

13 August 2009

Dr John Tamblyn
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By email: submissions@aemc.gov.au

Dear Dr Tamblyn

ENA Response to AEMC Review of National Framework for Electricity Distribution Network Planning and Expansion—draft report

The Energy Networks Association (ENA) is pleased to have this opportunity to respond to the above Australian Energy Market Commission (AEMC) draft Report released on 7th July 2009.

Energy network businesses deliver electricity and gas to over 13.5 million customers, employ more than 40 000 people and contribute approximately 1.25 percent to Australia's gross domestic product. Energy is delivered across Australia through approximately 48 000 km of transmission lines, 800 000 kilometres of electricity distribution lines and 81 000 kilometres of gas distribution pipelines. Energy network businesses are valued at more than \$48 billion and annually undertake investment of more than \$25 billion in network operations, reinforcement, expansions and greenfields extensions.

The ENA welcomes the AEMC's continued engagement with the industry in the development of a nationally consistent planning and reporting framework to apply to distribution network activity. The proposed changes to planning requirements will have a fundamental impact on the way in which network investment is assessed by the industry.

In its submission (enclosed) the ENA has listed a number of very significant issues which it believes the AEMC needs to address in progressing this Review. These are:

1. the transition process to the new arrangements;
2. fit-for-purpose reporting obligations on electricity distributors;
3. an unworkable proposal for the threshold level of the Regulatory Investment Test for Distribution (RIT-D);
4. appropriate assessment of Jointly Planned investments; and
5. streamlining the process of the proposed RIT-D.

These principles form the basis for ENA's response to the issues and many related questions raised in the Scoping Paper.

I would be happy to discuss any aspect of our response if further clarification is needed.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'ABlyth'.

Andrew Blyth
Chief Executive

AEMC review of national framework for distribution network planning and expansion—stage 2 draft report

13 August 2009



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This document was prepared by the Energy Networks Association.

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Key messages

The Energy Networks Association (ENA) is concerned that the proposals in the Australian Energy Market Commission's (AEMC's) draft Report will not be materially effective in increasing the level of Demand Side Participation in the NEM and will result in a disproportionate regulatory burden on DNSPs and costs to customers through:

- The potential for duplication of network planning and expansion requirements at both a national and State or Territory level.
- The proposal to use the Regulatory Investment Test for Transmission (RIT-T) wherever a development is subject to joint planning, notwithstanding that such developments are to service distribution requirements and many would be within the distribution network.
- The prescriptive nature of the proposed Demand Side Engagement process and aspects of its implementation.
- Applying the Regulatory Investment Test for Distribution (RIT-D) to the 'most expensive' option would capture all but the smallest distribution projects.
- Applying the RIT-D threshold to an 'economically feasible' option would be problematic and does not match the basis on which those projects would be assessed.
- The proposed \$2 million RIT-D threshold would create an excessive regulatory burden and introduce inconsistency in threshold investment levels between the RIT-T and RIT-D tests.
- The overall complexity of the proposed RIT-D process, which would introduce unacceptable delays in the provision of infrastructure and become the subject of compliance enforcement and potential dispute.
- Aspects of the Specification Threshold Test (STT) need clarification, particularly the definition of terms such as 'material potential'. A failure to do this may lead to unnecessary disputes and protracted disagreements with the AER.

The ENA does not support the AEMC's proposal for a requirement for distributors to report on primary distribution feeder level projects.

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Executive summary

The Energy Networks Association (ENA) is pleased to have this opportunity to respond to the Australian Energy Market Commission's (AEMC) draft Report on its Review of the National Framework for Electricity Distribution Network Planning and Expansion (the draft Report).

The ENA is the peak national body for Australia's energy networks, which provide the vital link between gas and electricity producers and consumers. ENA represents gas distribution and electricity network businesses on economic, technical and safety regulation and national energy policy issues.

Energy network businesses deliver electricity and gas to over 13.5 million customers, employ more than 40 000 people and contribute approximately 1.25 per cent to Australia's gross domestic product. Energy is delivered across Australia through approximately 48 000 km of transmission lines, 800 000 kilometres of electricity distribution lines and 81 000 kilometres of gas distribution pipelines. Energy network businesses are valued at more than \$48 billion and annually undertake investment of more than \$25 billion in network operations, reinforcement, expansions and greenfields extensions.

The AEMC's current review of the National Framework for Electricity Distribution Network Planning and Expansion was preceded by the Ministerial Council on Energy's (MCE) consultation processes and their release of the Terms of Reference for this review. Those terms of reference should facilitate the development of a best practice regulatory model for network planning.

The current stage of the AEMC's consultation was preceded by workshops and by the release of the AEMC's Framework and Specification document. In response to the Framework and Specification document, the ENA set out the regulatory principles which would underpin a best practice network planning and expansion regime. The ENA also raised a number of concerns, principally:

- The need for the AEMC to establish its objectives in developing a new national planning framework, including the purpose and audience of each stage of the planning process, before discussing detailed information and reporting requirements for the framework.
- The need for the AEMC to consider the broader regulatory framework applying to network businesses, including the incentives they already face for efficient network investment.
- That the Annual Planning Report should provide high level information on network investment needs and opportunities.
- Detailed information on network constraints, benefits and costs should be provided to individual proponents upon application.
- Support for a Regulatory Investment Test for Distribution (RIT-D) which is consistent with the test applying to transmission assets (RIT-T) but simplified to reflect the narrower range of likely market benefits and the generally smaller scale of distribution investment.
- Opposition to the application of mandatory requests for proposals which would impose a disproportionate and costly regime on distributors.

The ENA acknowledges that the AEMC has responded to some of those issues. The AEMC has now developed a set of Principles for the Review in its draft Report¹. However, the application of these principles involves making trade-offs in a number of areas (for example, in the balance between information transparency and the proportionality of regulatory requirements).

The ENA has long advocated incentive based regimes as having the potential to deliver superior outcomes to prescriptive regulation. Whilst the ENA believes that the existing incentives for DNSPs to adopt non-network options should be enhanced, the general conclusion of the AEMC's draft Report on the Review of Demand Side Participation in the National Electricity Market was that the existing regulatory framework and network pricing arrangements provide appropriate incentives and present no barriers to demand side participation in the market.

Prima facie, this conclusion is inconsistent with the proposals for prescriptive regulation (particularly the proposed demand side engagement processes) which have been advanced in the draft Report on Distribution Network Planning and Expansion. Moreover, the ENA does not accept that the AEMC has struck an appropriate balance between its own objectives in framing many of the regulatory requirements in its draft Report.

The major areas in the draft Report which are of concern to the ENA are as follows:

- The potential for duplication of network planning and expansion requirements at both a national and State or Territory level.
- The AEMC's proposal to use the RIT-T test wherever a development is subject to joint planning, even where such developments involve minimal transmission network investment, and are undertaken to service distribution requirements.
- The prescriptive nature of the proposed Demand Side Engagement process and aspects of its implementation.
- Applying the RIT-D to the 'most expensive' option would capture all but the smallest distribution projects.
- Applying the RIT-D threshold to an 'economically feasible' option would be problematic and does not match the basis on which those projects would be assessed.
- The proposed \$2 million RIT-D threshold would create an excessive regulatory burden and introduce inconsistency in threshold investment levels between the RIT-T and RIT-D tests.
- The overall complexity of the proposed RIT-D process, which would introduce unacceptable delays in the provision of infrastructure and become the subject of compliance enforcement and potential dispute.
- Aspects of the Specification Threshold Test (STT) need clarification, particularly the definition of terms such as 'material potential'. A failure to do this may lead to unnecessary disputes and protracted disagreements with the AER.

A more detailed description of these issues and some other matters for the consideration of the AEMC are set out in the following sections of this response. The major section headings of the AEMC's draft Report have been retained to facilitate reference to that document. The draft AEMC recommendations and issues on which comment has been sought have been included in boxed sections.

1. Draft Report—Review of National Framework for Electricity Distribution Network, Planning and Experience, 7 July 2009, page 6.

1. Transitional arrangements

In formulating Rule provisions to implement the outcomes of the Distribution Network Planning and Expansion Review, the ENA urges the AEMC to ensure that workable transition arrangements are set out, to facilitate the efficient ongoing development of the networks.

It is understood that the AEMC is anticipating that the existing jurisdictional arrangements will fall away when the Framework for Distribution Network Planning and Expansion is incorporated into the Rules, although additional supplementary information to the DAPR may be required by some jurisdictions. It should be noted that jurisdictional arrangements not only differ between jurisdictions but are extensive, including licence conditions relating to the consideration of alternative to network augmentations, asset management and planning and more general requirements such as reporting of system performance and through network management plans.

As a general principle, it is not appropriate for a DNSP's distribution planning activities to be subject to regulation by more than one regulator at one time. Therefore, in the period of transition to the new Framework, careful planning will be required to ensure that DNSPs will not be required to comply simultaneously with the existing jurisdictional arrangements (which are commonly licence conditions) and the new Framework, which would be embodied in the Rules.

Equally, it would not be appropriate for a distribution project initiated under one planning regime to be subject to further scrutiny under the new regime. In particular, it would be appropriate for projects where consultation has already commenced to be carried through to finality under the current arrangements, which cover a forward planning period of five years or more. In this context it is noted that large distribution projects typically have a lead time (for their detailed design and construction stages) of two years.

