

3 Rule Change Request

Draft National Electricity Rules Amendment (Distribution Network Planning and Expansion Framework) 2011

Schedule 1 contains amendments to the National Electricity Rules to provide for the proposed national framework for electricity distribution network planning and expansion, including joint planning matters between the Transmission Network Service Provider and Distribution Network Service Provider and the regulatory investment test for distribution.

Schedule 2 contains amendments to other clauses in the National Electricity Rules which are consequential to the proposed national framework for electricity distribution network planning and expansion.

Schedule 3 contains savings and transitional provisions which are consequential to the proposed national framework for electricity distribution network planning and expansion.

Note: This draft has been prepared with reference to version 31 of the National Electricity Rules.

Schedule 1 Amendment of National Electricity Rules

[1] New clause 5.6.1A Network Development generally

After rule 5.6, insert:

5.6.1A Network Development generally

- (a) Clause 5.6.1 sets out obligations regarding forecasts for *connection points* to the *transmission network*.
- (b) Clause 5.6.2 states the obligations of *Network Service Providers* for planning connections to the *network*.
- (c) Clause 5.6.2A contains provisions regarding the *Annual Planning Report* for all *Transmission Network Service Providers*.
- (d) Clause 5.6.2AA contains provisions regarding the *Distribution Annual Planning Report* for all *Distribution Network Service Providers*, including obligations for *Distribution Network Service Providers* regarding the *Demand Side Engagement* document.
- (e) Clause 5.6.3 sets out *AEMO's* obligations to publish information and guidelines, and provide advice regarding *network* development.
- (f) Clause 5.6.4 contains provisions regarding *AEMC's last resort planning powers*.
- (g) Clauses 5.6.5B and 5.6.5C contain provisions regarding the *regulatory investment test for transmission*.
- (h) Clauses 5.6.5CA and 5.6.5CB contain provisions regarding the *regulatory investment test for distribution*.
- (i) Clause 5.6.5D contains provisions regarding the identification of a *credible option* relevant to the application of the *regulatory investment test for transmission* or the *regulatory investment test for distribution* (as the case may be).
- (j) Clause 5.6.5E sets out *AER's* obligations to undertake *cost threshold reviews* relevant to the application of the *regulatory investment test for transmission* or the *regulatory investment test for distribution* (as the case may be).
- (k) Clause 5.6.6 contains provisions regarding the *regulatory investment test for transmission* procedures, including procedures for consultation and reports.

-
- (l) Clause 5.6.6A contains provisions regarding disputes in relation to the application of the *regulatory investment test for transmission*.
 - (m) Clause 5.6.6AA contains provisions regarding the making of a determination by the *AER* as to whether the *preferred option* satisfies the *regulatory investment test for transmission* or the *regulatory investment test for distribution* (as the case may be).
 - (n) Clause 5.6.6AB contains provisions regarding the *regulatory investment test for distribution* procedures, including procedures for consultation and reports.
 - (o) Clause 5.6.6AC contains provisions regarding disputes in relation to the application of the *regulatory investment test for distribution*.
 - (p) Clause 5.6.6B contains provisions regarding the construction of *funded augmentation*.

Note: Rule 5.6 requires that certain distribution investments, including joint investments, are subject to the regulatory investment test for transmission, and that certain transmission investments are subject to the regulatory investment test for distribution.

[2] New clause 5.6.2AA Distribution Annual Planning Review and Report

After clause 5.6.2A, insert:

5.6.2AA Distribution Annual Planning Review and Report

Purpose

- (a) The purpose of the *distribution* annual planning review and report is to:
 - (1) ensure timely and efficient investment for the long term interests of consumers of electricity;
 - (2) ensure the efficient and effective development of the *network*, including to ensure that non-*network* alternatives are considered;
 - (3) provide for an appropriate level of information disclosure and reporting;
 - (4) ensure a level playing field for all *regions* in terms of attracting investment and promoting efficient decisions;
 - (5) ensure that *Network Users* understand how the timing and location of *connections* might affect capability of the *network* and the need for *augmentations* or non-*network* alternatives; and
 - (6) minimise the costs of meeting the *regulatory obligations or requirements* by participants operating in more than one *region* in the *NEM*.

Review

- (b) Within 3 years from [commencement date of Rule], the *AEMC* must commence a review, under section 45 of the *National Electricity Law*, in respect of the operation and effectiveness of the *distribution* annual planning review, reporting and assessment obligations associated with the *regulatory investment test for distribution*, under the *Rules*.

Scope of the Distribution Annual Planning Review

- (c) The terms *Network Service Provider*, *Transmission Network Service Provider* and *Distribution Network Service Provider* when used in this clause 5.6.2AA are not intended to refer to, and are not to be read or construed as referring to, any *Network Service Provider* in its capacity as a *Market Network Service Provider*.
- (d) Each *Distribution Network Service Provider* must analyse the expected future operation of its *network* over the appropriate *forward planning period*.
- (e) The minimum *forward planning period* for the purposes of the *distribution* annual planning review is 5 years for *distribution assets*, and 10 years for *transmission assets* and *dual function assets*.
- (f) The *distribution* annual planning review must include all assets and activities that would be expected to have a material impact on the *Distribution Network Service Provider's network* over the appropriate *forward planning period*.

Requirements of the Distribution Annual Planning Review

- (g) Each *Distribution Network Service Provider*, for its *network*, must:
 - (1) prepare forecasts covering the *forward planning period* of *maximum demands* for:
 - (i) its *network* as a whole;
 - (ii) *sub-transmission lines*;
 - (iii) *zone substations*;
 - (iv) to the extent practicable, *primary distribution feeders*;having consideration of:
 - (v) the number of *customer connections*;
 - (vi) *energy consumption*; and
 - (vii) estimated *embedded generating units* and outputs;

