



24 May 2013

Mr John Skinner
Director - Network Regulation
Australian Energy Regulator
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Submitted by e-mail: john.skinner@aer.gov.au

Dear Mr Skinner

REGULATORY INVESTMENT TEST FOR DISTRIBUTION - APPLICATION GUIDELINES

Origin Energy (Origin) appreciates the opportunity to provide additional comments on the AER's proposed Regulatory Investment Test - Distribution (RIT-D) Application Guidelines. As discussed at the AER's Sydney Workshop on the proposed Application Guidelines, this submission sets out Origin's proposal to introduce the concept of Location of Generation and Use (LoGU) cost reflective pricing in the Guidelines.

Introduction of Location of Generation and Use (LoGU) cost reflective pricing

The objective of LoGU is to reflect more accurately the cost of the use of network infrastructure between specific embedded generators and the clients associated to the use of that energy within the distribution network. In our view, cost reflective tariffs should take into account the particular network infrastructure assets actually used when transporting electricity from an embedded generator to a client's location. LoGU provides a mechanism for providing more cost reflective pricing for both embedded generation proponents and distribution customers.

It is important to note that while the proposed Guidelines reference the concept of Time of Use (ToU) charging, this form of charging does not capture the full benefits available from also using LoGU. As such, distribution networks may only be able to access partially the potential benefits available.

Market benefits of LoGU cost reflective pricing

Origin recommends the implementation of LoGU for embedded generation installations. The improved transparency provided by LoGU can ensure investment decisions incorporate the actual costs of the use of the network up front. It can also capture embedded solutions that positively support the network and defer the timing for new network investment. Under the current framework, the pricing arrangements do not recognise the significant capital contributions provided by both the generator as well as the specific client, even though that investment positively benefits the shared network. LoGU cost reflective pricing would allow that broader market benefit to be attributed to the investing parties and positively reflected in the associated network charges. This can further support timely investment in efficient levels of embedded generation.

Example of LoGU cost reflective pricing

The benefit of LoGU cost reflective pricing is best demonstrated through an example.

An investor has identified an embedded generation opportunity on a site that has several switchboards. Buildings or complexes with large local demand normally require multiple switchboards to ensure the energy supplied to the building is managed in a safe and controlled way. These significant localised demand centres are optimal candidates for hosting embedded generation.

Under the existing network pricing regime, an embedded generation investor is only exempt from paying network charges associated with connecting to the first switchboard. Any subsequent switchboard connections - even within the same building - are subject to full network charges. In the case where a significant portion of a site's load can be supplied from onsite generation, where multiple switchboards must be used, the client is subject to network charges even though they never use the shared network.

LoGU cost reflective pricing provides a more proportionate allocation of network charges to these types of situations. It can determine more efficiently the network required to export electricity from one switchboard to another, even when the switchboards are on the same site. Knowing this information upfront means both the embedded generation proponent and the specific client can factor the most accurate costings into their project's feasibility and design stage.

The same concept can also apply to projects in precincts where the installed generation systems are oversized in relation to a particular on-site load. In these cases, surplus generation capacity can be contracted to and consumed by other nearby customers, which could include exporting energy relatively short distances, like across a single road. Reflecting the actual network utilised in network pricing can improve the locational signals for embedded generation options. LoGU cost reflective pricing provides a necessary tool that can assess and realise the net economic benefit arising from embedded generation options.

Further information

Thank you for the opportunity to provide further comments on the proposed RIT-D Application Guidelines. Should you have any questions or wish to discuss this information further, please contact Hannah Heath (Manager, Wholesale Regulatory Policy) on (02) 9503 5500 or hannah.heath@originenergy.com.au.

Yours sincerely,



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