The ENA is also concerned that the processes that will be required to be established by DNSPs under the new framework may take some time to implement (depending largely upon their similarity with the jurisdictional arrangements to which each DNSP is currently subject). A sufficient period for the implementation of the new Framework and transition towards it needs to be provided. In the period of transition to the new Framework, it is not considered feasible for all the jurisdictional arrangements to be 'switched off' on a specific date and for the new Framework to be 'switched on' on the same date.

The transition arrangements will therefore need to be carefully considered. As a minimum, the ENA proposes that there would need to be:

- A period of at least two years between notification of the cessation of existing jurisdictional arrangements and the requirement for projects to be initiated under the provisions of the new Framework. This would mean that projects assessed under the new RIT-D would not commence before about 2013.
- No project initiated in the interim under a jurisdictional regime would be the subject of further review under the new Framework.
- A period of at least 12 months grace from the commencement of the new Framework will need to be provided, to allow its bedding down, before any assessment of compliance or disputes arising from it.

2. Annual planning process

The ENA is broadly supportive of a consistent national planning process for electricity distribution businesses. However, it must be recognised that there are currently a range of differing jurisdictional requirements to which those businesses are subject (generally as requirements of their Distribution licences). There is thus considerable potential for the duplication of network planning and expansion requirements at both a national and State or Territory level.

1. Each DNSP would carry out an annual planning process covering a minimum forward planning period of five years. The planning process would apply to all distribution network assets and activities undertaken that would be expected to have a material impact on the distribution network.

The ENA agrees that an annual planning process covering a period of five years is appropriate for distribution network assets and activities. Similarly, a forward planning period of ten years for transmission activities is considered appropriate.

In formulating such plans, the ENA is concerned that the practicalities of the DNSPs' situation must be recognised. Not all of the investments which DNSPs are required to make are amenable to an orderly and systematic process, in which forecast loads are compared with the system capability and the augmentation of that capability can be planned for and constructed. Assets below the zone substation level are very numerous and not only would it be administratively onerous to report on these assets, but the value to non-network proponents of doing so would be very limited.

Much of the development of distribution networks is in response to customer connection enquiries and new connections do not necessarily lend themselves to forecasting processes. These circumstances exist at all levels of the network, depending upon the size of the customer's load or generation connection application and they include the majority of development of the distributor's High Voltage (HV) and Low Voltage (LV) networks and the associated distribution substations. Such augmentations take place with minimal lead times and any delay in commissioning directly inconveniences the customers concerned.

The DNSPs' plans will thus contain provisions for customer connections and associated HV and Low Voltage augmentations based on prior experience of the number of and nature of those connections, but these elements of the plan are of necessity 'placeholders' for the allocation of future resources to specific connection applications and must be regarded as indicative only.

For these reasons, the RIT-D provision concerning the exemption of urgent and unforeseen works referred to in Section 4.2 is considered essential.

2. Each DNSP would be required to use reasonable endeavours to engage with non-network proponents and consider non-network alternatives.

The intent of this recommendation is supported, but the ENA is concerned that the assessment of whether ‘reasonable endeavours’ have taken place is likely to be a source of disagreement between DNSPs, the proponents of non-network solutions and possibly the AER as regulator. The interpretation of the term will become a potential source of disputes to be administered by the AER.

The ENA does not believe that a prescriptive process is appropriate or required to ensure the effective engagement of non-network proponents.

However, if a prescriptive approach is developed by the AEMC, the ENA strongly advocates the provision of explicit protocols concerning aspects of that engagement, in order that compliance with the proposed process can be readily demonstrated and the number of disputes minimised. An important consideration will be that those protocols must accommodate significant differences in DNSPs’ operating environments and network conditions.

2.1 Demand Side Engagement Strategy

3. Each DNSP would be required to establish and implement a Demand Side Engagement Strategy.

The ENA must place on record its concern regarding the AEMC’s approach in developing a prescriptive Demand Side Engagement process. This is in apparent contradiction to the positions that the AEMC has been advocating in its review of other closely related aspects of the market operation.

For instance, in its draft Report on the Review of Demand Side Participation in the National Electricity Market, the AEMC concluded that the existing regulatory framework and network pricing arrangements do not present a barrier to demand side participation in the market. Indeed, the draft Report states:

Our analysis demonstrates that a network business that is regulated under a price cap has private incentives for buying DSP that are consistent with socially efficient levels of DSP.²

In contrast, the AEMC’s approach in the current draft Report on Distribution Network Planning and Expansion appears to have ignored the presence of those ‘private incentives’. Instead, the AEMC proposes the application of a regulatory and compliance regime directed at enforcing prescriptive consultation and planning requirements.

2. Draft Report—Demand-Side Participation in the National Electricity Market, 29 April 2009, page viii.

The ENA believes that this prescriptive approach is a second-best option and is not convinced that a prescriptive Demand Side Engagement Strategy is necessary to elicit appropriate levels of Demand Side Participation. As a matter of principle, an incentive based regime would offer a superior approach to addressing the perceived problem by increasing the DNSPs' take up of non-network alternatives.

The ENA therefore advocates that the AEMC should reconsider this approach and develop arrangements which provide appropriate incentives to DNSPs to encourage them to proactively seek demand-side solutions, regardless of the regulatory planning requirements.

The ENA is also concerned that the proposed Demand Side Engagement Strategy goes beyond the approach envisaged by the MCE, which required the development of an annual planning report process and consideration of the level of detail required to be included in that report. In terms of the objectives established by the AEMC, the proposed Demand Side Engagement Strategy is not considered to be a proportionate regulatory requirement.

The three components of the AEMC's Demand Side Engagement Strategy are as follows:

1. Demand Side Engagement Facilitation Process Document (the facilitation process document);
2. public database of proposals/case studies; and
3. register of Interested Parties.

Each of these aspects of the strategy is discussed in turn.

2.1.1 Demand Side Engagement Facilitation Process Document

We seek comments on whether the proposed content of the facilitation process document provides useful information and can be provided by DNSPs at reasonable cost.

The proposed content of the Demand Side Engagement Facilitation Process Document is largely generic and the production of this information can be undertaken by the DNSPs if required.³

However, such a document should not include details relating to specific proposals and payment levels, which are peculiar to each proposal and cannot be applied generically.

The ENA's main concern with this document is that it will form part of the regulatory compliance regime and potentially the basis upon which a dispute under the RIT-D could be raised, unless the AEMC agrees to ENA's proposal to streamline the RIT-D by removing the requirement for a six-month consultation on the Project Specification Report, as discussed in Section 4.3.

We seek comments on whether explicit protocols for the Demand Side Engagement Facilitation Process Document would be beneficial.

3. Draft Report—Review of National Framework for Electricity Distribution Network, Planning and Experience, 7 July 2009, points i to xii, page 15.

Should the AEMC persist with the proposed requirement for a Demand Side Engagement Facilitation Process Document, that process document will need to accommodate the significant differences in operating environments and network conditions across the NEM. The development of an explicit protocol for the process would therefore be problematic.

This raises a concern that the lack of explicit guidance in the preparation of this document may lead to an increased number of disputes raised by interested parties, ultimately resulting in unnecessary time delays.

As the AEMC has proposed that disputes may be raised in relation to any aspect of the RIT-D process, the ENA expects that this would include the Demand Side Engagement Facilitation Document, as this document would be the justification by DNSPs to undertake a fast tracked Project Specification Report consultation as part of RIT-D.

2.1.2 Public database of proposals

The AEMC has proposed that DNSPs should establish a public database of proposals and case studies. The proposals and case studies to be included in the database should demonstrate and exemplify proposals received by DNSPs as well as the process with which they were assessed and considered by the DNSPs. The database should contain examples of proposals that were successful as well as those that were not.

The AEMC has recognised that DNSPs should not publish any commercially sensitive information in the non-network proposals and case studies and on this public database. The ENA believes that the necessary ‘sanitising’ of this material will so restrict the content as to render it of very limited value to any non-network proponent. It has not been demonstrated by the AEMC that this requirement, which would increase the regulatory burden and cost placed upon DNSPs, is warranted.

2.1.3 Register of Non-network Participants

The AEMC’s proposal that each DNSP in the NEM establish a register of interested parties (and that each interested party should register with each DNSP) appears to be an inefficient and costly approach to facilitating the flow of information between DNSPs and the proponents of non-network investments.

In Section 5.1, the ENA has raised concerns that the dispute process for distribution investment should not be accessible to persons that are not Registered Participants. It is proposed that non-network proponents and intending non-network proponents should be defined as a separate class of participant under Chapter 2 of the Rules. It is suggested that a list of registered non-network participants would be made available on the AEMO’s website.

This central repository would assist with the development of a national database of non-network proponents and facilitate communications by DNSPs to non-network proponents.

2.2 The Distribution Annual Planning Report

4. Each DNSP would be required to publish a Distribution Annual Planning Report by 31 December, which must be certified by the Chief Executive Officer and a Director or Company Secretary, and conduct a public forum.

In its draft Report, the AEMC has proposed that the Distribution Annual Planning Report (DAPR) must be certified by the Chief Executive Officer and a Director or Company Secretary. Whilst the arrangements for existing reports of similar content and purpose differ within jurisdictions, none require this level of approval. Typically, such an operational report is approved for release at the level of General Manager. The ENA does not consider that it is appropriate for approval of this planning document to be at this level. Nor does the ENA consider that the approving position should be strictly specified, as businesses have and wish to retain their own sign-off delegation processes.