-
- (2) identify, based on the outcomes of the forecasts in subparagraph (1), limitations on its *network* that may be caused by one or more of the following factors:
- (i) forecast *load* exceeding *total capacity*;
 - (ii) the requirement for asset refurbishment or replacement;
 - (iii) the requirement for *power system security* or *reliability* improvement;
 - (iv) design fault levels being exceeded;
 - (v) the requirement for *voltage* regulation; and
 - (vi) the requirement to meet any *regulatory obligation* or *requirement*;
- (each a *system limitation*)
- (3) identify the need for undertaking corrective action or modifications to address *system limitations*, and the need to carry out the requirements of the *regulatory investment test for transmission* or the *regulatory investment test for distribution*, and the *Demand Side Engagement Strategy* where appropriate;
- (4) undertake the *distribution* annual planning review in a manner which is consistent with its *asset management* policies; and
- (5) take into account any applicable jurisdictional requirements.
- (h) Each *Distribution Network Service Provider* must conduct joint planning with each *Transmission Network Service Provider* of the *transmission networks* to which the *Distribution Network Service Provider's networks* are connected. The relevant *Distribution Network Service Provider* and *Transmission Network Service Provider* must:
- (1) meet on a regular and as required basis to assess the adequacy of existing *transmission* and *distribution networks* and *transmission-distribution connection points* over the next five years and to undertake joint planning of proposals which relate to both *networks*;
 - (2) use best endeavours to work together to ensure efficient planning outcomes and to identify the most efficient investments in accordance with subparagraph (4);
 - (3) identify any *system limitations* that will affect both the *Transmission Network Service Provider's* and *Distribution Network Service Provider's networks* or will require coordination by both the *Distribution Network Service Provider* and *Transmission Network Service Provider* to

undertake corrective action or modifications to address a *system limitation*; and

in the case of the *declared shared network* of an *adoptive jurisdiction*, the relevant *declared transmission system operator*, the relevant *Distribution Network Service Provider*, *AEMO* and any *interested party* that has informed *AEMO* of its interest in the relevant plans, shall conduct joint planning;

(4) where the need for *augmentation* or a *non-network* alternative is identified under subparagraph (3):

(i) jointly determine plans that can be considered by relevant *Registered Participants*, *AEMO*, *interested parties*, and parties on the *Distribution Network Service Provider's Demand Side Engagement Register*;

(ii) must carry out the *regulatory investment test for transmission* for the *identified need*; and

(iii) may agree on a lead party to be responsible for carrying out the *regulatory investment test for transmission*. In this case, the other parties will be deemed to have discharged their obligations to undertake the *regulatory investment test for transmission* in response to the *identified need* for investment.

(i) *Distribution Network Service Providers* must meet regularly to undertake joint planning with other *Distribution Network Service Providers* where there is a requirement to consider the need for any *augmentation* or *non-network* alternative that affects more than one *Distribution Network Service Provider's network*.

(j) Each *Distribution Network Service Provider* must engage with *non-network providers*, and consider *non-network* alternatives, including the requirement for each *Distribution Network Service Provider* to prepare and implement a *Demand Side Engagement Strategy*, engage with any potential *non-network providers* in accordance with the *Demand Side Engagement Strategy*, and consider any potential *non-network* alternatives at the planning stage.

Demand Side Engagement Strategy

(k) The purpose of the *Demand Side Engagement Strategy* is to:

(1) provide transparency regarding the consideration and assessment of *non-network* solutions by *Distribution Network Service Providers*;

(2) encourage the engagement of *non-network providers* in *network* planning and development; and

(3) promote economic efficiency in the provision of *non-network* solutions

for the long term interests of consumers of electricity.

- (1) Each *Distribution Network Service Provider* must prepare and make available a *Demand Side Engagement* document which must include at least:
- (1) the *Distribution Network Service Provider's* process and procedure to develop, investigate, assess and report on potential non-network solutions;
 - (2) the *Distribution Network Service Provider's* process to engage and consult with potential non-network providers to determine their level of interest and ability to participate in the development process for potential non-network solutions;
 - (3) an outline of the *Distribution Network Service Provider's* process to negotiate with non-network providers to further develop a potential non-network solution;
 - (4) an outline of the information a non-network provider is to include in a non-network solution proposal;
 - (5) an outline of the criteria that a potential non-network provider is to meet or consider in any offers or proposals;
 - (6) an outline of the principles that the *Distribution Network Service Provider* considers in developing the payment levels for non-network solutions;
 - (7) a reference to any applicable incentive payment schemes for the implementation of non-network solutions and whether any specific criteria is applied by the *Distribution Network Service Provider* in its application and assessment of the scheme;
 - (8) sources of relevant, publicly available information produced by the *Distribution Network Service Provider* that non-network providers may access;
 - (9) how non-network providers may contact the *Distribution Network Service Provider* to request additional information or register on the *Distribution Network Service Provider's Demand Side Engagement Register*;
 - (10) the process, including the information that would be provided, for updating the parties registered on the *Demand Side Engagement Register*;
 - (11) the *Distribution Network Service Provider's* contact details;
 - (12) the methodology to be used for determining avoided customer transmission use of system charges, in accordance with clauses 5.5 and 5.6.2(k1);

-
- (13) a summary of the factors the *Distribution Network Service Provider* takes into account when negotiating *connection agreements* with *embedded generators*;
 - (14) the process used, and a summary of any specific regulatory requirements, for setting charges and the terms and conditions of *connection agreements* for embedded generation; and
 - (15) the process for lodging a *embedded generation connection application* and the factors taken into account by the *Distribution Network Service Provider* when assessing *connection applications*.
- (m) The first *Demand Side Engagement* document must be published by [commencement date + 9 months].
 - (n) The *Distribution Network Service Provider* must review and publish its *Demand Side Engagement* document at least once every three years from the date the first *Demand Side Engagement* document is published.
 - (o) Each *Distribution Network Service Provider* must establish, maintain and publish a database of non-network proposals and/or case studies that demonstrate economic assessments undertaken by the *Distribution Network Service Provider* in its consideration of non-network proposals. In selecting items to be published in the database, the *Distribution Network Service Provider* should protect the confidentiality of commercially sensitive information.
 - (p) Each *Distribution Network Service Provider* must establish and maintain a *Demand Side Engagement Register* for those parties wishing to be advised of relevant developments relating to clause 5.6.2AA and clause 5.6.5CA.

Distribution Annual Planning Report

- (q) By the *jurisdiction specified date* each year, each *Distribution Network Service Provider* must publish the *Distribution Annual Planning Report* setting out the results of the *distribution annual planning review* for the *forward planning period* beginning on the date one day after the applicable *jurisdiction specified date*.
- (r) If a *Registered Participant, Connection Applicant, Intending Participant, AEMO, interested party* or a party registered under the *Distribution Network Service Provider's Demand Side Engagement Register* requests a public forum on the *Distribution Annual Planning Report*, then within three months following the *publication* of that report, the *Distribution Network Service Provider* must conduct a public forum on that report.
- (s) The *Distribution Annual Planning Report* must be certified by the Chief Executive Officer, and a Director or Company Secretary of the *Distribution Network Service Provider* that the *Distribution Annual Planning Report*:

-
- (1) meets the *Distribution Network Service Provider's* obligations under the *Rules* and any *regulatory obligation or requirement*; and
 - (2) accurately represents the relevant policies of the *Distribution Network Service Provider*, including the *Distribution Network Service Provider's* *asset management* policies.

