort is being put into innovation of grid management with significantly more time and effort spent on building an ever bigger network. A bigger network attracts ongoing operating expenditure for maintenance, capital expenditure allowance, return on investment and depreciation revenue for the networks. Likewise, we have seen little adoption of the other alternative mechanisms suggested by the AEMC, with networks predominantly operating on a 'status pro quo' basis with no evidence of adoption or investigation of innovative solutions to demand management.

In the current AER determination for Essential Energy, which is the subject of a challenge overseen by the Australian Competition Tribunal, the RAB will grow from \$6774.2 million in July 2014 to \$8720.4 million in June 2019. This represents a continued growth that will flow back to consumers in the form of increasing electricity prices. NSWIC and CA are therefore highly supportive of rules that will encourage the networks to adopt non-network based solutions to meet consumer demand which will not result in an inflated RAB.

The Australian energy market is highly dynamic and we have seen adoption of renewable technologies that could result in a major disruption to the existing electricity system. This is highlighted by the rapid growth in installation of solar PV panels which has exploded from 14,000 in 2008 to 1.4 million in 2015. To ignore this fundamental shift in the way consumers are obtaining their power and the potential role in acting as generators would represent a major failing in public policy. While we recognise there are significant challenges to be overcome in developing the conditions that would allow for the best use of these new 'resources', we believe that the

¹ Essential Energy (2015). Essential Energy distribution determination 2015–16 to 2018–19.

opportunities presented by such a rapid change significantly outweigh the 'challenges' that need to be addressed to allow for its implementation. We would encourage the AEMC to remain flexible in the development of solutions that will allow the Australian energy market to capture the benefits that will flow from embedded generation.

Responses to Questions

Question One

We would encourage the AEMC to incorporate within the framework not only whether there is efficient investment in new assets over time but also whether customers are paying for inefficient investment by the networks. NSWIC and CA continues to see this as a major failing of the current rules and we believe that the proposed framework will be distorted as a result of only taking in to account new assets.

CA and NSWIC believe that given the networks ability to provide an estimate of their capital expenditure program they would likewise be able to determine an approximation of the avoided investment cost in infrastructure as a result of utilisation of embedded generation.

Question Two

CA and NSWIC understand that there are currently third party providers that provide aggregation of power and resale back to the grid, with the example of Reposit Power provided by the AEMC. While the concept is attractive it appears that the third party system has had low adoption with only one retailer, Diamond Energy currently providing credits (on a trial basis) for power generated through the Reposit scheme. Clearly, there has not been the willingness or the correct incentive for the networks to use the current aggregation system as a non-network based solution.

Overall, we are of the opinion, that to date investment in embedded generation such as household and business PV panels, has been driven by exponential increases in electricity costs, solar bonus schemes (NSW ends at the end of 2016, Qld not until 2028) or in some cases, a desire of customers to completely detach themselves from the electricity market and lock in certainty around energy costs. With the loss of the solar rebate scheme there will be a reduction in incentive for investment in embedded generation and beyond this consumers who have already invested in embedded generation will be investigating potential uses and markets for their generated energy.

As highlighted by both the AER and the networks there are isolated pockets of growth across the NEM and it would make sense to use the pockets of embedded electricity generation rather than construction of additional assets. As demonstrated by the Solar Bonus Scheme, consumers are willing to invest in embedded generation where there is a material impact on their bills.

Question 3

While there may or may not be additional operating costs associated with embedded generation the key will be reduced a reduced need for additional capital expenditure by the networks. In addition and associated with the reduced capital expenditure there will likely be reduced future operating expenditure through avoidance of future and ongoing maintenance costs resulting from a lack of expansion of the existing network infrastructure.

NSWIC and CA also wishes to contest the claim made by the AEMC on page 24

'...whether it can be safely assumed that there will indeed be other embedded generators in a location that, when aggregated together, provide sufficient capacity to defer or delay network expenditure...'

We contest that this is at odds with the AEMC offering the solution of third party aggregation of power. If the third party system is able to operate effectively we believe that it is safe to assume that aggregated embedded generation will provide sufficient non-network capacity.

Question 4

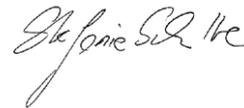
CA and NSWIC acknowledge that there will need to be adjustment to the AER building block approach through the adoption of the LGNC rule change. However we reiterate that we believe the incorporation of embedded generation as a non-network demand solution offers a significant opportunity. We would encourage the AEMC to thoroughly consider all avenues for its incorporation in the NER.

Should you have any questions regarding our submission please do not hesitate to contact Felicity on 02 9669 5222 or FelicityM@cotton.org.au or Stefanie on 02 9251 8466 or stefanie@nswic.org.au.

Sincerely,



Felicity Muller
Cotton Australia



Stefanie Schulte
NSW Irrigators' Council