In relation to the requirement for DNSPs to conduct a public forum within a period of two months of publication of the DAPR, the ENA is concerned that such a uniform requirement may be inappropriate for all businesses. Also, as a consequence of this proposal, a dozen public fora would be required to be held by DNSPs during January and February each year.

The ENA therefore recommends that DNSPs should be allowed the option of holding a forum if requested by a registered non-network participant. The ENA also believes that a more reasonable requirement would be for the forum to be held within a period of three months of the date of publication of the DAPR.

We seek comments on whether the publication date of 31 December is appropriate.

The ENA supports the publication of the DAPR by 31 December each year for the forward planning period beginning 1 January the following year. However it must be noted that the particular publication date does not align with some existing jurisdictional requirements for publications with similar content and purpose.

2.3 Jointly Planned Investments

5. DNSPs and TNSPs that operate in the same jurisdiction would be required to meet on a regular basis and undertake joint planning where there are issues affecting both networks.

Clause 5.6.2(c) of the Rules imposes an obligation on DNSPs and TNSPs to jointly plan an augmentation or non-network alternative. It is not clear to the ENA that further specification of this process is required. With the possible exception of the arrangements in the Victorian jurisdiction, it is not apparent that there is any deficiency in the conduct of the existing joint planning arrangements that needs to be remedied.

6. The Regulatory Investment Test for Transmission would apply to investments identified through the joint planning process.

On the application of the Regulatory Investment Test, the ENA firmly believes that the RIT-T should be applied only in the unusual circumstances where there is some reasonable likelihood that a network or non-network investment would influence the main transmission network and interconnector flows and thus have a material market effect on the operation of the market.

Investments identified through the joint planning process between TNSPs and DNSPs in the great majority of instances will not have material market effects. These investments will involve the following classes of equipment:

- distribution assets;
- transmission connection assets; and
- transmission investments required to ensure that a distribution network meets the minimum power system security and reliability standards or to replace distribution assets.

Only for the latter (and least frequently needed) of these investment categories, is there ever likely to be a material market effect through the reinforcement of the interconnected transmission network.

The ENA therefore submits that the AEMC's proposed requirement to use the RIT-T for all jointly planned investments is unnecessary and inappropriate. The ENA believes that the RIT-D should be applied to jointly planned investments, unless there is some reasonable likelihood that a network or non-network investment will influence main transmission network and interconnector flows and thus have a material market effect on the operation of the market.

It should also be noted that the AEMC's proposal to use the RIT-T is inconsistent with the new provisions of clause 5.6.2 and the RIT arrangements, which assume that transmission investment to meet a limitation on the distribution network would be subject to distribution test.

Moreover, there remains a particular issue with projects that are above the proposed \$2 million RIT-D, but below the \$5 million RIT-T. The ENA has recommended that the threshold of the RIT-D should be established at \$5 million in Section 4.1 of this submission, which would resolve this problem.

The use of the RIT-T on distribution and transmission connection projects would impose an obligation on the NSP to carry out a full cost-benefit analysis, which requires the analysis of market benefits where, as indicated above, none are likely to exist. The uniform requirement to use the RIT-T does not accord with the AEMC's principle of maintaining proportionality in the regulatory obligations on NSPs.

It should also be noted that joint planning arrangements are required where a DNSP's network has a sub-transmission connection to another DNSP's network or where it shares a single transmission connection point with another DNSP. In the latter circumstance, there will be a need for tripartite discussions involving adjacent DNSPs and the TNSP.

We seek comments on whether additional requirements should be provided to clarify the joint planning processes between TNSPs and DNSPs in Victoria.

The ENA does not believe there is any issue requiring modification of the current Rules in regard to identifying the NSP that has responsibility for carrying out the RIT. With the exception of the Victorian jurisdiction, the respective business within whose network the augmentation is required to take place has the responsibility for jointly planning and carrying out the development in the agreed time frame and obtaining any necessary approvals (including the RIT).

The responsibility for planning of transmission connection assets by the Victorian DNSPs is unique to that jurisdiction and specified in their licence conditions. In Victoria, the party with the nominated planning obligation is responsible for identifying the need for investment with input from other affected parties. The Victorian DBs have proposed that where a particular project in Victoria that involves transmission connection and shared transmission network investment is not expected to give rise to material constraints on the shared transmission network - and thus is not expected to have a material effect on the operation of the market—then the RIT-D should be applied. In these circumstances, the body with responsibility for planning transmission connection assets - namely, the relevant Victorian DNSP(s)—would be responsible for undertaking the RIT-D, and co-ordinating the joint planning of any shared transmission network augmentations with AEMO.

The ENA considers that any additional requirements which may be incorporated in the Rules to clarify the joint planning process between TNSPs and DNSPs in Victoria should be treated as a jurisdictional derogation in Chapter 9 of the Rules. Any additional requirements would thereby be quarantined to Victoria.

3 Reporting requirements

The AEMC has stated that the proposed DAPR maintains the core of existing jurisdictional requirements and therefore would not lead to substantial regulatory costs on DNSPs. The ENA does not agree with this proposition, as the content of the proposed document goes beyond (and in some cases well beyond) any current jurisdictional requirement, by requiring the duplication of significant amounts of information which are published in other documents, principally network management plans and jurisdictional or AER network performance information.

Although the MCE required the AEMC to consider overlaps with other relevant planning and reporting documents, it is not apparent that the AEMC has done so, and simply requiring that information to be replicated within a single document is not considered to be a reasonable or proportionate regulatory approach.

The replication of information from other documents is of particular concern, as the reporting and publication dates of the DAPR and its constituent information do not align. As examples, the AEMC has proposed that the scope of the DAPR would include reporting on matters such as system performance standards and compliance and the DNSP's asset management methodology. Such information is reported to the AER and jurisdictional regulators in different timeframes and would therefore rapidly become dated and make the DAPR potentially misleading. Moreover, it would result in an unwarranted cost burden for DNSPs, and ultimately for their customers. The ENA therefore proposes that the content of the DAPR should be limited to a reference to the web sites where up to date information on matters such as asset management and network performance may be obtained.

3.1 The Distribution Annual Planning Report

7. The scope of the DAPR would relate to the power system and direct control services.

The ENA agrees with the AEMC that the scope of the DAPR should be limited to direct control services. Alternative control services, negotiated distribution services and unregulated services should not be included in this annual report.

8. The DAPR would include forecasting information. This would include capacity and load forecasts at a system, sub transmission and zone substation level, and the identification of any overloaded primary distribution feeders.

Information on forecasting and the capacity and load constraints at the sub transmission and zone substation levels of distribution networks is routinely used by DNSPs for the planning of these systems and is therefore available for inclusion in the DAPR. As noted in the response to the AEMC's draft Recommendation 1, a forecast period of five years for the sub transmission and distribution networks is appropriate for inclusion in the DAPR.

In relation to HV ‘primary distribution’ feeders, it should be noted that DNSPs do not in all cases routinely monitor their loading. The number of these assets is very substantial, usually being in the range of 1000 to more than 2000 and involving tens of thousands of sections of distribution feeder, which are included under the definition of a primary distribution feeder. In this situation, distributors are more likely to periodically review or survey the loading on their HV feeders. Moreover, the HV distribution network is continually being augmented in response to individual customer connection inquiries, which have very short lead times.

For these reasons, the ENA does not consider that the identification of overloaded HV distribution feeders is practicable for inclusion in the DAPR, other than on an exception basis, where the circumstances permit the DNSP to nominate feeders that have been identified and where it is planned to augment them.

We seek comments on the definition of sub transmission assets and primary distribution feeders as to whether the proposed definitions would capture all the sub transmission assets owned and operated by DNSPs and relevant primary distribution feeders.

The AEMC’s proposed definition of a sub transmission asset is as follows:

It is proposed that a sub transmission asset is defined as a substation or switching station connected with a primary voltage 33 kV or greater and is not a transmission asset.⁴

It should be noted that this definition is deficient in two ways:

1. it does not include those line and cable circuits which perform a sub transmission function by linking sub transmission substations together and to the transmission network; and
2. it would capture customer substations and customer connections with a primary voltage of 33 kV which have a distribution function (these occur predominantly in rural areas).

The ENA proposes that this definition needs to be modified, as follows:

Sub transmission assets include substations and switching stations connected with primary voltages of 132, 66 and 33 kV and having secondary voltages of 11 kV or greater together with the cables lines and switching stations which operate at voltages of 132, 66 and 33 kV which supply these substation. Sub transmission assets exclude those defined as transmission.

The AEMC’s definition of a primary distribution feeder as a ‘distribution line [operating at a voltage of] 11kV or greater’ also needs to be altered to:

A primary distribution feeder is a distribution line or cable operating at a voltage of 11 kV or greater that is connected to a zone substation and is not a sub transmission asset.

We seek comments on how significant investments in smart metering should be captured by the annual reporting requirements and specified in the Rules.

4. Draft Report—Review of National Framework for Electricity Distribution Network, Planning and Experience, 7 July 2009, page 12 (see footnote 9).

Smart metering is not the subject of the current Review. The MCE is currently undertaking a separate review into smart metering. The ENA therefore proposes that the associated reporting requirements and Rule specification should not form part of this AEMC review.