Contents of the Distribution Annual Planning Report

- (t) The *Distribution Annual Planning Report* must satisfy the requirements of clause S5.8, subject to clauses 5.6.2AA (u), (v) and (w)
- (u) A *Distribution Network Service Provider* may apply to the AER for an exemption from or variations to any requirement of clause S5.8.
- (v) An application for an exemption or variation under paragraph (u) must demonstrate that, due to its operational or network characteristics, the costs of preparing the data would manifestly exceed any benefit that may reasonably be obtained from reporting the relevant data.
- (w) The AER must:
 - (i) respond to an application under paragraph (u) within 30 business days; and
 - (ii) grant an exemption or variation to the requirements of clause S5.8 if satisfied that the *Distribution Network Service Provider* has met the test under paragraph (v).

[3] New clause 5.6.5CA Regulatory investment test for distribution

After clause 5.6.5C, insert:

5.6.5CA Regulatory investment test for distribution

Principles

- (a) The *AER* must develop and *publish* the *regulatory investment test for distribution* in accordance with the *distribution consultation procedure* and this clause 5.6.5CA.
- (b) The purpose of the *regulatory investment test for distribution* is to identify the *credible option* that maximises the present value of the net economic benefit to all those who produce, consume and transport electricity in the *market* (the *preferred option*). For the avoidance of doubt, a *preferred option* may, in the relevant circumstances, have a negative net economic benefit (that is, a net economic cost) where the *identified need* is for *reliability corrective action*.

(c) The *regulatory investment test for distribution* must:

- (1) be based on a cost-benefit analysis that includes an assessment of reasonable scenarios of future supply and demand if each *credible option* were implemented compared to the situation where no option is implemented;
- (2) not require a level of analysis that is disproportionate to the scale and likely impact of each of the *credible options* being considered;
- (3) be capable of being applied in a predictable, transparent and consistent manner;
- (4) require the *Distribution Network Service Provider* to consider the following classes of market benefits that could be delivered by the *credible option*:
 - (i) changes in voluntary *load* curtailment;
 - (ii) changes in involuntary *load shedding* and *customer* interruptions caused by *network* outages, using a reasonable forecast of the value of electricity to *customers*;
 - (iii) changes in costs for parties, other than the *Distribution Network Service Provider*, due to:
 - (A) differences in the timing of new *plant*;
 - (B) differences in capital costs; and
 - (C) differences in the operating and maintenance costs;
 - (iv) differences in the timing of *distribution investments*;
 - (v) changes in *load transfer capacity* and the potential for *load transfer capacity* of *embedded generating units*;
 - (vi) any additional option value (where this value has not already been included in the other classes or market benefits) gained or foregone from implementing the *credible option* with respect to the likely future investment needs of the *market*;
 - (vii) changes in *electrical energy losses*; and
 - (viii) any other market benefits that are determined to be relevant by the *Distribution Network Service Provider*.
- (5) with respect to the classes of market benefits set out in subparagraphs (4)(i) and (ii), ensure that, if the *credible option* is for *reliability corrective action*, the consideration and any quantification assessment of these classes of market benefits will only apply insofar as the market

benefit delivered by the *credible option* exceeds the minimum standard required for *reliability corrective action*;

- (6) require the *Distribution Network Service Provider* to consider the following classes of costs that could be delivered by the *credible option*:
 - (i) costs incurred in constructing or providing the *credible option*;
 - (ii) operating and maintenance costs over the operating life of the *credible option*;
 - (iii) the cost of complying with laws, regulations and applicable administrative requirements in relation to the construction and operation of the *credible option*; and
 - (iv) any other class of costs that have been determined to be relevant by the *Distribution Network Service Provider*;
- (7) require a *Distribution Network Service Provider* to include a quantification of all classes of costs set out in paragraph (6) unless it can, in its *draft project assessment report* or in its *final project assessment report*, provide reasons why a particular class of cost is not expected to apply to a *credible option*;
- (8) require a *Distribution Network Service Provider*, in exercising judgement as to whether a particular class of market benefit or cost applies to a *credible option*, to have regard to any submissions received on the *project specification report* and/or *draft project assessment report* where relevant;
- (9) provide that any market benefit or cost which cannot be measured as a market benefit or a cost to *Generators, Distribution Network Service Providers, Transmission Network Service Providers, Market Customers* or consumers of electricity may not be included in any analysis under the *regulatory investment test for distribution*; and
- (10) specify:
 - (i) the method or methods permitted for estimating the magnitude of the different classes of market benefits;
 - (ii) the method or methods permitted for estimating the magnitude of the different classes of costs;
 - (iii) the appropriate method and value for specific inputs, where relevant, for determining the discount rate or rates to be applied;
 - (iv) that a sensitivity analysis is required for modelling the cost-benefit analysis; and

-
- (v) that the *credible option* that maximises the present value of net economic benefit to all those who produce, consume or transport electricity in the *market* may, in some circumstances, be a negative net economic benefit (that is, a net economic cost) where the *identified need* is for *reliability corrective action* or where the *Distribution Network Service Provider* does not quantify market benefits during the project assessment process.
- (d) *Distribution Network Service Providers* may, under the *regulatory investment test for distribution*, quantify each class of market benefits under paragraph (c)(4) where the *Distribution Network Service Provider* considers that:
- (1) any applicable market benefits may be material; or
 - (2) the quantification of market benefits may alter the selection of the *preferred option*.
- (e) The *regulatory investment test for distribution* permits a single assessment of an integrated set of related and similar *distribution investments*.

Regulatory investment test for distribution guidelines

- (f) At the same time as the *AER* develops and *publishes* a proposed *regulatory investment test for distribution* under the *distribution consultation procedure*, the *AER* must also develop and *publish* guidelines for the operation and application of the *regulatory investment test for distribution* (the *regulatory investment test for distribution application guidelines*) in accordance with the *distribution consultation procedure* and this clause 5.6.5CA.
- (g) The *regulatory investment test for distribution application guidelines* must:
- (1) give effect to and be consistent with this clause 5.6.5CA and clauses 5.6.5CB, 5.6.5D, 5.6.6AB, and 5.6.6AC; and
 - (2) provide guidance on:
 - (i) the operation and application of the *regulatory investment test for distribution*;
 - (ii) the process to be followed in applying the *regulatory investment test for distribution*; and
 - (iii) how disputes raised in relation to the *regulatory investment test for distribution* and its application will be addressed and resolved.
- (h) The *regulatory investment test for distribution application guidelines* must provide guidance and worked examples as to:
- (1) the acceptable methodologies for undertaking the *Specification Threshold*

Test;

