



## **Advancing allocative efficiency**

**Submission in response to the rule-change proposal  
on local generation network credits**

**4 February 2015**

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# 1. Introduction

## The Public Interest Advocacy Centre

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit law and policy organisation that works for a fair, just and democratic society, empowering citizens, consumers and communities by taking strategic action on public interest issues.

PIAC identifies public interest issues and, where possible and appropriate, works co-operatively with other organisations to advocate for individuals and groups affected. PIAC seeks to:

- expose and redress unjust or unsafe practices, deficient laws or policies;
- promote accountable, transparent and responsive government;
- encourage, influence and inform public debate on issues affecting legal and democratic rights;
- promote the development of law that reflects the public interest;
- develop and assist community organisations with a public interest focus to pursue the interests of the communities they represent;
- develop models to respond to unmet legal need; and
- maintain an effective and sustainable organisation.

Established in July 1982 as an initiative of the (then) Law Foundation of New South Wales, with support from the NSW Legal Aid Commission, PIAC was the first, and remains the only broadly based public interest legal centre in Australia. Financial support for PIAC comes primarily from the NSW Public Purpose Fund and the Commonwealth and State Community Legal Services Program. PIAC also receives funding from NSW Trade and Investment for its work on energy and water, and from Allens for its Indigenous Justice Program. PIAC also generates income from project and case grants, seminars, consultancy fees, donations and recovery of costs in legal actions.

## Energy + Water Consumers' Advocacy Program

The Energy + Water Consumers' Advocacy Program (EWCAP) represents the interests of low-income and other residential consumers of electricity, gas and water in New South Wales. The aim of the program is to develop policy and advocate in the interests of low-income and other residential consumers in the NSW energy and water markets. PIAC receives policy input to the program from a community-based reference group whose members include:

- Council of Social Service of NSW (NCOSS);
- Combined Pensioners and Superannuants Association of NSW;
- Ethnic Communities Council of NSW;
- Salvation Army Eastern Australia Conference;
- St Vincent de Paul Society of NSW;
- Physical Disability Council NSW; and
- Tenants Union of NSW.

## **2. The value of local generation network credits**

On 15 July 2015, the Australian Energy Market Commission (AEMC) received a rule change request to amend the National Electricity Rules (the Rules) from the City of Sydney, Total Environment Centre, and the Property Council of Australia. The rule change request is for distribution network service providers to calculate the long-term economic benefits that embedded generators provide to distribution and transmission networks, and pay embedded generators a local generation network credit that reflects those estimated long-term benefits.

The AEMC has published a consultation paper to facilitate public discussion on the issues raised by the rule change request. The Public Interest Advocacy Centre (PIAC) welcomes the opportunity to provide comment to the AEMC on the proposed rule-change. PIAC agrees with the proponents' proposal, and sets out its position in more detail below.

### **2.1 Addressing gaps in the system**

The proposed rule change seeks to address a gap that confronts customers who have sought to install local generation that exports energy to the grid. The gap it seeks to address is that network tariffs are not required to compensate local generation for the future benefits that their export of energy to the grid may provide to other electricity consumers.

The proposal is in line with recent reforms that encourage cost-reflective pricing, and so just as networks are now required to base their consumption tariffs on the likely future cost of augmenting the grid to cope with higher peak demand, the proposal is that generators are credited for the extent to which they can help to meet peak demand in the local grid, thereby helping to reduce future augmentation costs.

PIAC agrees with the proponents that the incentives for local generation in the current National Electricity Rules (the Rules) either do not provide adequate recognition of the benefits that local generation can provide, and/or may not be readily accessible to small-scale local generators. PIAC supports the proposed rule-change on the basis that it will be in the long-term interests of consumers by ensuring that consumers and generators are charged appropriately for partial use of the electricity network, and correcting the inequities in the system that currently favour centralised generators. It will do this by increasing the cost-reflectivity in network pricing of electricity exported to the grid, monetising the benefits that exported electricity brings to the grid in terms of avoided augmentation and other costs, and therefore increasing allocative efficiency and economic benefit.