9. The DAPR must inform on system limitations. System limitations should relate to any requirement for distribution investments, which would cover more than network constraints.

The AEMC's draft Report sets out a list of 'system limitations' for sub transmission assets and zone substations which, once identified, would be recorded in the DAPR. This is intended to include matters such as the need for expenditure to replace assets and compliance with jurisdictional reliability and design planning requirements.

This 'action list' is non controversial but there is a lack of clarity in the draft Report between actions which are required at the sub transmission and zone substation level vis-à-vis actions which may be required on the High and Low Voltage networks. Clearly the system limitations envisaged can only be meaningfully specified for the higher levels of the distribution network.

Unless some reasonable cost threshold is applied to the actions which may be needed to overcome system limitations, the number of limitations involved is likely to become excessive. This would add to both the complexity and volume of the DAPR and detract from its utility to non-network proponents. The ENA therefore proposes that the same threshold of \$5 million that should apply to the RIT-D would also apply to the DAPR requirement to describe system limitations.

The DNSP's refurbishment/replacement planning process involves programs that are comprised of many constituent projects. For example, in a program of pole replacements (which can be at all voltage levels), DNSPs do not treat each replacement pole individually, as the program of works may be made up of thousands of individual replacement poles. The ENA considers that the AEMC needs to clarify how it requires DNSPs to treat replacement/refurbishment projects, individually or as a group.

10. Information would be reported on system limitations including the location and timing, analysis of potential load transfer capability, impact on the transmission connection points, and potential solutions that may address each limitation. An explanation of the DNSP's planning methodology would also be reported on.

It is considered that the AEMC needs to clarify that the description of system limitations pertains to the sub transmission network and zone substations and not to the HV and Low Voltage networks.

It must be recognised that the transfer capability between substations at the sub transmission level can be dynamic and will depend not only upon the network limitations but the disposition of open points in the underlying HV network as well as the load growth at intermediate locations. This factor will affect the reliability of this type of information proposed to be reported in the DAPR, which should be regarded as indicative. The proponents of non-network investment alternatives would need to obtain up-to-date information which is specific to their proposals during the Project Specification stage of consultation.

3.2 Regional development plans

We seek comments on whether the national framework should include a requirement for DNSPs to develop regional development plans.

The nature of the planning carried out by distributors involves the examination of the capacity and loading on the network at different levels, with loading aligned to the topology of the particular networks. The load areas and associated network elements under consideration in these plans will include:

- the load supplied from a transmission connection point (taking into account sub transmission transfer capability, which has a potential impact over a significant part of a DNSP's territory;
- the load supplied by a transmission or sub transmission feeder, which could service a large geographic area;
- the load supplied at the level of sub transmission and zone substations, each of which may potentially connect thousands of customers; and
- local requirements which are generally driven by the supply to individual customers or small groups of customers.

Clearly any definition of a 'region', unless it aligns with the whole of the DNSP's territory, is likely to prove problematic, particularly as the program will also involve the replacement of assets of particular classifications across the DNSP's territory.

In addition, there is the likelihood that a requirement to develop regional development plans will conflict with and duplicate reporting requirements which may be imposed on DNSPs at a jurisdictional level.

The ENA is therefore opposed to a national framework requirement for DNSPs to develop regional development plans.

3.3 Reporting on network investments

11. Information would be reported on investments that have been assessed under the RIT-D (or will be assessed) and projects with a capital cost of \$2 million or greater that were urgent and unforeseen investments or refurbishment or replacement projects.

The comment made in response to Recommendation 9, concerning the reporting of replacement programs involving large numbers of small individual investments, also applies to the manner in which they are reported.

3.4 Other reporting

12. Other reporting would be required on: a description of the network, outcomes from joint planning undertaken with TNSPs and other DNSPs, performance standards and compliance against those standards, and a summary of the DSNP's asset management methodology.

AEMC has stated its view that the DAPR maintains the core of existing jurisdictional requirements and therefore would not lead to substantial regulatory costs on DNSPs.

The ENA believes that the AEMC's proposal extends well beyond a regime where the DAPR describes opportunities for non-network proposals to its intended audience. The inclusion of aspects such as asset management methodologies, reporting on investments in smart metering and asset replacement projects is clearly extending into areas which are appropriately detailed at the time of a regulatory reset.

The DAPR should not replicate information which is reported in other documents or examined in other regulatory processes, but rather should if necessary contain references to the locations where up-to-date material may be accessed.

4 Regulatory investment test for distribution

The MCE has established a requirement for DNSPs to conduct the case-by-case assessment of projects above certain thresholds and requested that the AEMC review both the assessment thresholds and the Regulatory Test and its application.

The ENA acknowledges that a fit-for-purpose consultation process for new distribution network investment should promote the identification and assessment of viable non-network augmentation options.

The ENA firmly supports the AEMC's proposal that DNSPs would be required to consider the potential for market benefits and would be provided with the option to quantify any applicable market benefits where they consider it appropriate to do so. As already noted, it is unusual for augmentation projects within distribution networks to involve market benefits which are material.

Where DNSPs do not quantify market benefits, the preferred solution would be the investment option which minimises net economic costs. The AEMC's recognition that a negative net present value may result from investment to correct a potential breach of jurisdictional reliability requirements is also appropriate. However, this provision needs to be clarified as including investments which are required to meet jurisdictional security requirements, such as the maintenance of (n-1) levels of network security in the face of load growth. There is also a need to recognise that where investments are driven primarily by replacement with some minor augmentation component, a negative NPV may arise.

The AEMC's proposal that the cost threshold for the RIT-D be reviewed every three years by the AER is appropriate and is supported. The timing of the review should be aligned for both RIT-T and RIT-D to maintain consistency between them and to enable efficient management of any transitional issues arising from changes to the RIT thresholds.

The ENA does not however support aspects of the process which the AEMC has proposed for the application of the Regulatory Investment Test for Distribution (RIT D). In particular, the proposed approach suffers from the following significant shortcomings:

- The multi-stage approach to the RIT-D is overly complex for application in the distribution planning environment and to the relatively large number of projects which DNSPs carry out.
- The proposed threshold at which the Test would apply is too low, would be no longer aligned with the threshold levels for transmission and would not only impose an onerous administrative burden on DNSPs but result in excessive information for the intended audiences.
- The proposed threshold definition is illogical. It should relate to the value of the preferred investment option, rather than the 'most expensive' option. Moreover, its application would require judgement and discretion.

Further details of the ENA's views on these matters are set out below.

13. The purpose of the RIT-D would be to identify the preferred option for network investment which maximises the present value of net economic benefits. Where a proposed investment is required to meet deterministic reliability standards, the preferred option may have a negative net present value.

This acknowledgement by the AEMC that investments which are undertaken to meet deterministic reliability standards may have a negative net present value is, as already noted, appropriate. However, it is important to clarify that the same consideration also applies to investments which are undertaken to meet deterministic jurisdictional supply security standards. Such investments are made to ensure that the configuration of the network meets minimum levels and also act to maintain the inherent reliability of the network.

4.1 Assessment threshold

14. The RIT-D would be undertaken by DNSPs when a distribution system limitation exists and the most expensive option which is technically and economically feasible is expected to cost \$2 million or more.

The ENA is concerned about three aspects of the proposed threshold for determining those investments that should be subject to the RIT-D. These are:

- Of critical importance, the proposed specification of the RIT-D threshold as being applied to the 'most expensive option which is technically and economically feasible' would effectively capture all but the smallest distribution investments.
- The determination of whether an investment is 'economically feasible' would be problematic for DNSPs and would require some judgement and discretion in its interpretation.
- The proposed cost threshold of \$2 million is inappropriately low. This threshold would imply that 600 to 800 projects across the NEM would exceed that value (based on the preferred option) and be subject to the RIT-D process, imposing a very significant administrative burden on DNSPs and cost burden on customers.

4.1.1 Specification of the RIT-D threshold

The AEMC's draft proposal is that the RIT-D threshold be applied to 'the most expensive option which is technically and economically feasible'. Even if DNSPs are empowered to apply judgement and exercise discretion, in the manner described in section 4.1.2, this will result in an unworkable situation. Regardless of its cost, almost every distribution investment could become subject to the RIT-D.

Whereas the application of the RIT-T to the most expensive transmission option would be unlikely to significantly increase the number of eligible projects, this is not the case with distribution networks. Unless rectified, this provision has the potential to capture many thousands of projects across the NEM and create an unsupportable burden on DNSP resources. All but the smallest distribution investments would be subject to the RIT-D or to dispute that they should have been subject to the RIT-D.

Two everyday situations illustrate why this would take place:

1. One of the most common situations a DNSP faces in augmenting supply to a local area involves a choice of whether to reinforce the existing HV network, or establish a new zone substation to support the existing network. Both options would always be technically and economically feasible and ordinarily the least cost alternative would be chosen.

A zone substation represents a significant investment which would always exceed the proposed threshold for the RIT-D. It follows that every proposal to extend or augment the HV network, no matter how minor, would then be subject to the RIT-D, since a zone substation alternative would exist.

2. DNSPs are frequently faced with a decision to extend the network at all voltages using overhead lines or underground cable circuits. Both options would ordinarily be considered technically and economically feasible and the DNSP would ordinarily construct the cheaper overhead option unless circumstances dictated otherwise.