- (2) what constitutes a *credible option*;
 - (3) acceptable methodologies for valuing the costs of a *credible option*;
 - (4) what may constitute an externality under the *regulatory investment test for distribution*;
 - (5) the classes of market benefits to be considered for the purposes of paragraph (c)(4);
 - (6) the suitable modelling periods and approaches to scenario development;
 - (7) the acceptable methodologies for valuing the market benefits of a *credible option* referred to in paragraph (c);
 - (8) the appropriate approach to undertaking a sensitivity analysis for the purposes of paragraph (c)(10)(iv);
 - (9) the appropriate approaches to assessing uncertainty and risks; and
 - (10) when a person is sufficiently committed to a *credible option* for *reliability corrective action* to be characterised as a proponent for the purposes of clause 5.6.5D(b1)(6).
-
- (i) The *AER* must develop and *publish* the first *regulatory investment test for distribution* and *regulatory investment test for distribution application guidelines* by [insert date], and there must be a *regulatory investment test for distribution* and *regulatory investment test for distribution application guidelines* in force at all times after that date.
 - (j) The *AER* may, from time to time, amend or replace the *regulatory investment test for distribution* and *regulatory investment test for distribution application guidelines* in accordance with the *distribution consultation procedures*, provided the *AER* publishes any amendments to, or replacements of, the *regulatory investment test for distribution* or *regulatory investment test for distribution application guidelines* at the same time.
 - (k) An amendment referred to in paragraph (j) does not apply to a current application of the *regulatory investment test for distribution* and the *regulatory investment test for distribution application guidelines* under the *Rules* by a *Distribution Network Service Provider*.
 - (l) For the purposes of paragraph (k), a “current application” means any action or process initiated under the *Rules* which relies on or is referenced to the *regulatory investment test for distribution* and/or the *regulatory investment test for distribution application guidelines* and is not completed at the date of the relevant amendment to the *regulatory investment test for distribution* and/or the

regulatory investment test for distribution application guidelines.

- (m) The *AER* may publish the *regulatory investment test for distribution*, the *regulatory investment test for distribution application guidelines*, the *regulatory investment test for transmission* and the *regulatory investment test for transmission application guidelines* in a single document.

5.6.5CB Investments subject to the regulatory investment test for distribution

- (a) A *Distribution Network Service Provider* must apply the *regulatory investment test for distribution* to a proposed *distribution investment* except in circumstances where:
- (1) the proposed *distribution investment* is required to address an urgent and unforeseen *network* issue that would otherwise put at risk the *reliability* of the *distribution network* as described in paragraph (c);
 - (2) the estimated capital cost of the most expensive option to address the relevant *identified need* which is technically and economically feasible is less than \$5 million (as varied in accordance with a *cost threshold determination*);
 - (3) the proposed *distribution investment* is designed to address limitations in respect of the *transmission network* notified under clause 5.6.2(e)(2). For the avoidance of doubt, such investments must be assessed under the *regulatory investment test for transmission*;
 - (4) the need for the proposed *distribution investment* has been identified through a joint planning process between a *Distribution Network Service Provider* and a *Transmission Network Service Provider*;
 - (5) the cost of the proposed *distribution investment* is to be fully recovered through charges in relation to *negotiated distribution services*, *alternative control services*, or *unclassified distribution services*;
 - (6) the proposed *distribution investment* will be a *connection asset*, which will not be part of the *Distribution Network Service Provider's* shared *distribution network*;
 - (7) the *distribution investment* is related to the refurbishment or replacement of existing assets and is not intended to *augment* the *distribution network*; or
 - (8) the refurbishment or replacement expenditure also results in an *augmentation* to the *network*, and the estimated capital cost for the *augmentation* component of the *distribution investment* is less than \$5 million (as varied in accordance with a *cost threshold determination*), as allocated by the *Distribution Network Service Provider* in accordance

with recognised *Cost Allocation Methods* and any applicable *AER* guidelines.

- (b) If the proposed *distribution investment* is to be provided as a *dual function asset*, the proposed investment must be assessed under the *regulatory investment test for distribution*.
- (c) For the purposes of paragraph (a)(1), a proposed *distribution investment* will be required to address an urgent and unforeseen *network* issue that would otherwise put at risk the *reliability* of the *distribution network* if:
 - (1) it is necessary that the proposed *distribution investment* be operational within 6 months of the *Distribution Network Service Provider* identifying the *identified need*;
 - (2) the event or circumstances causing the *identified need* was not reasonably foreseeable by, and was beyond the reasonable control of, the *Distribution Network Service Provider*; and
 - (3) a failure to address the *identified need* is likely to materially adversely affect the *reliability* or *secure operating state* of the *distribution network*.
- (d) With the exception of *negotiated distribution services*, for each proposed investment to which the *regulatory investment test for distribution* does not apply in accordance with paragraph (a)(1)-(8), the *Distribution Network Service Provider* must ensure, acting reasonably, that the investment is planned and developed at least cost over the life of the investment.
- (e) A *Distribution Network Service Provider* must not treat different parts of an integrated solution to an *identified need* as distinct and separate options for the purposes of determining whether the *regulatory investment test for distribution* applies to each of those parts.
- (f) The AER may review a *Distribution Network Service Provider's* policies and procedures with regard to consideration of non-network alternatives in order to determine if non-network alternatives have been duly considered.

-
- (g) For any proposed *distribution investment* to which the *regulatory investment test for distribution* does not apply in accordance with paragraph (a)(1)-(8), the AER may audit the *Distribution Network Service Provider's* planning and decision-making for that investment to determine the extent to which the provider gave adequate consideration to *non-network* solutions in accordance with the requirements of paragraph 5.6.2AA(j) and the *Distribution Network Service Provider's* Demand Side Engagement Strategy.
 - (h) The AER must publish a report by 31 March each year which details the results of any review conducted under paragraph (f) and any audit conducted under paragraph (g) in the preceding calendar year.

[4] New Clause 5.6.6AB Regulatory investment test for distribution procedures

After clause 5.6.6AA, insert:

5.6.6AB Regulatory investment test for distribution procedures

- (a) In addition to the procedures to make a *connection* to a *network* in rule 5.3, the *Distribution Network Service Provider* must comply with the access arrangements and procedures set out in this clause 5.6.6AB and in clause 5.6.6AC.
- (b) A *Distribution Network Service Provider* who proposes to make a *distribution investment*, other than an investment of the kind described in clauses 5.6.5CB(a)(1)-(8), must consult with all *Registered Participants*, *AEMO*, *interested parties*, *non network providers* and parties on the *Distribution Network Service Provider's* *Demand Side Engagement Register* on the proposed *distribution investment* in accordance with this clause 5.6.6AB.

