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11 June 2010

Mr Mark Johnston
Australian Energy Market Operator
Level 12, 15 William St
Melbourne VIC 3000

By email: mark.johnston@aemo.com.au

Dear Mr Johnston,

Re: Submission - Minimising barriers to cost-effective small generator participation in the NEM

Introduction

The National Generators Forum (NGF) appreciates this opportunity to make a submission in response to the AEMO small generator framework design principles consultation.

The NGF directly represents the major power generators in the National Electricity Market. The installed capacity of the members is 44,384 MW as of 2008, with an asset value of about \$40 billion. Annual sales are over 180,000 GWh, having a value of about \$6,835 million. This represents over 95% of the total Australian market.

NGF members are publicly and privately owned businesses which generate electricity for sale and trade under the National Electricity Rules, and whose generating capacity is at least 300 MW. The Chief Executives of these businesses form the Board of National Generators Forum Ltd.

The purpose of the NGF is to be the respected market generator industry body recognised for excellence in influencing the development of Australian energy markets. Working groups for the market, environment and greenhouse carry out research and policy development activities.

The NGF supports AEMO's role in facilitating the policy work of the MCE and AEMC in relation to energy market frameworks and this submission provides an initial consideration of the principles outlined by AEMO.

While the NGF is primarily concerned with large scale market facing generation, its member companies business models, and business development interests, extend to small scale generation including within distribution networks. On this basis, we have approached the principles as both an interested party reflecting the perspectives of large-scale generation and as developers of small scale generation.

Discussion

The ongoing MCE energy policy work has reviewed a range of issues directly relevant to small generating units, generally referred to as small generators. The NGF's input into these discussions is formed on the basis that the regulatory environment for all participants should be transparent, equitable, technology neutral and able to accommodate a range of business models.

While the NGF notes that there are a range of obstacles in the path of small generators who are seeking to gain entry into the NEM, it is not necessarily the case that these barriers are artificial or not cost-effective. Therefore, the use of small generators should be based on economic criteria determined by individual markets participants and investors and not driven by distortionary 'affirmative actions'.

We also note that any efforts to improve the framework for small generators must not impact negatively upon reliability, safety and security and must not disadvantage other market participants.

Broadly speaking, the NGF is in-principle supportive of the principles outlined by AEMO and does not believe at this stage that they are likely to have a distortionary impact. In this regard, we endorse AEMO's position that deployment of cost-effective small generators in the NEM promotes efficient investment in electricity services for the long term interests of consumers of electricity with respect to price.

We note our in-principle support for AEMO's position on:

- separating the registration of the frMP for a small generating system from the classification of each individual small generating system to facilitate the role of third parties in managing small generators;
- the classification process for small generator systems should be streamlined and simplified to facilitate the role of third parties in managing small generators and minimise the transaction costs for small generators participating in the NEM and maintain our support for any attempts to streamline registration for all participants;
- the registration fees levied by AEMO on small generator applicants should reflect the cost of processing small generator applications;
- facilitating the ability of exempt and non-market generation to access the market will promote choice and competition;
- exploring the extent to which metering roles and responsibilities in gross metering configurations can support competitive market arrangements;
- the use of a wide range of business models as they will best capture small generator value;
- the increasing prevalence of small generating units needing to be appropriately managed and this includes access to appropriate data and that the benefits of data provision outweigh the costs in this instance;
- the use of additional information resources where the impacts are cost neutral on registered participants not utilising these resources;
- support investigation of the shorter settlement cycle in the context of the wider market; and
- supports transfer of financial responsibility so as to enhance competitive pressures where metering allows.

We note AEMO's comments and also do not believe:

- a separate classification for small generators and endorse the position that the market generating unit classification is appropriate and we agree that no restriction on the number

of market generating units a market participant can classify and accept responsibility for is warranted;

- further investigation is required to facilitate small unit involvement in the FCAS market; however, we suggest the aggregation of small units may enhance competition and service provision in this area; and
- a day-ahead market is necessary in the context outlined.

Conclusion

The NGF supports the work of AEMO in the implementation of energy market policy initiatives and continues to support efforts to streamline costs and processes encountered by all market participants.

As it relates to barriers to entry for small generators, consistent with the NGF broader philosophy we do not support inefficient barriers to entry; however, we do not support 'affirmative action' distortions in the absence of significant market failures. On this basis, where there exists scope for appropriate change, the NGF supports AEMO's ongoing work.

Yours sincerely

A handwritten signature in blue ink, appearing to read "M. Roberts".

Executive Director