The cost of an underground investment is usually in the order of 2.5 to 10 times that of the overhead option. Because an underground option will always exist, the RIT-D investment threshold has effectively been lowered by an order of magnitude, to include a very large number of minor overhead line projects.

The ENA therefore strongly recommends that the AEMC should reconsider the application of the RIT-D threshold to the preferred option rather than the 'most expensive' option.

4.1.2 Interpretation of 'economically feasible'

The AEMC is silent on the definition of 'economically feasible'. The ENA believes that DNSPs will need to be able to exercise discretion in the interpretation of this requirement. In particular, there needs to be sufficient latitude so that 'economically' can be construed to mean 'financially' or 'commercially'. This would then match the specification of the threshold to the assessment provisions of the RIT-D concerning the consideration of market benefits.

It would be unrealistic to expect DNSPs to undertake a detailed investigation all economic costs and benefits of each and every augmentation project, particularly at such an early stage in the development of the project. However, such a requirement could be inferred from a literal reading of the terminology 'economically feasible'.

Therefore, under the new framework, the ENA recommends that DNSPs should be permitted to assess the feasibility of options against financial, commercial or other criteria, if appropriate. In effect, the DNSP should be able to carry out a least cost analysis as this is likely to be appropriate in most circumstances.

Moreover, a potentially broad interpretation of ‘economically feasible’ would become subject to compliance assessment and to the proposed dispute provisions. Unless this terminology is adequately defined, this has the potential to create a significant administrative burden for DNSPs and regulator alike.

4.1.3 Monetary value of the RIT-D threshold

In relation to the value of the cost threshold, the ENA believes it is appropriate for there to be alignment between the RIT undertaken for transmission and distribution investments. This would also resolve the issue associated with differing threshold levels for jointly planned investments.

Moreover, an increase in the threshold of the RIT-D to \$5 million would result in less than half the number of investments becoming subject to the RIT, resulting in a significantly less onerous burden being placed on DNSPs and lower cost to consumers.

The ENA therefore strongly recommends that the threshold of the RIT-D should be established at \$5 million and that the threshold should apply to the cost of the most likely option.

4.1.4 Review of the RIT threshold

The AEMC’s proposal that the cost threshold for the RIT-D be reviewed every three years by the AER is appropriate and is supported. The first such review would examine the merits, costs and benefits of changing the threshold (from the \$5 million level proposed by the ENA) in the light of experience at that time.

To maintain consistency between them, the RIT-T and RIT-D thresholds should be reviewed at the same time.

Finally, where a change in the threshold is proposed to take place, the transitional arrangements that would apply to those investments on which consultation has already commenced should be specified.

4.1.5 Summary of RIT-D threshold recommendations

The ENA’s recommendations in relation to the RIT-D threshold, the way it is specified and applied are as summarised as follows, the:

- threshold needs to apply to the preferred option rather than the ‘most expensive option’;
- threshold should not require application to an ‘economically feasible’ option but permit the option of least cost assessment;
- value of the threshold should initially be established at \$5 million; and
- value of RIT thresholds should be reassessed at three year intervals.

4.2 Exemptions from the RIT-D

15. The RIT-D would not apply to urgent and unforeseen investments, negotiated services, replacements, connection services, or where the proposed investment has been identified through joint planning processes between DNSPs and TNSPs.

The exclusion of certain classes of investments from the provisions of the RIT-D is entirely appropriate. The primary function of the RIT is to ensure that non-network investments are appropriately assessed against network alternatives. For this reason, the classes of investment identified by the AEMC should remain exempt from the RIT-D, with the exception of jointly planned investments, which are discussed in Section 2.3.

As discussed in Section 2.3, the ENA believes that the RIT-D should be applied to jointly planned investments, unless there is some reasonable likelihood that a network or non-network investment will influence main transmission network and interconnector flows and thus have a material market effect on the operation of the market.

4.2.1 Urgent and unforeseen investments

The ENA is concerned that the AEMC proposes to impose a condition that an ‘urgent and unforeseen’ investment is required to be operational within six months of the DNSP identifying the need. The AEMC’s proposed RIT-D process spans a period which would take a minimum of 8-9 months, in the event that no prior engagement with stakeholders had taken place, which would be the case with any investment of an urgent nature.

The most common situation where an urgent and unforeseen investment would be identified is following the seasonal peak demand, where unexpected load growth resulted in a peak demand which exceeded expectations. This situation would commonly require remedial action to be taken before the onset of the next season, within a period of approximately 9 months. The AEMC’s limitation of investment timing to a period of six months would subject that investment to the provisions of the RIT-D and a six month consultation period for the Project Specification Report.

The same situation would occur where augmentation of shared assets was required as a result of a customer load application. Such work would not be a negotiated or a connection service, but would still be required to allow connection of a customer to occur but would not be captured under the proposed definition.

This requirement therefore has the potential to introduce an unnecessary delay in commissioning such urgent work, sufficient to expose customers to the risk or actuality of degraded supply during a summer or winter seasonal peak.

The ENA has proposed simplification of the proposed RIT-D process by eliminating the six-month consultation period prior to project assessment, in Section 4.3. In the event that the AEMC accepts the ENA’s recommendation to streamline the RIT-D process, the proposed period of 6 months for urgent works would still be unworkable, given that the consultation process precedes detailed design and construction.

The ENA therefore proposes that urgent and unforeseen works required within a period of 12 months should be exempt from the RIT-D.

4.2.2 Asset replacement

There appears to be some ambiguity in the AEMC's draft Report concerning whether investment in asset replacement would be exempt from the RIT-D. This aspect is not reflected in the recommendation above, but is proposed in section 4.4.1 of the AEMC report.

The ENA supports the exemption of replacement expenditure from the RIT-D and accepts that where such investment also has the effect of materially augmenting the capacity of the network, only the proportion of such investment attributable to the capacity augmentation would be subject to the provisions of the RIT-D. It should be noted that such investments may have a negative NPV for the augmentation component.

4.2.3 Additional exclusion

The ENA advocates the exemption of 'S Factor' proposals from the RIT-D. These are projects which are initiated to improve the reliability of the network. These projects are essentially self-funding, and would be assessed on the basis of a business case using the DNSP's specific internal investment criteria. Such projects should be excluded from any RIT-D requirements.

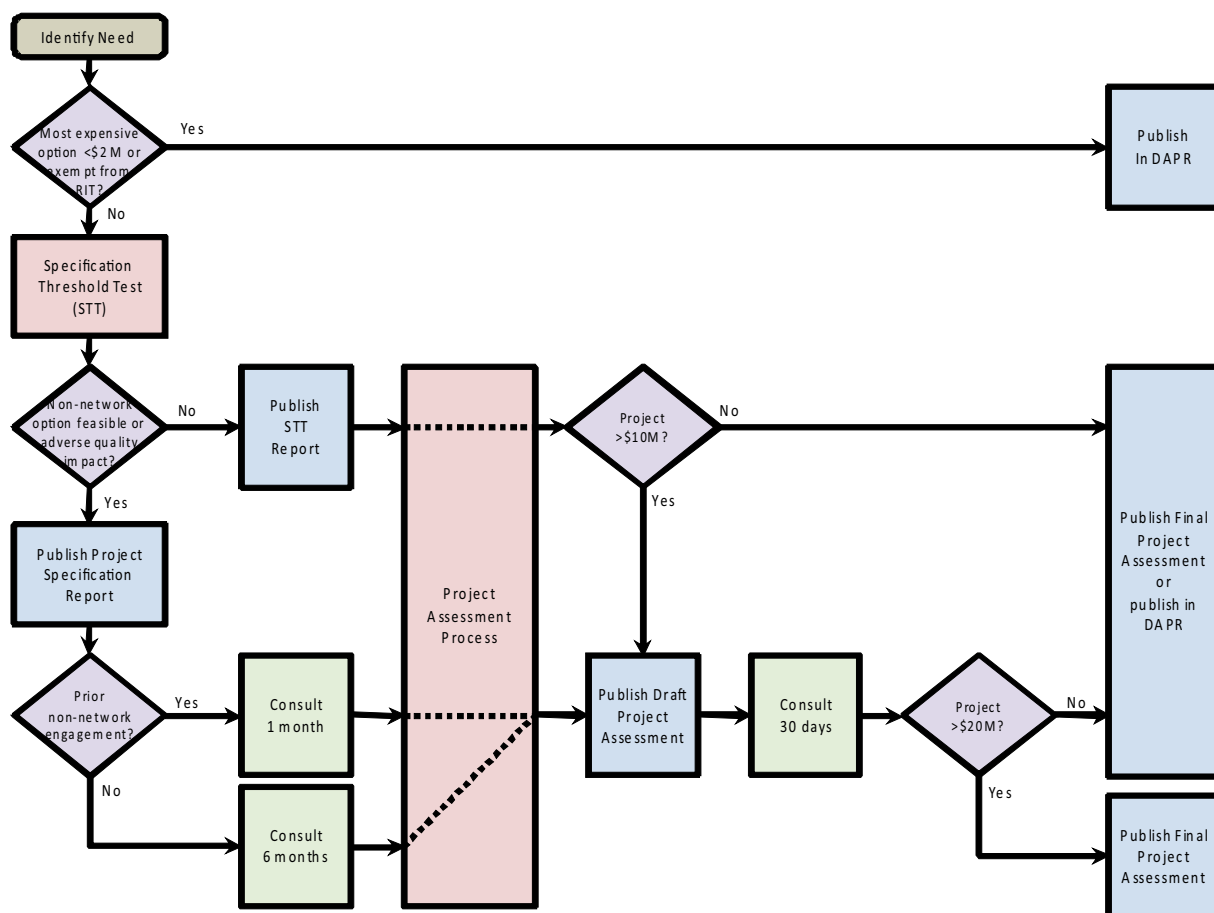
4.3 The RIT-D process

16. The RIT-D would provide for a flexible assessment process, allowing for DNSPs' reporting and consultation requirements to be tailored to the characteristics of each proposed investment.