Specification Threshold Test

- (c) The *Distribution Network Service Provider* must assess an *identified need* for a proposed investment against the *Specification Threshold Test*.
- (d) In undertaking the *Specification Threshold Test*, the *Distribution Network Service Provider* must assess:
 - (1) the reasons (*identified need*) for the proposed *distribution investment*, including the assumptions used in identifying the *identified need*; and
 - (2) technically feasible *non-network* options that can either defer or remove the need for the proposed *distribution investment* to address the *identified need*.

-
- (e) If after undertaking the *Specification Threshold Test* the *Distribution Network Service Provider* determines that there are no technically feasible non-network options to either defer or remove the need for the proposed *distribution investment* to address the *identified need*, then the *Distribution Network Service Provider*:
- (1) must make available a *Specification Threshold Test* report on its website which outlines its assessment against the *Specification Threshold Test* and the methodologies and assumptions used to make this assessment, as soon as practicable after the completion of the assessment. The *Specification Threshold Test* report must be published within 5 business days of the report being made available on the *Distribution Network Service Provider's* website; and
 - (2) is not required to publish a *project specification report* under paragraph (g).

Project specification stage

- (f) The *Distribution Network Service Provider* must carry out the project specification stage where a *Specification Threshold Test* assessment by the *Distribution Network Service Provider* determines that the *identified need* has the potential for technically feasible non-network options either to defer or remove the need for the proposed *distribution investment* to address the *identified need*.
- (g) A *Distribution Network Service Provider* will be required to consult on the *identified need* for the proposed *distribution investment* through the publication of a *project specification report*.
- (h) A *Distribution Network Service Provider* must prepare a report (the *project specification report*), which must include:
- (1) a description of the *identified need*;
 - (2) the assumptions used in identifying the *identified need* (including, in the case of proposed *reliability corrective action*, why the *Distribution Network Service Provider* considers *reliability corrective action* is necessary);
 - (3) the relevant annual deferred *augmentation* charge associated with the *identified need*;
 - (4) a summary of the *Distribution Network Service Provider's* assessment of the *identified need* against the *Specification Threshold Test*, including:
 - (i) technically feasible non-network options either to defer or remove the need for the proposed *distribution investment* to address the *identified need*; and
 - (ii) the methodology and assumptions used by the *Distribution Network Service Provider* in undertaking the *Specification*

Threshold Test.

- (5) the technical characteristics of the *identified need* that a non-network option would be required to deliver, such as:
 - (i) the size of *load* reduction or additional *supply*;
 - (ii) location;
 - (iii) contribution to *power system security* or *reliability*;
 - (iv) contribution to *power system* fault levels as determined under clause 4.6.1; and
 - (v) the operating profile;
 - (6) a description of all options. These options can include, but are not limited to, alternative *distribution* options, *generation* options, demand side management, and options involving other *transmission* and *distribution networks* and could include groups of options; and
 - (7) for each option, the *Distribution Network Service Provider* must provide information, to the extent practicable, on:
 - (i) a technical definition or characteristics of the option;
 - (ii) the estimated construction timetable and commissioning date where the option is a *new network investment* option; and
 - (iii) the total indicative capital costs and operating costs.
- (i) The *project specification report* must be *published* in a timely manner having regard to the ability of parties to identify the scope for, and develop, alternative investment options or variants to the proposed investment options.
 - (j) At the same time as *publishing* the *project specification report*, the *Distribution Network Service Provider* must notify parties on the *Distribution Network Service Provider's Demand Side Engagement Register* of the report's *publication*.
 - (k) A *Distribution Network Service Provider* must *publish* any preliminary or supplementary information where such information is likely to enhance the ability of a party to engage effectively in the *project specification report* consultation process.
 - (l) *Registered Participants, AEMO, interested parties, non-network providers* and parties on the *Distribution Network Service Provider's Demand Side Engagement Register* must be provided with not less than four months in which to make submissions on the *project specification report* from the date that the *Distribution Network Service Provider* publishes a *project specification report*.

Draft project assessment report

(m) If the *Distribution Network Service Provider* elects to proceed with the proposed *distribution investment*, within:

- (1) 12 months, or
- (2) any longer time period as agreed to in writing by the *AER*, or
- (3) where relevant, the end of the consultation period on a *project specification report* or the publication by the *Distribution Network Service Provider* of a *Specification Threshold Test* report,

the *Distribution Network Service Provider* must prepare a *draft project assessment report*, having regard to the submissions received, if any, and *publish* that report.

(n) The *draft project assessment report* must include the following:

- (1) a description of the *identified need* for the investment,
- (2) the assumptions used in identifying the *identified need* (including, in the case of proposed *reliability corrective action*, reasons that the *Distribution Network Service Provider* considers *reliability corrective action* is necessary);
- (3) if applicable, a summary of, and commentary on, the submissions on the *project specification report*;
- (4) a description of each *credible option* assessed;
- (5) where relevant, a quantification of each applicable market benefit for each *credible option*;
- (6) a quantification of each applicable cost for each *credible option*, including a breakdown of operating and capital expenditure;
- (7) a detailed description of the methodologies used in quantifying each class of cost and market benefit;
- (8) where relevant, the reasons why the *Distribution Network Service Provider* has determined that a class or classes of market benefits or costs do not apply to a *credible option*;
- (9) the results of a net present value analysis of each *credible option* and accompanying explanatory statements regarding the results;
- (10) the identification of the proposed *preferred option*; and
- (11) for the proposed *preferred option*, the *Distribution Network Service Provider* must provide:

-
- (i) details of the technical characteristics;
 - (ii) the estimated construction timetable and commissioning date;
 - (iii) the indicative capital and operational cost; and
 - (iv) a statement and accompanying detailed analysis that the *preferred option* satisfies the *regulatory investment test for distribution*.
 - (o) The *Distribution Network Service Provider* must seek submissions from *Registered Participants, AEMO, non-network providers, interested parties* and parties on the *Distribution Network Service Provider's Demand Side Engagement Register* on the preferred option presented, and the issues addressed, in the *draft project assessment report*.
 - (p) If the preferred option has the potential to, or is likely to, have an adverse impact on the quality of service experienced by consumers of electricity, including:
 - (1) estimated changes in voluntary *load* curtailment by consumers of electricity; and
 - (2) estimated changes in involuntary *load* shedding and *customer* interruptions caused by *network* outages,then the *Distribution Network Service Provider* must consult directly with those affected customers.
 - (q) The consultation period on the *draft project assessment report* must not be less than 30 *business days* from the *publication* of the report.
 - (r) Within 4 weeks of the end of the consultation period on the *draft project assessment report*, at the request of an *interested party* or a *Registered Participant, AEMO, non-network provider* or a party on the *Distribution Network Service Provider's Demand Side Engagement Register*, the *Distribution Network Service Provider* must use its best endeavours to meet with that party if:
 - (1) having considered all submissions, the *Distribution Network Service Provider*, acting reasonably, considers that the meeting is necessary or desirable; or
 - (2) a meeting is requested by two or more parties under this clause.
 - (s) If a *Distribution Network Service Provider* elects to proceed with a proposed *distribution investment* which is for *reliability corrective action*, it can only do so where the proposed *preferred option* has a proponent. The identity of that proponent must be included in the *draft project assessment report*.

