

21 October 2016

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

Dear Mr Pierce

**RE: AEMC DRAFT RULE DETERMINATION – NATIONAL ELECTRICITY AMENDMENT
(LOCAL GENERATION NETWORK CREDITS) RULE 2016**

Endeavour Energy welcomes the opportunity to provide feedback on the AEMC's Draft Rule – *National Electricity Amendment (Local Generation Network Credits) Rule 2015* (the Draft Rule). Overall, we support the Australian Energy Market Commission's (AEMC's) Draft Decision not to introduce Local Generation Network Credits (LGNC) and instead make a more preferable Draft Rule that requires Distribution Network Service Providers (DNSPs) to annually publish information about expected system limitations, referred to as a System Limitations Report.

We understand that the AEMC decided not to implement a LGNC arrangement as it will likely not contribute to the achievement of the National Electricity Objective. This is due to:

1. The LGNC being biased to certain types of embedded generators over other emerging technologies, which may result in over-investment in these favoured embedded generation solutions, at the expense of other, potentially more efficient, non-network solutions.
2. The LGNC proposal fails to account for the importance of location in determining the value that may be provided by embedded generation, which would result in inefficient incentive signals to embedded generation proponents.
3. An amended LGNC to account for location would resemble existing mechanisms such as network support payments. That, in turn, would weaken any justification for introducing LGNCs as an additional mechanism.
4. LGNCs are likely to be a costly mechanism to implement and administer, with these costs likely to be passed on to consumers and ultimately result in higher electricity charges.
5. Current and soon to be implemented policy mechanisms are generally effective in incentivising efficient and targeted investment in embedded generation that can reduce network costs.

The AEMC however, concludes in the Draft Rule that the existing and soon to be operational policy mechanisms could be improved with easier access to system limitations information in a consistent and usable format. As such, the Draft Rule requires DNSP's to publish a System Limitations Report, together with the Distribution Annual Planning Report (DAPR) that must contain the following information:

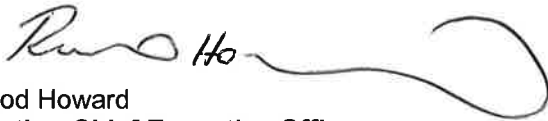
- The name or identifier and location of network assets where a system limitation or projected system limitation has been identified.
- The estimated timing of the system limitation or projected system limitation.
- The proposed solution to remedy the system limitation.
- The estimated capital or operating costs of the proposed solution.
- 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 DNSP of each year of deferral.

Endeavour Energy is broadly supportive of the System Limitations Report requirements outlined above; but seeks some clarification and recommends amendments.

- In regards to clarification, Endeavour Energy seeks further guidance on the thresholds and forecast period for something to be published as a system limitation. Endeavour Energy notes the Regulatory Test for Distribution (RIT-D) has a \$5 million threshold for the most credible option. It is important that any threshold put in place is proportionate and administratively cost effective to ensure the information is relevant, consistent and fit for purpose. Further analysis is required to determine the appropriate threshold for the System Limitations Report.
- Endeavour Energy also recommends that the system limitations forecast period is limited to the next five years as significant uncertainty exists in load growth beyond this time period. This is consistent with the length of the regulatory control period.
- Endeavour Energy is concerned about publishing the dollar value of deferral each year as it may corrupt the tender process when we approach the market for demand reduction. This is akin to publishing budget limits when going to the market for products and/or services.
- It is imperative that the AER constructively engages with, and provides DNSPs with sufficient time to complete the System Limitations Report in accordance with the AER's System Limitations Template. To this end, Endeavour Energy supports the Draft Rule that requires the AER to develop and publish the first System Limitations Template by the commencement date of 1 July 2017, with the first System Limitations Report due with the DAPR on 31 December 2017. Endeavour Energy requests that the System Limitations Report Template is consistent with the DAPR, to ensure it achieves its primary objective to provide relevant information in a consistent and usable format.
- Finally, given the AEMC has made a more preferable rule to introduce a System Limitations Report, instead of an LGNC, Endeavour Energy is of the view that the Final Rule should be known as the System Limitations Report. This may assist the longevity and relevance of the proposed rule change.

If you have any queries or wish to discuss this matter further please contact Jon Hocking, Manager of Network Regulation at Endeavour Energy on (02) 9583 4386 or via email at jon.hocking@endeavourenergy.com.au.

Yours sincerely



Rod Howard
Acting Chief Executive Officer