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3 November 2016

John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear John,

Local Generation Network Credits: Draft Rule Determination

AusNet Services welcomes the opportunity to make this submission on the AEMC's Draft Rule Determination on the proposed Local Generation Network Credits Rule Change. AusNet Services has participated throughout the consultation process. It has found the discussion and analysis undertaken to be an extremely valuable and worthwhile exercise given the fast pace of development of local generation over recent years, which is expected to continue.

The network value of embedded (or local) generation is driven by its ability to reduce the level of supply risk carried by the network and therefore defer network investment. This will depend on various characteristics including:

- Location – an embedded generator can only defer future network investment if it is located near to existing or future constraints.
- Ability to provide a firm guarantee of supply at times of peak demand – the value to the network of embedded generation will generally be lower if it is uncertain whether it will generate during peak demand conditions, as this will limit the ability of the network to defer investment to meet peak demand.

Due to the wide variation in the network value of embedded generation, AusNet Services continues to consider that a bespoke approach to compensating embedded generators for the network value they provide is more efficient than the broad application of a credit. Unless determined at an extremely granular level (which is essentially the bespoke approach applied under the current Rules), a credit would not accurately reflect the network value of the local generators to which it is paid. This would result in inefficiency and a deadweight loss.

Draft Determination not to make the Proposed Rule

AusNet Services supports the AEMC's decision not to impose local generation network credits. While embedded generation can, and does, provide efficient network solutions in areas of constraint, AusNet Services agrees with the AEMC that there is no clear gap in the regulatory framework which prevents networks from compensating local generators for providing network support, where this has been identified as the most efficient solution to addressing a network constraint.

In fact, networks currently have an incentive to contract with embedded generators and other non-network providers where they offer a least-cost solution to addressing network constraints. As described by the AEMC, the expenditure efficiency incentive schemes provide a clear financial incentive for networks to identify and adopt lowest-cost solutions. In addition, the forthcoming Demand Management and Embedded Generation Incentive Scheme being developed by the AER will provide additional incentives for networks to contract with embedded generators where they provide the lowest cost solution to addressing network constraints.

AusNet Services also strongly supports the AEMC's objective that the NER should be neutral to the technologies used. Currently, AusNet Services contracts network support from both embedded generators and demand management providers where there is value in doing so. If the proposed local generation network credits were applied, the relative incentive provided to embedded generators would be greater than that provided to demand management providers, even where the same value to the network was offered. This is a distortion which could result in inefficiencies.

Proposed More Preferable Rule

AusNet Services supports the AEMC's intent to assist providers of non-network solutions to source the information they require by increasing the transparency of information available. However, we also agree with the AEMC that more information is not always helpful. AusNet Services already includes the majority of the information requested in its Distribution Annual Planning Report (DAPR). In addition, the Network Opportunity Maps that are being developed jointly with proponents and advocates of non-network solutions are expected to provide consistent and accessible information on investment opportunities. Therefore, the additional costs and benefits involved in re-formatting this data into a template would be relatively small.

Given that the vast majority of the information proposed to be included in the template is either already, or is likely to shortly be, in the public domain through other publications, the AEMC should consider whether non-network service providers will find the development of a template to be genuinely helpful before the draft more preferable Rule is adopted.

AusNet Services offers the following specific comments on the information that is proposed to be required in the proposed system limitation template.

Table 1: Comments on Reporting Requirements

Information Required	AusNet Services' Comments
(i) the name (or identifier) and location of substations, sub-transmission lines, zone substations and, where appropriate, primary feeders, where there is a system limitation or a projected system limitation during the forward planning period that has been identified in a Distribution Network Service Provider's Distribution Annual Planning Report;	We agree that the forward planning period should be consistent with that in the DAPR. This varies depending on the level of the network; for example, this information is provided for a two year planning period at the primary feeder level. The required information is already provided in AusNet Services' DAPR.
(ii) the estimated timing (months(s) and year) of the system limitation or projected system limitation identified in subparagraph (i);	The required information is already provided in AusNet Services' DAPR.

(iii) the *Distribution Network Service Provider*'s proposed option to address the system limitation;	The required information is already provided in AusNet Services' DAPR.
(iv) the estimated capital or operating cost of the proposed option; and	With the exception of projects that are underway, AusNet Services' DAPR does not currently include estimated project capital or operating costs. Project cost estimates required for projects that have yet to commence will necessarily be indicative only (+/-40%). These estimates will be refined over time, including if a RIT-D is required. If an opex solution is proposed, to avoid revealing a non-network proponent's rates and to encourage competitive solutions, cost estimates can be provided based on internal benchmarks.
(v) the amount by which peak demand at the location of the system limitation or projected system limitation would need to be reduced in order to defer the proposed solution, and the dollar value to the *Distribution Network Service Provider* of each year of deferral.	The first part of the required information is already provided in AusNet Services' DAPR. The deferral value of a capex solution can be provided using the indicative cost estimate provided under (iv).

AusNet Services looks forward to continuing to engage in this Rule Change process. Please contact Charlotte Eddy on 03 9695 6309 if you have any questions.

Sincerely,

Kelvin Gebert
Regulatory Frameworks Manager
AusNet Services