Exemption from the draft project assessment report

- (t) A *Distribution Network Service Provider* is exempt from publishing a *draft project assessment report* under paragraph (m) if:
 - (1) the *Distribution Network Service Provider* has published a *Specification Threshold Test* report which determined that there is no material potential for non-network options either to defer or remove the need for the proposed *distribution investment* to address the *identified need*; and
 - (2) the estimated capital cost of proposed *preferred option* is less than \$10 million (varied in accordance with a *cost threshold determination*).

Final project assessment report

- (u) As soon as practicable after the end of the consultation period on the *draft project assessment report*, the *Distribution Network Service Provider* must, having regard to any submissions received on the *draft project assessment report*, publish a *final project assessment report*.
- (v) If the proposed *distribution investment* is exempt from the *draft project assessment report* stage under paragraph (t), the *Distribution Network Service Provider* must publish the *final project assessment report* as soon as practicable after the publication of the relevant *Specification Threshold Test* report.
- (w) At the same time as publishing the *final project assessment report*, the *Distribution Network Service Provider* must notify parties on the *Distribution Network Service Provider's Demand Side Engagement Register* of the report's publication.
- (x) The *final project assessment report* must set out:
 - (1) the matters detailed in the *draft project assessment report* as required under paragraph (n); and
 - (2) summarise any submissions received on the *draft project assessment report* and the *Distribution Network Service Provider's* response to each such submission.
- (y) If the *preferred option* outlined in the *final project assessment report* has an estimated capital cost less than \$20 million (varied in accordance with a *cost threshold determination*), the *Distribution Network Service Provider* may discharge its obligations to publish its *final project assessment report* under paragraphs (u) and (v) by including the *final project assessment report* as part of its *Distribution Annual Planning Report*.
- (z) The *AER* must take into account a *Distribution Network Service Provider's* application of the *regulatory investment test for distribution* and *final project assessment reports* when considering a *Distribution Network Service Provider's* regulatory proposal under Chapter 6 of the *Rules*.

5.6.6AC Disputes in relation to application of regulatory investment test for distribution

- (a) *Registered Participants, the AEMC, Connection Applicants, Intending Participants, AEMO, interested parties, and non-network providers* may, by notice to the *AER*, dispute matters set out by the *Distribution Network Service Provider* in the *final project assessment report* in relation to the application of the *regulatory investment test for distribution*.
- (b) A dispute under this clause 5.6.6AC may not be raised in relation to any matters set out in the *final project assessment report* which:
 - (1) are treated as externalities by the *regulatory investment test for distribution*; or
 - (2) relate to an individual's personal detriment or property rights.
- (c) Within 30 days of the date of *publication* of the *final project assessment report* under clause 5.6.6AB(u) or (v) (as the case may be), the party disputing a conclusion made in the *final project assessment report* (a *disputing party*) must:
 - (1) give notice of the dispute in writing setting out the grounds for the dispute (the *dispute notice*) to the *AER*; and
 - (2) at the same time, give a copy of the *dispute notice* to the relevant *Distribution Network Service Provider*.
- (d) Subject to paragraph (f)(3), within 40 days of receipt of the *dispute notice* or within an additional period of up to 60 days where the *AER* notifies a relevant party that the additional time is required to make a determination because of the complexity or difficulty of the issues involved, the *AER* must either:
 - (1) reject any dispute by written notice to the person who initiated the dispute if the *AER* considers that the grounds for the dispute are invalid, misconceived or lacking in substance; and
 - (2) notify the *Distribution Network Service Provider* that the dispute has been rejected; or
 - (3) subject to paragraph (f), make and *publish* a determination:
 - (i) directing the *Distribution Network Service Provider* to amend the matters set out in the *final project assessment report*; or
 - (ii) stating that, based on the grounds of the dispute, the *Distribution Network Service Provider* will not be required to amend the *final project assessment report*.
- (e) A *Distribution Network Service Provider* must comply with an *AER* determination made under subparagraph (d)(3)(i) within a timeframe specified by the *AER* in its determination.

-
- (f) In making a determination under paragraph (d)(3), the *AER*:
- (1) must only take into account information and analysis that the *Distribution Network Service Provider* could reasonably be expected to have considered or undertaken at the time that it performed the *regulatory investment test for distribution*;
 - (2) must *publish* its reasons for making a determination;
 - (3) may request further information regarding the dispute from the *disputing party* or the *Distribution Network Service Provider* in which case the period of time for rejecting a dispute or issuing a determination under paragraph (d) is extended by the time it takes the relevant party to provide the requested further information to the *AER*;
 - (4) may disregard any matter raised by the *disputing party* or the *Distribution Network Service Provider* that is misconceived or lacking in substance; and
 - (5) where making a determination under subparagraph (d)(3)(i), must specify a reasonable timeframe for the *Distribution Network Service Provider* to comply with the *AER*'s direction to amend the matters set out in the *final project assessment report*.
- (g) The *AER* may only make a determination under subparagraph (d)(3)(i) if it determines that:
- (1) the *Distribution Network Service Provider* has not correctly applied the *regulatory investment test for distribution* in accordance with the *Rules*; or
 - (2) there was a manifest error in the calculations performed by the *Distribution Network Service Provider* in applying the *regulatory investment test for distribution*.
- (h) A *disputing party* or the *Distribution Network Service Provider* (as the case may be) must as soon as reasonably practicable provide any information requested under paragraph (f)(3) to the *AER*.
- (i) The relevant period of time in which the *AER* must make a determination under paragraph (d)(3) is automatically extended by the period of time taken by the *Distribution Network Service Provider* or a *disputing party* to provide any additional information requested by the *AER* under this clause 5.6.6AC, provided:
- (1) the *AER* makes the request for the additional information at least 7 *business days* prior to the expiry of the relevant period; and
 - (2) the *Distribution Network Service Provider* or the *disputing party* provides the additional information within 14 *business days* of receipt of the request.
- (j) In granting an exemption from the dispute resolution process, the *AER* may consider if the need for the relevant *distribution investment* to proceed outweighs the potential

benefits from conducting the dispute resolution process.

