TRUenergy 's response to the

Australian Energy Market Commission
Draft - Report

Demand – Side Participation in the National Electricity Market

A. Introduction

TRUenergy welcomes the opportunity to comment on the Australian Energy Market's Review (AEMC) Draft – Report that investigates whether the demand side of the National Electricity Market (NEM) is participating effectively and efficiently in the market. The report presents the AEMC's key findings and supporting reasoning on whether there are material barriers to the efficient and effective use of demand side management.

This submission will focus on the Draft-Report's findings regarding the arrangements that apply to embedded generators for avoided TUOS. The following points are submitted in response to the Commission's analysis on this issue.

B. Key issues

1. **Avoided TUOS provides a signal to encourage embedded generators to locate in areas of the network that will have the largest overall benefit**

   Embedded generators require a signal in the form of avoided TUOS payments to help them locate on a part of the transmission system that will have the largest impact of reducing transmission costs. We agree that the absence of such a signal and the resulting in-efficiencies associated with this scenario would be detrimental to market outcomes. As such, we support the additional arrangements that provide a signal and encourage embedded generators to locate in areas of the network that that will have the largest overall benefit.

2. **The prospect of a network support agreement can encourage a generator to locate in areas that support the network**

   The most effective way for an embedded generator to receive a signal for the services they provide is through a network support agreement. In securing such an arrangement, the network support agreement would recognise both the value of the capital expenditure deferred by the transmission network owner and the services provided by the generator.

3. **Network support agreements are difficult to secure. For that reason, we support alternative arrangements that encourage embedded generators to locate in areas that support the network**

Network support agreements will not always be available for embedded generators and have been difficult to secure in the NEM. We agree that:

- The transaction costs to secure a network support agreement can be very high. The cost to implement complex legal arrangements to secure a network support agreement can be severe in some circumstances;

- Transmission network owners may not be aware of the existence of an embedded generator and how this could defer network augmentations;

- Distribution network owners have limited incentives to negotiate a network support agreement with an embedded generator. We believe the incentives on a distributor are to:

    - augment the network and receive a return on it;
    - dismiss the network support option on the basis that it is technically inferior and risky, given that distributors have at risk revenue where they fail to meet their reliability obligations.

In light of this, we agree that the arrangements for providing avoided TUOS are appropriate in the NEM.

4. **Avoided TUOS payments represent represents the avoided long term costs of transmission services rather than an avoided "payment."**

The market arrangements in the NEM should continue to pay avoided TUOS to embedded generators. We agree that the benefit of avoided TUOS represents and signals the avoided long term costs of transmission services rather than an avoided payment. More specifically, avoided TUOS represents and signals the avoided costs of a deferred network augmentation rather than an avoided TUOS payment. Accordingly, we continue to support this process on the basis that it is economically efficient.

5. **The locational component of avoided TUOS represents the avoided costs.**

We support embedded generators recovering the cost of their locational component of TUOS on the basis that this reflects the long term costs of providing transmission. The locational component of TUOS recovers the long run marginal cost of supplying electricity through the transmission lines to customers. The other components of TUOS (i.e. fixed components) recover the transformers or switch-gear. On the basis that these costs are not deferred when an embedded generator locates on the distribution network, then the arrangements should not allow them to be recovered.

5. **The avoided TOUS should include the avoided costs of deferred network augmentations in the deeper network as a result of embedded generation**

In keeping with the theme of avoided transmission costs, we believe that in certain cases, embedded generators can defer network augmentations required in the deeper part of the network. We see no reason why arrangements should not be made to allow these costs to be recovered either through avoided TUOS or a network support agreement.

C. Conclusion

TRUenergy supports the current arrangements for avoided TUOS in the National Electricity Rules (NER). In short, these arrangements help provide a signal and encourage embedded generators to locate in the areas of the network that support the network. Furthermore, they reduce the cost of supplying electricity to end customers – given significant capital costs are avoided by deferring network augmentations. These arrangements are all consistent with National Electricity Objective – given they result in efficient outcomes for the market.

Regards

Con Noutso
Manager Regulation (Access)