

3 November 2016

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Dear Mr Pierce

Local Generation Network Credits Draft Determination (ref: ERC0191)

AEMO has a range of technical and market functions in the National Electricity Market (NEM), including the role of National Transmission Planner. We welcome the opportunity to provide feedback on the Commission's draft determination. Our comments focus on the Commission's proposal to require DNSPs to publish an annual systems limitations report in accordance with a template developed by the AER.

AEMO welcomes measures that make available transparent, consistent and timely information on future network investment needs. The ex-ante economic regulation framework set out in Chapter 6 of the National Electricity Rules limits opportunities for an investment to be disallowed on an ex-post basis. This means that it is crucial that network investment decisions are subject to a rigorous decision-making process, including consideration of alternatives to network investments.

Proponents of non-network options require significant lead times to develop robust and fully formed proposals that meet the system security and reliability standards required by network businesses. By the time the network business initiates a regulatory investment test process, it is often too late to undertake the necessary groundwork required to develop a non-network option.

Distribution Annual Planning Reports (DAPRs) therefore have a key role in disseminating transparent and timely information about upcoming investment opportunities. In the absence of such information, innovative alternatives to network investment are unlikely to emerge. At present, the DAPRs published by DNSPs have a mixed record in terms of making relevant information available on a timely basis. DNSPs have interpreted their obligations in a range of different ways, and the information published often lacks the practical details required in order for commercial parties to seriously pursue non-network options.

Accordingly AEMO supports a requirement on DNSPs to publish an annual systems limitations report. We also consider that the issues discussed above are equally relevant in transmission. It would be worthwhile to consider the introduction of corresponding measures as part of the Transmission Connections and Planning Rule Change.

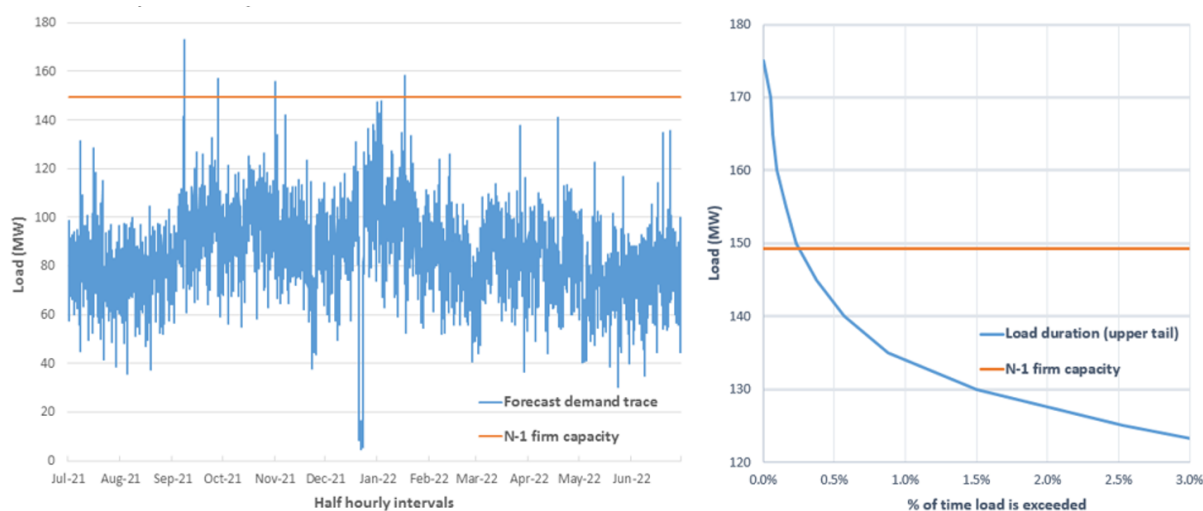
The proposal for AER to develop a template could help to ensure that the information required by proponents of non-network option is made available in the systems limitations reports. AEMO has experience of reviewing information published by transmission businesses about upcoming network investment requirements as part of our National Transmission Planner functions. Some aspects of our learnings can be applied equally in distribution. In order to be able to form a view on the scope for alternatives to network

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investment, the following information is required in addition to the information set out in the draft determination:

- A forecast demand trace - or summary statistics such as a duration curve - that sets out the expected frequency and duration of systems limitations (see Figure 1). For proponents of non-network options such as a demand management service provider, this information is key to assessing the likely costs of meeting the system limitation.
- The composition of load within the part of the network affected by the constraint. This information is likely to have major implications for the potential solutions available. For instance, an embedded generation solution might be more feasible in a predominantly commercial feeder where peak demand tends to occur in the middle of the day.
- Required response times. Network businesses may have flexibility within their reliability obligations to meet a standard within a specified timeframe. For instance, South Australian transmission reliability standards are defined on an “N equivalent” basis – the TNSP might be obliged to ensure that the reliability standard at a given connection point meets N-1 standard within an hour.¹ The non-network option needs to be capable of meeting the required standard, taking into account any other relevant aspects of the network’s capability.

Figure 1 Example of a demand trace and a load duration curve



We consider that as currently drafted, the draft rule unduly restricts the AER in terms of what information can be included in the template. Given the changing technological landscape, there is a risk that a prescriptive list of information requirements will quickly become out of date.

A more future-proof approach would be to set out an objective in the Rules and give the AER discretion to evolve the template over time. The information set out in draft Rule 5.13.3(c)(1) could form the basis of the information to be included in the template but should not wholly

¹ ESCOSA, Electricity Transmission Code Review - Final decision, September 2016.

define its scope. Instead, the AER should develop a template that includes all proportionate information reasonably required by proponents of non-network options, having regard to the costs to DNSPs of completing the template and the likelihood that the limitation will eventuate.

The AEMC may also wish to consider whether it would be useful for DNSPs to explain how identified network needs change over time in response to changing circumstances. One issue that sometimes arises under the current framework is that the potential investments identified in the DAPR are inconsistent from year to year, with no clear explanation as to why previously identified network needs have disappeared, changed or been replaced.

To address this, DNSPs could report on the reasons for changes in estimated costs of proposed options between annual reports, and the final out-turn expenditure that arose as a result of the DNSP's investment decision. While it is unreasonable to expect DNSPs to have perfect foresight, a proponent that has devoted resources to developing a non-network option should have the opportunity to understand why the investment is no longer required. This information would help stakeholders to understand evolving investment needs.

We hope that you find these comments helpful. We would welcome the opportunity to work with the AEMC and AER to develop a reporting framework that facilitates consideration of all efficient options for addressing an identified network need. If you would like to discuss any of the issues raised, please contact Jess Hunt on 08 8201 7315.

Yours sincerely,

David Swift
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