

Ref: CW:JC:C1756887

21 July 2011

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Sir

National Electricity Amendment (Network Support Payments and Avoided TUoS for Embedded Generators) Rule 2011

Essential Energy appreciates the opportunity to provide a response to the Australian Energy Market Commission's (AEMC's) consultation paper – National Electricity Amendment (Network Support Payments and Avoided TUoS for Embedded Generators) Rule 2011.

This submission sets out Essential Energy's support of the AEMC's proposed rule change as outlined in the consultation paper.

Question 1 – Are the current arrangements efficient?

- 1.1 Would the combination of a network support payment and an avoided TUoS payment over-signal and/or over compensate embedded generators?
- 1.2 Do the services and benefits provided by embedded generators for a network support payment and an avoided TUoS payment differ, and if so, how?
- 1.3 Is the Rule change likely to have any unintended consequences in terms of the network support agreement negotiations?

Essential Energy agrees that generators should only receive one payment as any doubling up of payment would ultimately result in increased costs to customers. Further, if both payments are made to a generator, the wrong signals may be provided which may lead to inefficient investment decisions.

Network support payments (NSP) and avoided TUoS are to a large extent the same type of payment as they are compensation to the generator for a reduction in demand on the network that TNSPs would otherwise have to provide to ensure a stable and reliable supply of electricity to customers.

Essential Energy is not aware of any consequences that may arise from the proposed rule change that has not already been considered.

Question 2 – What is the level of materiality of the identified problem?

- 2.1 To what extent do embedded generators receive both a network support payment and an avoided TUoS payment? Please provide any instances where a network support payment is made to an embedded generator and an indication of the expected value.
- 2.2 How material is receiving both a network support payment and an avoided TUoS payment to the commercial viability of an embedded generator? (Please provide evidence).
- 2.3 Should specific provisions related to a transition period be considered?

As a distribution network service provider (DNSP) only, Essential Energy is not able to comment on the level of materiality or provide any specific examples.

In order for the proposed rule change to be implemented, it will be necessary for TNSPs to provide details on each NSP made to generators to DNSP's. The commencement date and duration of the payment would be required by the respective DNSP in order to ensure that the generator did not also receive avoided TUoS payments. Consideration must also be given to confidentiality issues that may arise through information transfer between a TNSP and a DNSP.

Essential Energy would be pleased to discuss this matter further. Should you require further information please feel free to contact Catherine Waddell on 02 6338 3553.

Yours sincerely



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