PIAC shares the proponents' concern that if exported energy is not valued (priced) correctly, inefficient investment in alternative technologies and methods may ensue, causing market distortions and thwarting access to the benefits they are capable of providing. PIAC sees the overall benefit of a smaller and more efficient grid that is more appropriate to decentralised generation, leading to both cost and environmental benefits for consumers. PIAC is of the view that avoided infrastructure costs and line losses from long transmission lines and big zone substations need to be recognised in order for effective signals to be sent to the market. The current rules are a barrier to community energy, mainly because network charges often make it uneconomic to export locally generated energy to the grid. Incentivising local generation is an important way of reducing network congestion and reaping the benefits of renewable energies, as well as the benefits of increased competition in the market.

PIAC has previously stated that encouraging individual consumers and community groups to generate electricity and participate in electricity markets creates greater competition in the market. It can contribute to reducing peak pricing in summer and enable the more efficient use of networks, as well as reducing emissions intensity. More broadly, there is clear evidence that renewable energy lowers wholesale prices as a result of the merit order effect and contributes to both job creation and environmental and health benefits.<sup>1</sup> Even if it is the case that ‘a sum of money that would otherwise have been paid to one group of market participants (e.g. engineering and construction firms that build network assets) is instead paid to embedded generators’<sup>2</sup>, this is not as problematic as the AEMC implies, as the point of such redistribution is to send effective price signals and reap their allocative effects.

## 2.2 Contributing to the achievement of the National Electricity Objective

AEMC office holders have affirmed the AEMC's focus on economic efficiency when interpreting the National Electricity Objective (NEO). For example, Australian Energy Market Commission Chairman. John Pierce. has previously stated, ‘The NEO refers to issues of economic efficiency; environmental and social issues are dealt with through other pieces of legislation’.<sup>3</sup>

However, the objective of energy regulation has not always been so narrow.<sup>4</sup> For example, the mission of National Electricity Code Administrator (NECA) established by the state governments in 1997 to enforce the National Electricity Code was to:

- promote the effectiveness, efficiency and equity of the national electricity market; and
- lead the development of the market towards more competitive, market-oriented outcomes in order to deliver a viable market that benefits end-use customers.

Similarly, the Australian Energy Market Agreement made in 2004 included the objective to address greenhouse emissions from the energy sector, in light of the concerns about climate change and the need for a stable long-term framework for investment in energy supplies. Our previous submission also demonstrated that even if the NEO is a purely economic objective then it should nevertheless necessarily include climate change, because climate change is a fundamental economics issue. It is inefficient and inappropriate for climate change, renewable energy and energy efficiency policy to be separate. It creates regulatory conflict and complexity. For example, Carbon + Energy Market’s report for PIAC gives a detailed argument using the

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<sup>1</sup> PIAC, *From complex fragments to competitive consumer-focused markets*, 7 May 2015, Available at [http://piac.asn.au/sites/default/files/publications/extras/150508\\_governance\\_review\\_piac\\_submission\\_final.pdf](http://piac.asn.au/sites/default/files/publications/extras/150508_governance_review_piac_submission_final.pdf); PIAC, *Solar feed-in tariffs in NSW: Setting a fair price for prosumers*, September 2015. Available at: [http://piac.asn.au/sites/default/files/publications/extras/15.09.24\\_solar\\_feed-in\\_tariffs\\_-\\_setting\\_a\\_fair\\_price\\_for\\_prosumers.pdf](http://piac.asn.au/sites/default/files/publications/extras/15.09.24_solar_feed-in_tariffs_-_setting_a_fair_price_for_prosumers.pdf)

<sup>2</sup> AEMC, *Consultation Paper: National Electricity Amendment (Local Generation Network Credits) Rule 2015* December 2015, p 13. Available at [http://www.aemc.gov.au/Rule-Changes/Local\\_Generation\\_NetworkCredits/Initiation/AEMC-Documents/Consultation-paper.aspx](http://www.aemc.gov.au/Rule-Changes/Local_Generation_NetworkCredits/Initiation/AEMC-Documents/Consultation-paper.aspx)

<sup>3</sup> John Pierce, ‘The Australian National Electricity Market: choosing a new future’, (World Energy Forum speech, 12-16 May 2012 Quebec City, Canada).

