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National Electricity Market Campaign

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Submission to the AEMC

**Small Generation Aggregator Framework**

Consultation on request for Rule change

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## **Total Environment Centre's National Electricity Market Campaign**

Established in 1972 by pioneers of the Australian environmental movement, Total Environment Centre (TEC) is a veteran of more than 100 successful campaigns. For the last forty years we have been working to protect this country's natural and urban environments: flagging the issues, driving debate, supporting community activism and pushing for better environmental policy and practice.

TEC has been involved in National Electricity Market (NEM) advocacy for eight years, arguing for greater utilisation of energy efficiency and demand side participation to meet Australia's electricity needs.

## **Small Generator Aggregator Framework**

TEC welcomes the proposed rule change and thanks the AEMC for the opportunity to express our support. Our responses to the questions posed by the AEMC are set out below.

### **1. Does the existing registration process create barriers to small generators entering the NEM?**

TEC believes that the existing registration process does create a barrier to small generators entering the NEM. The costs, both financially and in terms of effort, are not worth the perceived benefits for most small generators. Securing an off-take agreement locally is a more attractive option as there are less transaction costs and generally a guaranteed return on the electricity produced.

### **2. Will introducing a Small Generation Aggregator promote greater participation in the NEM by small generators? Is this consistent with the NEO?**

Small Generation Aggregators (SGA) could promote greater participation. SGAs could shield small generators from the transaction costs involved with registration. SGA's could also give small generators a wider range of possibilities in terms of return on investment. Many small generators would likely enter the market in search of greater returns in the absence of transaction costs, particularly at peak times.

This rule change proposal has the potential to engage distributed generation at times of peak demand, which in turn could lower network costs. SGAs could also actively increase the uptake of distributed generation, augmenting the effect. The overall effect may be small, but substantial benefits may arise in areas where there are significant network constraints.

While AEMO notes that security of supply may be slightly reduced due to increased forecasting difficulty, security of supply may be increased because distributed generators can be dispatched at peak times, reducing supply constraints without the need to build more centralised generation and transmission and distribution infrastructure.

Both of these contributions are in line with the NEO.

### **3. Do entities currently exist, or will they enter the market, to fill the role of Small Generation Aggregator?**

There are entities that currently exist that are likely to fill this gap in the market. Third party aggregators such as EnerNOC are already involved in similar activities, though not in the NEM where they are effectively shut out by the rules. Such companies are very likely to register as SGAs as this would be a further source of business for them.

It is possible that other companies, such as retailers, will become involved in aggregation of small generators if a substantial enough market emerges.

### **4. Is there an alternative way to reduce administrative costs to small generators that would better encourage NEM entry by small generators?**

Another way of reducing administrative costs would be to simply lower the fees charged for very small generation units. However, this would not alleviate the effort required to register. A small generator would still be required to engage with the NEM institutions and rules, which is itself a barrier. As such, TEC supports the introduction of a more nuanced class of participant.

### **5. Under the proposed framework, is it appropriate for Small Generation Aggregators to be exempt from reporting requirements under the CDEII?**

TEC agrees with AEMO in relation to the exemption of SGAs from the reporting requirements of the CDEII. At present, and for the immediate future, the total level of emissions from small generation is likely to be very low.

However, if the rule change is particularly successful in encouraging the installation of small generation units, the emissions profile may change. While from an environmental perspective it would be preferable for the increase to be from renewables or trigeneration, the rule change may also result in an increase in the installation of small fossil-fuel generators, particularly backup generators.

It may therefore be appropriate for the rule change to include some sort of review provision, such that if the market reaches a non-negligible size, the exemption be reconsidered to ensure that significant emissions are not unreported.

### **6. Will this rule change lead to positive benefits to NEM participants?**

TEC agrees with AEMO on the projected benefits of this rule change proposal, specifically that:

1. Small generators will have an expanded range of revenue streams;
2. Third party aggregators will have a further source of business; and
3. The use of small generation as peaking plant could reduce costs to consumers.

## **7. Are there any additional benefits that the rule change is likely to facilitate?**

In addition to the above, we also consider that the proposal may result in the following benefits:

- The emergence of a new market in small generation aggregation;
- An increase in the installation of small generators;
- The ability to dispatch aggregated small generation capacity quickly which could help integrate large-scale intermittent renewables; and
- A general step away from centralised supply toward more efficient, small-scale and localised generation.

## **8. To what extent are the potential issues identified by the proponent likely to impose significant costs on market participants?**

In relation to NSPs, TEC considers it unlikely that significant costs will be imposed upon NSPs. However, even if the costs to NSP were to be significant, the rule change should still proceed. Firstly, it is likely that the benefits in terms of deferred investment in networks will outweigh any costs, which are likely to be minimal.

Secondly, as TEC and others have noted previously on numerous occasions, a shift in perception needs to occur so that NSPs do not occupy such a sacrosanct position in the NEM. Network costs are the primary driver of rising prices, caused, at least in part, by the inefficiency of the networks and their deliberate efforts to increase their regulated profits through capital expenditure. Therefore, if significant costs have to be imposed on NSPs in order to facilitate necessary reform of the energy system, the NSPs should bear these costs.

In relation to the slight reduction in the predictive capacity of AEMO, TEC will defer to AEMO's judgment on this issue. As AEMO have described the reduction as 'slight' and have proposed a workable response, we do not feel that this is an issue.

Yours sincerely,



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