[5] New rule S5.8 Distribution Annual Reporting Requirements

After rule S5.7, insert:

Schedule 5.8 Distribution Annual Reporting Requirements

This schedule sets out the reporting requirements that must be provided by the relevant *Distribution Network Service Provider* under clause 5.6.2AA(t). The *Distribution Network Service Provider* must:

- (1) set out information regarding the *Distribution Network Service Provider* and its *network*, including:
 - (i) a description of its *network*;
 - (ii) a description of the *Distribution Network Service Provider's* operating environment;
 - (iii) the number and types of *distribution assets*;
 - (iv) methodologies used in preparing the *Distribution Annual Planning Report*, including methodologies used to identify *system limitations* and any assumptions applied; and
 - (v) analysis and explanation of any aspects of forecasts and information provided in the *Distribution Annual Planning Report* that have changed significantly from previous forecasts and information in the preceding year. For the avoidance of doubt, significant changes in forecasts must be analysed and explained;
- (2) prepare forecasts for the *forward planning period*, including at least:
 - (i) description of the forecasting methodology used, sources of input information, and the assumptions applied;
 - (ii) *load* forecasts for:
 - (A) the *network* as a whole;
 - (B) *transmission-distribution connection points*;
 - (C) *sub-transmission lines*; and
 - (D) *zone substations*,including for each item specified above:

-
- (E) *total capacity*;
 - (F) *firm delivery capacity* for summer periods and winter periods;
 - (G) *peak load* (summer or winter and the number of hours per year that 95% of peak is expected to be reached);
 - (H) *power factor* at time of *peak load*;
 - (I) *load transfer capacities*; and
 - (J) *generation capacity of embedded generating units*;
- (iii) forecasts of future *transmission-distribution connection points, sub-transmission lines* and *zone substations*, including for each future *transmission-distribution connection point* and *zone substation*:
 - (A) its location;
 - (B) future *loading level*; and
 - (C) proposed commissioning timing (best estimate of month and year);
 - (iv) forecasts of *reliability* targets set by any *regulatory obligation or requirement*; and
 - (v) forecasts of any factors that may have a material impact on the *network*, including factors affecting:
 - (A) fault levels;
 - (B) *voltage* levels;
 - (C) other *power system security* requirements; and
 - (D) ageing and potentially unreliable assets;
- (3) for any *primary distribution feeders* identified by the *Distribution Network Service Provider* that:
 - (i) in the first year of the *forward planning period*, are forecast to experience an overload, or
 - (ii) in the next two years, are forecast to exceed 100% of its *normal cyclic rating* (in summer periods or winter periods) under normal operating conditions,

the Distribution Network Service Provider must set out:

-
- (iii) the location of the *primary distribution feeder*;
 - (iv) the extent of the overload in the first year of the *forward planning period*;
 - (v) the forecast *load* in the following two years and the extent the forecast *load* would exceed the *normal cyclic rating* (in summer periods or winter periods);
 - (vi) any technically feasible options being considered by the *Distribution Network Service Provider* to address the overload or forecast *load* that exceeds the *normal cyclic rating*; and
 - (vii) where an estimated reduction in forecast *load* would defer a forecast overload for a period of 12 months, include:
 - (A) best estimate of the month and year in which the overload is forecast to occur;
 - (B) a summary of the location of relevant *connection points* at which the estimated reduction in forecast *load* would defer the overload;
 - (C) the estimated reduction in forecast *load* in MW needed to defer the forecast *system limitation*;
- (4) identify *system limitations* for *sub-transmission lines* and *zone substations*, including at least:
- (i) best estimates of the location and timing (month and year) of the *system limitation*;
 - (ii) analysis of any potential for *load transfer capacity* between *supply points* that may decrease the impact of the *system limitation* or defer the requirement for investment;
 - (iii) impact of the *system limitation*, if any, on the capacity at *transmission distribution connection points*;
 - (iv) discussion of the potential solutions that may address the *system limitation* in the *forward planning period*, if a solution is required; and
 - (v) where an estimated reduction in forecast *load* would defer a forecast *system limitation* for a period of, at least, 12 months, include:
 - (A) the month and year in which a *system limitation* is forecast to occur as required under subparagraph (ii);

-
- (B) the relevant *connection points* at which the estimated reduction in forecast *load* may occur; and
 - (C) the estimated reduction in forecast *load* in MW needed;
 - (5) provide a summary of each proposed *distribution investment* for which the *regulatory investment test for distribution* has been completed or is in progress, including:
 - (i) a summary of the outcomes or progress of the *regulatory investment test for distribution* including any consultation undertaken under the *Demand Side Engagement Strategy* or any other consultation on the investment;
 - (ii) a description of the investment required and how it will address the *system limitation*;
 - (iii) estimation of the month and year of the investment in which it is proposed that the investment will become operational;
 - (iv) the estimated capital cost;
 - (v) a summary of any other options considered or being considered (to the extent reasonably practicable) and, if the *regulatory investment test for distribution* is in progress, the *Distribution Network Service Provider's preferred option* and the reasons for selecting the *preferred option*;
 - (vi) any factors that may result in the investment requirements (or *preferred option*) being altered; and
 - (vii) any impacts on *Network Users*, including any potential material impacts on *connection charges* and *distribution use of system charges* that have been estimated;
 - (6) for each identified *system limitation* which will require a *regulatory investment test for distribution*, provide an estimate of the month and year when the *regulatory investment test for distribution* is expected to commence;
 - (7) for all committed investments to be carried out within the *forward planning period* with an estimated capital cost of \$2 million or more (as varied by a *cost threshold determination*) that are to address a refurbishment or replacement need, or an urgent and unforeseen *network* issue as described in clause 5.6.5CB(c), provide:
 - (i) a brief description of the investment, including its location;
 - (ii) best estimates of the date (month and year) the investment was or would become operational;