<sup>4</sup> PIAC, *From complex fragments to competitive consumer-focused markets*, May 2015, Available at [http://piac.asn.au/sites/default/files/publications/extras/150508\\_governance\\_review\\_piac\\_submission\\_final.pdf](http://piac.asn.au/sites/default/files/publications/extras/150508_governance_review_piac_submission_final.pdf) and attached expert reports.

concepts of Transaction Cost Economics to conclude that ‘emission reduction is very deeply integrated with the design and operation of energy markets and systems of network regulation’.<sup>5</sup>

PIAC has made clear its strong recommendation that the NEO should be broadened in the interests of current and future consumers. Any energy policy statement needs to acknowledge the need to decrease greenhouse gas emissions, especially given the economic importance of addressing climate change and Australia’s international obligations in this regard. PIAC also believes it would be consistent with consumer interests and international practice to include social objectives like affordability in the NEO. Similarly, focus needs to be on total cost of energy services, not ‘price’ (treated as price per unit of energy), which is just one element of consumer benefit.

In this context, PIAC urges the AEMC to look beyond its narrow interpretation of the NEO and recognise the broader way in which this particular proposal, and other rule-change proposals, contribute to meeting the needs of existing and future consumers in a transforming electricity market. This is a particularly important consideration in assessing how networks would pay for the local generator credit and whether there may be cost burdens passed on to consumers. In this regard, it will be important to consider benefits beyond just reduced prices, as enumerated in the proponents’ submission, and to acknowledge that price is just one element of consumer benefit.

### **2.3 Assisting with access to data**

PIAC also supports the proponents’ call for the AEMC to commission research that they were not able to do themselves in light of resource constraints, including quantifying how much consumers could save in the short or long term and identifying any cost burdens they may incur. In particular, research should examine how the current trends towards behind-the-meter generation are going to affect costs for consumers who are not able to install renewable energy; the extent to which a network credit could keep more local generation using the grid; and the effects on costs per consumer with and without the credit. PIAC also supports the call for additional research about the potential long-term savings from downsizing the network.

We support the proponents’ call for the AEMC to commission this research in the context of what PIAC has previously identified as unequal access to and use of modelling data in relation to submissions to the AEMC. Retailers in particular invest significant resources in datasets, draw on each other’s, and often use the same data and message in their submissions. Consumer groups usually lack the resources to access and use data modelling and often rely on anecdotal evidence. Compounding this imbalance, retailers often seek to explicitly exclude anecdotal evidence from consideration. PIAC has previously queried AEMC’s interpretation of the term ‘anecdotal evidence’ and what it encompasses. Overall, the requirement to detail the effect of proposed rule-changes on all stakeholders is a particular resource burden on consumers.

It is PIAC’s view that the AEMC is the body that is able to remedy this imbalance, either by providing the data or by funding it. PIAC has suggested that there are three options in this regard, that:

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<sup>5</sup> Carbon + Energy Markets, *The inclusion of Environmental Protection in the National Electricity Objective*, May 2015. Available at: [http://piac.asn.au/sites/default/files/publications/extras/150508\\_governance\\_review\\_piacle\\_submission\\_final.pdf](http://piac.asn.au/sites/default/files/publications/extras/150508_governance_review_piacle_submission_final.pdf)

- the AEMC anticipate the data that will be relevant to the rule-change proposal and have it available at the time of consultation
- consumer groups ask the AEMC at the appropriate stage of the process for modelling to be done
- the AEMC advise that it is keeping resources aside and consumer groups can approach the AEMC if/when they need datasets to be done.

The proponents' request for further research is in line with PIAC's view that the AEMC should be more proactive in rectifying the imbalance that has led to it being criticised for having an industry bias.

### 3. Conclusion

This rule-change is designed to improve the financial viability of a range of decentralised energy projects involving local councils, shopping centres, office buildings, apartments, precinct scale co- and tri-generation, community energy and aggregated small scale solar and storage. PIAC strongly supports the principle behind this proposal. In terms of how the methodology for cost reflectivity should be applied, and how transaction costs should be accounted for, PIAC joins the proponents in calling upon the AEMC to contribute to the data pool and assist in providing the necessary evidence-base to make a comprehensively informed decision.

#### **Recommendations**

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*PIAC recommends that the AEMC:*

- *Recognise that the objective of the rule-change proposal is beyond just network support, and that it aims to incentivise decentralised energy and greater utilisation of the grid and to operationalise the principle that costs to the consumer should reflect the extent of their grid use.*
- *Commission the research suggested by the proponents into how the current trends towards behind the meter generation are going to affect costs for those consumers who are not able to install renewable energy; the extent to which a network credit could keep more local generation using the grid; the effects on costs per consumer with and without the credit; and the potential long-term savings from downsizing the network.*
- *Adopt the principles of the rule-change proposal.*