The ENA remains concerned regarding the complexity of the AEMC's proposed process of RIT-D assessment. The proposed approach has been set out in the process flow diagram, to highlight the many decision points and alternative courses of action that DNSPs would be required to follow.

As the entire process would be subject to a compliance regime administered by the AER and subject to appeal by a broad range of persons, its implementation would potentially present a very considerable administrative burden to DNSPs. The RIT-D process is illustrated in Figure 1.

Figure 1—AEMC's proposed RIT-D process



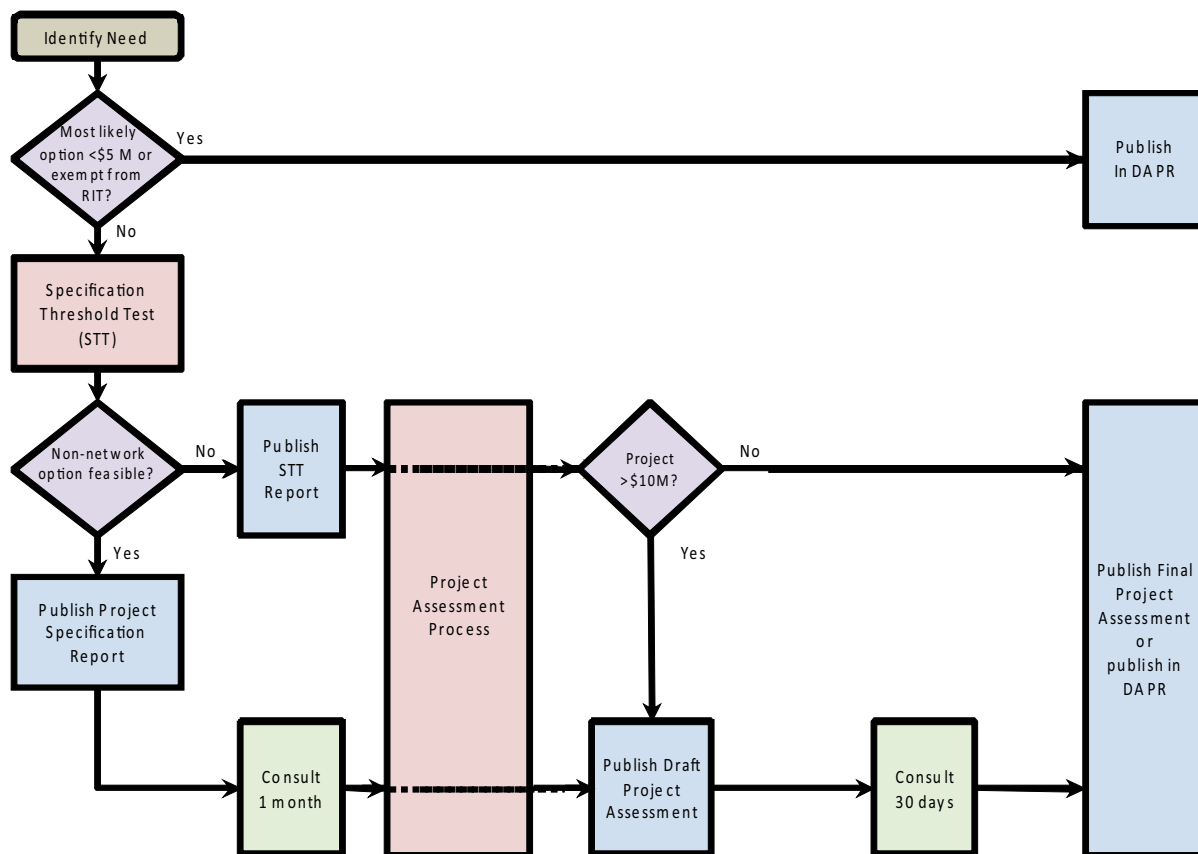
The ENA believes that it is highly desirable to simplify the RIT-D process by reducing the number of decision points and parallel paths. The particular areas where the ENA has identified that some simplification is possible are:

- The merging of the fast-track consultation process decision with the standard six-month consultation process. The reasoning for this recommendation is discussed in Section 4.6.
- The removal of the requirement for the Final Project Assessment reports to be separately published, for projects with a cost greater than \$20 million. Such a fine distinction between the means in which reports are published is unnecessary.

Such assessments could in any case readily be made available to interested non-network proponents upon request. Any non-network participant that had responded during the Project Specification or Project Assessment stages could request the DNSP to provide a copy of the Final Project Assessment Report.

Taken together, these changes result in some streamlining of the AEMC's process flow diagram, shown in Figure 2. It is likely that further detailed review of this process may enable other simplifications to be made, thereby reducing the number of decision points and parallel paths.

Figure 2—Proposed streamlining of the RIT-D process



4.4 The Specification Threshold Test

17.1 The RIT-D would involve:

- An initial screening test, the Specification Threshold Test (STT), to determine whether additional consultation and reporting would be required before the project assessment process; ...

The AEMC has proposed that DNSPs will be required to undertake an initial Specification Threshold Test (STT) for all investments which are subject to the RIT-D.

The STT involves the DNSP's assessment of:

1. the reasons for the investment;
2. the material potential for the use of non-network options either to defer or remove the need for the investment to address the identified need; and

3. the material potential for the identified need to adversely impact on the quality of service experienced by end use customers, including:
- (a) estimated changes in voluntary load curtailment by end use customers; and
 - (b) estimated changes in involuntary load shedding and customer interruptions caused by network outages.⁵

We seek stakeholder comments on the practical application of the STT and whether the STT provides an appropriate degree of discretion to DNSPs.

Items 1 and 2 of this test are relatively non-controversial. The primary intent of the STT is clearly to act as a trigger for further consultation to take place with the proponents of non-network alternatives, in the event that these alternatives can satisfactorily meet the requirements of a particular situation. In this respect, the STT is similar to the Demand Management Screening Test employed in New South Wales.

The ENA believes that the AEMC needs to clarify the intent of Item 3. The following issues are of concern:

- The standards for what is normally understood to be quality of service (voltage levels, voltage unbalance, flicker and harmonic distortion) are set out in Schedule 5.1a of the Rules and apply to specific situations. These are not normally an issue in the identification of investment needs although they may influence the design requirements.
- In a number of jurisdictions, many investments are undertaken to meet jurisdictional security and reliability standards. In these circumstances any changes in voluntary load curtailment, load shedding and customer interruptions are not ordinarily determined and could be very difficult to assess.
- The quality of service can be interpreted to include the reliability of service. Any need resulting from an emerging capacity constraint if not addressed will adversely impact on the reliability of that service. Thus all projects which involve a constraint will require a consultation.

In relation to Item 3, the ENA proposes that the requirements of STT could be simplified to make it clear that investments required to meet jurisdictional security and reliability standards would not meet the requirements of the STT. This appears to be the AEMC's intent '... that there was a need for the RIT-D to provide for a more streamlined process for small to medium sized investments where there was no potential for either non-network solutions or an adverse impact on end users' 'quality of service'.⁶

Finally, as the whole RIT-D process is proposed to be the subject of compliance assessment, STT decisions would potentially be the subject of dispute. The term 'material potential' will need to be closely defined in order to clarify what factors a DNSP would need to consider to make appropriate decisions under the STT. A failure to do this could lead to unnecessary dispute and protracted disagreements with the AER.

5. The AEMC's dotpoints have been numbered to facilitate the following discussion.

6. The AEMC's dotpoints have been numbered to facilitate the following discussion, page 50.

4.5 Project Specification

17.2 (RIT-D continued): ...

- A project specification stage, where DNSPs would be required to consult to request alternative proposals to meet the identified need; ...

Most of the matters which the AEMC proposes to be contained in the Project Specification Report are not controversial. However, the ENA considers that it is not appropriate to require that a DNSP provides:

a description of all investment options to meet the identified need, including:

- *a technical definition or characteristics of the option;*
- *estimated construction timetable and commissioning date; and*
- *to the extent practicable, the total indicative capital and operational costs.*

The purpose of the project specification is to provide non-network participants with the information they require to assess whether a non-network option can be economically developed. The Project Specification Report should clearly identify the likely network option(s). However, beyond restating the parameters of the STT, this Report should not attempt to second-guess the detailed characteristics of non-network alternatives.

The content and timing of publication of the proposed draft and final project assessment reports is not controversial.

4.6 Accelerated consultation

17.3 (RIT-D continued): ...

