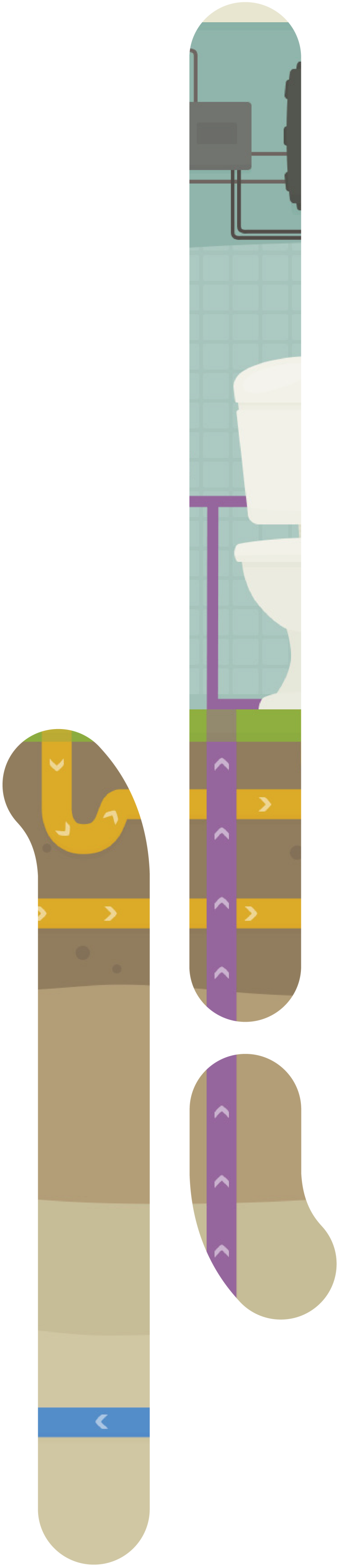
flow systems



AEMC: Local Generation Rule Change Response

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About Flow

Flow Systems, a Brookfield company, is a multi-utility company specialising in the design, operation, management and retailing of local sustainable water and energy infrastructure. Flow supports the rule change proposed by City of Sydney, the Total Environment Centre (TEC) and the Property Council of Australia.

Executive summary

The AEMC'S draft determination is a missed opportunity for industry, government and customers. Australia's energy system is in a state of rapid change - required to deliver critical infrastructure efficiencies and downward pressure on pricing that will benefit families and businesses. At the heart of this transition are distributed energy alternatives particularly local generation solutions.

While Flow is impartial to the exact nature of the incentives (whether this particular approach or other) we believe we must alter the payment arrangements for embedded generators in the National Electricity Market (NEM). This is critical to enabling innovation and competition in the energy market – driving down costs to consumers, government and developers.

The current arrangements do not provide distribution companies with sufficient incentive to collaborate on non-network solutions as particular commercial models may be seen to cannibalise the long term economic interests of the regulated business. The form of the investment is ultimately also determined by the distributor which may hamper innovation and true competition.

The new cost-reflective pricing mechanisms proposed by the AEMC are a very important and beneficial approach, however they are focused on consumption patterns as opposed to locational considerations. Flow understands that the LGNC may not been seen to be cost reflective enough, however Flow strongly supports the development of a scheme that recognises the benefits of locational pricing economically, but also from an environmental perspective.

The most obvious example of the lack of locational benefits recognition is seen in the Ausgrid network. This network supports both urban and regional areas and as such the costs of the network are almost double Citipower and Powercor which only support urban areas. It is clear from this that if locational benefits could be factored into all networks the overall pricing would be reduced for consumers.

Flow supports the underlying premises of LGNC which is that there needs to be an incentive for smaller generators in aggregate on the basis that the mechanism would deliver an aggregate locational benefit.

Establishing a more cost reflective regime will enable the next generation non-coal reliant energy infrastructure which can deliver greater efficiencies. Industry and cities see the benefits of harnessing renewable energy sources and low carbon solutions through self-generation as this substantially reduces energy bills and carbon emissions while driving greater resilience.

The current NEM rules are restricting commercial viability and global best practice technologies and innovation. The rules need to be enhanced to promote cogeneration and trigeneration and solar/battery storage (including peer to peer and community schemes) all of which can provide locational benefits to networks.

For Flow and its parent company Brookfield, valuing the contribution of these technologies to the NEM is essential to the commercial viability of innovative business models that benefit all stakeholders as well as delivering on the NEO. As a leader in next generation water and energy utility infrastructure and consumer products, we therefore support more cost reflective pricing regimes such as LGNC.

A regulatory environment that fosters innovation and decentralised energy solutions will deliver better outcomes for communities, businesses and families. The current determination protects existing monopoly centralised energy providers and will place upward pressure on energy pricing.

Network support payments

Flow's local utilities are aimed at creating viable commercial solutions to meet market demand for renewable energy and drive more affordable energy solutions, however due to current regulatory settings our projects are skewed heavily towards behind the meter solutions – leveraging customers within the local distribution area.

This means options to create viable and robust renewable energy businesses are stymied – leading to greater costs for the entire community in the long term as identified by the recent Institute for Sustainable Futures (ISF) report.

More comprehensive modelling required

Flow believes the AEMC needs to undertake a more comprehensive examination of cost reflective locational pricing mechanisms project costs and benefits.

Flow would like a discussion paper to be developed with industry participation on alternative mechanisms that reward small and medium generators for the value they present to the network, with reduced charges offered for restricted use on the network.

We believe that the LGNC is a positive starting point for these discussions.

Conclusion

The AEMC needs to consider the importance of making local generation viable. Local generators need mechanisms that incentivise local electricity generation and consumption – this starts with paying lower network charges than consumption of centralised generation. This approach offers alternatives to behind the meter solutions and embedded privately operated networks within the distribution network and it avoids duplication of infrastructure.

Importantly it enables the transition to more sustainable, next generation energy solutions which are critical to network resilience and downward pressure on pricing. The benefits to consumers extend beyond lower prices such as greater control and choice and community ownership models that pass on potential revenues to customer shareholders in the form of dividends. The principal behind these models is that the benefits from more cost reflective pricing is passed on to customers.

Given the significant benefit to customers, Flow hopes to see action towards a discussion paper for industry that rewards small and medium generators for the value they deliver. We look forward to the opportunity of working with the AEMC to this end.

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