- An opportunity for DNSPs to consult under an accelerated consultation period on their project specification reports, if DNSPs have undertaken prior engagement with non-network proponents; and

The AEMC's proposal to permit an accelerated consultation period for the Project Specification Report provided that the DNSP had undertaken 'prior engagement' with non-network proponents is strongly supported. However, for the following reasons, the ENA believes that adequate prior engagement would have occurred. The RIT-D process could then be simplified by merging the fast track consultation process with the standard six-month consultation process:

- The requirement of a 'standard' consultation period of six months is excessive. It would result in the overall length of time for the application of the RIT-D to extend over eight to nine months, and far longer if a dispute were to be raised.
- The definition of what would constitute prior engagement has not been adequately set out and will be difficult to specify. The ENA is concerned that this requirement when specified would mean that many or most projects would not be eligible for fast-track consultation simply because of the lead times associated with augmenting the distribution network.

- The proposed publication of the DAPR should provide non-network proponents with adequate advance notice of upcoming network constraints, to identify whether a non-network option is viable in particular circumstances and initiate a dialogue with the DNSP. Whilst the ENA would prefer a less prescriptive Demand Side Engagement process than that proposed by the AEMC, this process, taken together with the reporting requirements, should obviate the need for a six-month consultation period.
- The fast-track consultation provision would be the subject of appeal and it is unlikely to be possible for a DNSP to guarantee that it had undertaken prior engagement with every proponent of non-network investment.
- The inevitable outcome of such a long consultation requirement is that the number of projects which would be delayed would increase. DNSPs do not have the luxury of providing for such an extended consultation period with projects which generally have short lead times. Such delays would inevitably cause deterioration of the supply security and reliability to customers.

Further reference is made below concerning the definition of what would constitute prior engagement.

17.4 (RIT-D continued): ...

- Consideration of applicable market benefits and costs for each credible option, to determine the preferred option. DNSPs would be required to quantify all applicable costs, but would have the discretion to quantify any applicable market benefits.

The ENA strongly supports the proposed approach by the AEMC in applying a limited cost-benefit approach to the assessment of projects under the RIT-D. The overwhelming majority of distribution projects do not involve material market costs or benefits and a requirement for them to be included in every analysis would be inappropriate.

The list of market benefits and costs for consideration under the RIT-D which has been proposed by the AEMC is believed to capture the full range of possible distribution investment effects. This list of possible market benefits and costs will enable DNSPs to assign their own value to each cost or benefit where appropriate. It should be noted that these values are likely to differ between jurisdictions.

We are interested in stakeholder comments as to whether prescription is required in the Rules regarding the actions that DNSPs must have undertaken to qualify for accelerated consultation on their project specification reports. An alternative to greater prescription in the Rules would be to provide the AER with greater discretion in its development of the RIT-D Application Guidelines to determine the appropriate actions DNSPs must undertake to comply with the Rules requirements for accelerated consultation.

As indicated above, the accelerated consultation provision is not recommended by the ENA. However, in the event that the AEMC persists with this proposal, the detail of how this will be managed within a regime of Rules compliance is of considerable concern. The main issues are as follows:

- The extent of ‘prior engagement’ which is required with non-network proponents and the process by which the adequacy of this would be determined will need to be clarified. As with other aspects of the RIT-D, this issue would be subject to the compliance regime to be enforced by the AER and would therefore be open to dispute.

The ENA’s view is that, provided that compliance with the requirements of the DAPR and STT could be demonstrated and that the DNSP had responded to any enquiry by the non-network proponent, then such engagement would be deemed to have taken place. If this were not the case, than any ‘interested party’ that had not been individually consulted in relation to the proposal would be able to raise a dispute. As described in Section 4.3, this would facilitate worthwhile simplifications to the RIT-D process.

- The ENA would prefer a level of prescription be included in the Rules or in guidelines to be established by the AER regarding the actions that DNSPs must have undertaken to qualify for accelerated consultation on their Project Specification Reports.

4.7 Exclusion of Primary Distribution Feeders from the RIT-D

We seek stakeholder comments on the proposal to exclude primary distribution feeders from the RIT-D and the wording of the proposed exemption in section 2(a)(vii) of the framework specification in Appendix B.

The ENA is concerned that primary distribution feeders need to be excluded from the RIT-D process. As outlined in Section 3.1 concerning the inclusion of these feeders in the DAPR:

- the number of these assets is very substantial;
- the development of the HV network is predominantly in response to individual customer connection inquiries; and
- very short lead times are generally involved in these developments (much shorter than for subtransmission and zone substation works).

For these reasons the ENA does not consider that the inclusion of primary distribution feeders in the RIT-D is practicable. The time delay introduced by the consultation processes of the RIT-D would be unacceptable to customers wishing to connect to the network.

The ENA proposes that the existing wording of section 2(a)(vii) of the framework specification in Appendix B which exempts primary distribution feeders from the RIT-D is appropriate.

5 Dispute Resolution Process

The ENA supports the AEMC's proposal to introduce an alternative dispute resolution process to the general provisions of Chapter 8 of the Rules. A streamlined dispute process specific to the distribution planning process should allow a more efficient and timely resolution of any disputes raised and minimise the likelihood of undue delay to DNSPs' planning and investment processes.

18. The dispute resolution process would apply to all investments which are subject to the RIT-D.

19. The process would only apply to DNSPs' application of the RIT-D against the requirements in the Rules (ie. compliance review) and cover all stages and decisions made by DNSPs when applying the RIT-D.

The ENA strongly supports the proposal that the dispute resolution process be limited to compliance by a DNSP with the Rules in relation to its application of the RIT-D to specific distribution investments. However, in assessing that compliance it is important for the elements of these processes to be specified:

- with sufficient prescription, directly in the Rules;
- in AEMC guidelines; or
- within documents which are prepared by the DNSP and approved by the AER prior to implementation.

These approaches will reduce the likelihood of ambiguity in the interpretation of compliance with processes and potential for dispute, by ensuring that compliance may be readily inferred and understood. This in turn will reduce the administrative burden and cost for regulated businesses and regulatory alike and the likelihood of unnecessary delay in the assessment of investment projects.

5.1 Parties who may raise a dispute

20. Registered Participants, the AEMC, Connection Applicants, Intending Participants and interested parties would be able to raise a dispute under the proposed process.

The term 'interested party' is defined in the Glossary of the Rules and covers a number of categories of persons, including in relation to transmission planning activities 'an end user or its representative who, in the AEMO's opinion, has or identifies itself to the AEMO as having an interest in relation to the network planning and development activities'. However, the AEMO does not keep a register of such interested parties.

The AEMC has used the terms 'non-network proponents' and 'interested parties' interchangeably throughout its draft Report, thereby creating some ambiguity as to who it actually intends to be an interested party. The ENA is concerned to ensure that this ambiguity is clarified so that DNSPs clearly understand with whom they must consult under the RIT-D.

The ENA is very concerned at the prospect that the dispute process for distribution investment would be accessible to persons that are not Registered Participants, Connection Applicants or Intending Participants. The intention of the RIT-D process is to ensure that adequate consideration is given to non-network alternatives and it is accepted that a dispute mechanism should be available to the proponents of non-network investments if the DNSP does not follow the process set out in the RIT-D.

If the dispute process were to be available to other parties such as end-use customers it is considered that this would result in a potentially large number of disputes arising for a variety of reasons which could be unrelated to the process followed in the consideration of non-network investment alternatives. A dispute under the proposed RIT-D process, which is designed to ensure the economic development of distribution networks and the appropriate consideration of non-network investments, should only be raised by parties that have been affected by an alleged non-compliance with that process. That class of persons should clearly include the proponents of non-network investments, but the ENA believes that the RIT-D should not enable end use customers or non-participant individuals to raise a dispute.

The ENA proposes that the term ‘Non-network Participant’ be defined in the Glossary of the Rules and a new classification be provided for under Chapter 2 of the Rules. The register of those Participants would be maintained by the AEMO and would form a national data base of non-network proponents which would be used for DNSP communications with non-network proponents, as discussed in Section 2.1.3.

5.2 Dispute timeframes and remedies

21. The deadline for raising a disputes [sic] with the AER would be 30 business days following the publication of the DNSP’s final project assessment report or the publication of the DNSP’s DAPR, containing the final project assessment report.
22. The AER would either reject the dispute or make a determination on the dispute within 40-60 business days of receiving the dispute notice, depending on the complexity of the dispute. The AER can only be able to make a determination to direct the DNSP to amend its final project assessment report if:
 - DNSP has not correctly applied the RIT-D in accordance with the Rules; or
 - DNSP has made a manifest error in its calculations.
23. In making a determination on a dispute, the AER would specify the timeframe for the DNSP to amend its final project assessment report.

The timeframes that the AEMC has proposed for the lodgement and resolution of disputes are not unreasonable. However, it must be appreciated that in the context of the generally shorter timeframes associated with distribution investment, this delay of over four months in commencing a project could potentially force a DNSP to undertake urgent remedial action in order to avert a supply constraint and customer supply interruptions, in the event that a dispute were to be raised.

The AEMC has proposed that the AER may make a determination to direct a DNSP to amend its final Project Assessment Report if the DNSP has made a ‘manifest error in its calculations’. This provision would extend the role of the AER to well beyond that of ensuring that a DNSP’s assessment process has complied with the Rules. The ENA does not believe that it is appropriate for the AER to effectively be given the responsibility to conduct a technical review of the DNSP’s calculations.

5.3 Coverage of the Dispute Resolution Process

We seek stakeholder comments on the proposed scope of the dispute resolution process.

The AEMC has proposed allowing the coverage of the dispute resolution process to extend to all investments undertaken under the RIT-D, for which the AEMC proposes a threshold where the most expensive option would exceed a value of \$2 million.

As discussed in Section 4, the ENA believes that the investment threshold for the RIT-D is inappropriately low and incorrectly specified. If the investment threshold were to be established at a more reasonable level, the ENA agrees that the coverage of all investments under the RIT-D by the dispute resolution process would be reasonable.

The ENA believes that the AEMC’s proposal to effectively extend the dispute resolution process to all but the smallest investments that DNSPs make, taken together with the potential eligibility of end users as ‘interested parties’ to raise disputes under Section 5.1, will lead to an excessive number of resource and time consuming disputes taking place.

The ENA therefore recommends that the coverage of the dispute resolution process should be limited to an investment where the cost of the recommended option is greater than \$5 million.

6 Miscellaneous comments

This section contains the ENA's further observations on the matters raised in Section 6 of the AEMC's Framework for Distribution Planning together with some other relevant issues.

We would welcome any comments on market participants may have on the issues discussed in this Chapter.

Those issues include:

- the process for Determination of Jurisdictional Reliability;
- the Relevance and application of Schedule 5.1 of the Rules to Distribution;
- reporting on and target setting of Reliability Performance; and
- Asset Management.

6.1 The process for Determination of Jurisdictional Reliability

The AEMC has commented on the differences between jurisdictional security and reliability standards and their method of application. In particular, it has raised differences between the design and application of probabilistic and deterministic network planning processes. Whilst there are differences in their application, the standards and their means of application have a common objective in the delivery of supply of acceptable reliability to customers.

The ENA disagrees with the AEMC's proposition that harmonising the existing jurisdictional standards could deliver improvements in reliability and security performance. The performance of networks is directly attributable to the network characteristics⁷ and the resources which are invested in them and any changes to the standards that drive network investment towards a common standard will result in some increases and some decreases in performance. An overall improvement will only result from an increase in the level of resources allocated to the provision of reliable network services.

The ENA accepts that harmonising the existing jurisdictional security and reliability standards may provide some greater clarity for the proponents of non-network investments across different jurisdictions. However it is unclear that any benefit to those participants would outweigh the considerable transaction costs -and the potential for reduction in standards in some jurisdictions - which would be associated with harmonising the existing arrangements.

The ENA believes it is of critical importance that a review of the materiality of issues arising from jurisdictional differences be carried out to determine whether any further action is warranted, and the ENA looks forward to participating in any such review.

6.2 The Relevance and application of Schedule 5.1 of the Rules to Distribution

Schedule 5.1 of the Rules contains a comprehensive set of planning design and operating criteria that must be applied by TNSPs and DNSPs. The criteria of Schedule 5.1 are intentionally not separated into transmission and distribution as many must be applied to the interconnected networks, which operate as a single entity.

7. Including, mix of overhead and underground construction, length and terrain traversed.

The AEMC has stated that it is mainly quality of supply criteria that are relevant to DNSPs. This is not the case. Several other important aspects of Schedule 5.1 apply to DNSPs and must be observed in order to preserve the integrity of the National Grid as well as the quality and reliability of supply to all customers.

The AEMC has identified three issues concerning Schedule 5.1, where it believes that further work may be needed. Each of these is discussed in turn.

The criteria set out in Schedule 5.1 can lack specificity and can require a significant degree of interpretation. This provides DNSPs discretion in the application of their obligations to various points on the network.

The criteria in Schedule 5.1 cover a broad range of requirements, with most of which DNSPs must ordinarily comply. The Schedule articulates the minimum planning design and operating requirements which must be maintained to ensure that:

- the integrity of the National Grid is maintained under normal conditions and for credible contingencies; and
- the technical standards which are applied to new and existing connections of generators and customers do not permit unacceptable effects on the system and on other customers.

The ENA believes that Schedule 5.1 in its current form fulfils its intended purpose and should not be altered to contain greater prescription. If more specificity is required, particularly in relation to the reliability and security aspects of supply, this should be dealt with separately. This is the area where more specific jurisdictional standards and reporting have traditionally been and continue to be applied. That is because the jurisdictions have responsibility for and are directly concerned about the performance outcomes.

Incorporating further prescription into the Rules on the reliability and security aspects of supply must be preceded by an agreement between the jurisdictions to merge the existing jurisdictional security and reliability requirements and accept the resultant performance outcomes.

Aspects of Schedule 5.1 relate predominantly to transmission rather than distribution such as power transfer capability, credible contingency events, system stability, load shedding, blocking of auto-reclose, and continuous and dynamic ratings.

Few of the requirements of Schedule 5.1 are agreed to relate solely to transmission networks. The majority of the requirements can and do apply to both transmission and distribution networks in certain circumstances. For example:

- System stability (S5.1.8) can be an issue with the embedded generators connected to distribution networks and must routinely be investigated before their connection.
- Protection systems and fault clearance times (S5.1.9) are an important issue for some DNSPs, particularly those in metropolitan load centres. A failure to comply would jeopardise the stability of the National Grid in the event of a fault on the distribution network.

- Load shedding (S.1.10) is also an important requirement for all DNSPs, to ensure the integrity of the National Grid in the event of loss of generation.
- Auto Reclose Blocking (S5.1.11) is also necessary in distribution systems, usually in circumstances where embedded generators are connected, to avoid their reconnection out of synchronism in the event of a fault.

Accordingly, the ENA believes that to segregate those aspects of the current Schedule 5.1 which apply only to distribution networks would result in significant and unnecessary duplication.

There is a need for the Schedule 5.1 standards to complement and support the jurisdictional standards.

As explained above, Schedule 5.1 contains the minimum technical standards which distribution and transmission systems must meet, to ensure the integrity and satisfactory operation of the interconnected network. They represent a baseline, from which other standards, such as the jurisdictional requirements on distribution network security and reliability specify additional regional and local parameters.

6.3 Reporting on and target setting of Reliability Performance

There has been a significant history in the development of reliability performance reporting for DNSPs. The Steering Committee on National Regulatory Reporting Requirements (SCNRRR) of the Utility Regulators Forum in March 2002 set out an agreed national regulatory reporting framework for electricity distribution and retailing businesses. The SCNRRR measures cover a range of quality of service factors, and provide a minimum set of measures for the collection of electricity service quality data utilised in most jurisdictions.

That there remain differences between the jurisdictional reporting arrangements is a result of two main influences, the:

1. level of concern within each jurisdiction concerning the performance of its DNSPs; and
2. presence of legacy systems and in some cases distribution assets, which do not permit the necessary data to be gathered or processed in such a way as to deliver uniform reporting.

In recent determinations, the AER has been pursuing the application of its STPIS which is intended to apply in a uniform manner to DNSPs.

In its draft Report, the AEMC has articulated the current regulatory preoccupation with uniform reliability reporting. However this has not been justified in terms of any material benefits to customers. The ENA believes that it is incumbent upon the AEMC (and the AER) to demonstrate that the not insignificant expenditure required to achieve uniformity in regulatory reporting will produce net benefits to customers.

6.4 Asset Management

The ENA agrees with the AEMC that DNSPs need to have sound and well structured asset management processes in place. Sound asset management is required to minimise costs over the life cycle of assets, through to and including their eventual replacement, removal from the system and disposal. Taken together with sound planning practices which also aim to optimise the total cost of delivering network services, these two aspects of network management will result in the minimum overall cost to consumers for a given target performance and utility environment.

The current arrangements in relation to the monitoring and reporting of asset management practices have two main features:

1. There is comprehensive reporting of asset management practices and network performance by DNSPs, at the jurisdictional level.
2. Asset management practices are the subject of highly detailed and critical review at each regulatory reset by the AER. This has the objective of ensuring that the DNSP's operating and capital expenditure allowances are set in accordance with the criteria set out in Rule clauses 6.5.6(c) and 6.5.7(c), respectively.

It is important to realise that whilst the principles of sound asset management need to be applied by all DNSPs their application and outcomes will vary very significantly, depending on the particular circumstances and environment of the DNSP.

In the ENA's view, the establishment of minimum 'best practice' criteria would enforce a least common denominator approach on DNSPs. Moreover, it should not be a matter for the Rules to prescribe such criteria given that the incentive-based regulatory regime is intended to provide DNSPs with incentives, as well as flexibility to manage their assets efficiently within the framework defined by the STPIS and the price control. In particular:

- DNSPs are held accountable for the service performance of their networks under the STPIS; and
- the capital and operating expenditure criteria specified in the Rules are intended to ensure that each DNSPs' expenditure allowances reflect the efficient costs (and therefore, efficient asset management) that a prudent operator in the circumstances of the relevant DNSP would require.

Some degree of harmonisation of the existing jurisdictional arrangements is no doubt possible and may be desirable. However the AEMC's approach during the current review, of simply requiring the replication of existing reporting arrangements within the DAPR is not an appropriate response. Rather, the first step needs to be an agreement and commitment by the jurisdictions to harmonise the existing reporting arrangements. This will then need to be followed by a reasonable transition period, in order to allow the orderly development of uniform processes and reporting arrangements and to avoid the wasteful and unnecessary duplication of reporting.