-
- (iii) the purpose of the investment;
 - (iv) the estimated capital cost of the investment; and
 - (v) an explanation of the ranking of any reasonable *credible options* to the committed project which are being or have been considered by the *Distribution Network Service Provider*. These alternatives could include, but are not limited to, *generation* options, demand side options, and options involving other *distribution* or *transmission networks*.
 - (8) provide information on any joint planning undertaken with the *Transmission Network Service Provider* in the preceding year, including:
 - (i) a summary of the process and methodology used by the *Network Service Providers* to undertake joint planning;
 - (ii) any planned *joint network investments*; and
 - (iii) where additional information on the joint planning and *joint network investments* may be obtained.
 - (9) provide information on any joint planning undertaken with other *Distribution Network Service Providers* in the preceding year, including:
 - (i) a summary of the process and methodology used by the *Distribution Network Service Providers* to undertake joint planning;
 - (ii) any planned investments that have been discussed through this process, including estimated capital costs and estimated timing (month and year) of the investment; and
 - (iii) where additional information on the investments may be obtained.
 - (10) provide information on the performance of the *Distribution Network Service Provider's network*, including a summary description of the:
 - (i) *reliability standards* that apply, including the relevant codes, standards and guidelines;
 - (ii) quality of *supply* standards that apply, including the relevant codes, standards and guidelines;
 - (iii) performance of the *distribution network* against the reliability and quality of *supply* standards for the preceding year;
 - (iv) qualitative assessment of how the *Distribution Network Service Provider* has complied with the applicable standards, its processes to ensure compliance, and a description of any areas of the

-
- standards that were not met in the preceding year and the corrective action taken; and
- (v) a summary of the information in the most recent submission to the *AER* under the *service target performance incentive scheme*.
- (11) provide information on the *Distribution Network Service Provider's asset management* approach, including:
- (i) a summary of any *asset management* strategy employed by the *Distribution Network Service Provider*;
 - (ii) a summary of any issues that may impact on the *system limitations* identified in the *Distribution Annual Planning Report* that has been identified through carrying out *asset management*; and
 - (iii) information about where further information on the *asset management* strategy and methodology adopted by the *Distribution Network Service Provider* may be obtained.
- (12) provide information on the *Distribution Network Service Provider's demand management* activities, including a qualitative summary of:
- (i) non-*network* solutions that have been considered in the past year, including *embedded generation*;
 - (ii) actions taken to promote non-*network* initiatives in the preceding year, including *embedded generation*; and
 - (iii) the *Distribution Network Service Provider's* plans for demand management and *embedded generation* over the *forward planning period*.
- (13) provide information on the *Distribution Network Service Provider's* investments in metering or information technology systems which occurred in the preceding year, and planned investments in metering or information technology systems in the *forward planning period*; and
- (14) provide regional development plans consisting of a map of the *Distribution Network Service Provider's network* as a whole or maps by regions in accordance with the *Distribution Network Service Provider's* planning methodology or as required under any *regulatory obligation or requirement* identifying:
- (i) *sub-transmission lines, zone substations* and *transmission-distribution connection points*;
 - (ii) summary of the forecast *capacity* and the relevant *reliability* targets of each region;

-
- (iii) any *system limitations* that have been forecast, including, where they have been identified, overloaded *primary distribution feeders*; and
 - (iv) provide any other information as required by the relevant jurisdiction that applies to the *Distribution Network Service Provider*.

Schedule 2 Amendment of National Electricity Rules

[1] Clause 5.6.2 Network Development

In clause 5.6.2(b), omit “with each Distribution Network Service Provider connected to its transmission network within each region. The annual planning review must:” and substitute “, which must:”.

[2] Clause 5.6.2 Network Development

After clause 5.6.2(b), insert:

- (b1) For the annual planning review required by paragraph (b), each *Transmission Network Service Provider* must consult with each relevant *Distribution Network Service Provider*.

[3] Clause 5.6.2 Network Development

Omit clause 5.6.2(c) and substitute “[Deleted]”.

[4] Clause 5.6.2 Network Development

In clause 5.6.2(d), omit “5 years for *distribution networks* and”.

[5] Clause 5.6.2 Network Development

Omit clauses 5.6.2(e1) to (k) and substitute in each case “[Deleted]”.

[6] Clause 5.6.2 Network Development

In clause 5.6.2(k1), omit “referred to in paragraph (k)”.

[7] Clause 5.6.5A Investments subject to the regulatory test

Omit clause 5.6.5A in its entirety (including the heading) and substitute “[Deleted]”.

[8] Clause 5.6.5B Regulatory investment test for transmission

In clauses 5.6.5B(c) and 5.6.5B(i), after “*Transmission Network Service Provider*” wherever occurring,

insert “or *Distribution Network Service Provider* (as the case may be)”.

[9] Clause 5.6.5B Regulatory investment test for transmission

In clause 5.6.5B(c), after “*Transmission Network Service Provider’s*” insert “or *Distribution Network Service Provider’s* (as the case may be)”.

[10] Clause 5.6.5B Regulatory investment test for transmission

In clause 5.6.5B(c), after “*transmission investment*”, insert “or *joint network investment* (as the case may be)”.

[11] Clause 5.6.5C Investments subject to the regulatory test for transmission

In clauses 5.6.5C(a), 5.6.5C(b), 5.6.5C(d) and 5.6.5C(e), after “*Transmission Network Service Provider*” wherever occurring, insert “or *Distribution Network Service Provider* (as the case may be)”.

[12] Clause 5.6.5C Investments subject to the regulatory test for transmission

In clauses 5.6.5C(a), 5.6.5C(b) and 5.6.5C(c), after “*transmission investment*” wherever occurring, insert “or *joint network investment* (as the case may be)”.

[13] Clause 5.6.5D Identification of a credible option

After clause 5.6.5D(b), insert:

- (b1) In applying the *regulatory investment test for distribution*, a *Distribution Network Service Provider* must consider, in relation to a proposed *distribution investment* to address an *identified need* other than those described in clauses 5.6.5CB(a)(1)-(8), all options that could reasonably be classified as *credible options*, taking into account:
 - (1) energy source;
 - (2) technology;
 - (3) ownership;
 - (4) whether it is a *network* or *non-network* option;
 - (5) whether the *credible option* is intended to be regulated;
 - (6) whether the *credible option* has a proponent; and

-
- (7) any other factor which the *Distribution Network Service Provider* reasonably considers is to be taken into account.

[14] Clause 5.6.5D Identification of a credible option

In clause 5.6.5D(c), after “*transmission investment*”, insert “, or a *distribution investment* or a *joint network investment*”.

[15] Clause 5.6.5E Review of Costs Thresholds

In clause 5.6.5E(a), omit “the definition of *new network investment* and referred to in”.

[16] Clause 5.6.5E Review of Costs Thresholds

In clause 5.6.5E(a)(6), omit “as referred to in the definition of *new network investment*”.

[17] Clause 5.6.5E Review of Costs Thresholds

Insert after clause 5.6.5E(a):

- (a1) Every 3 years (or shorter for the first review) the *AER* must undertake a *cost threshold review* of the changes in the input costs used to calculate the estimated capital costs in relation to investments subject to the *regulatory investment test for distribution* and the *cost threshold* for refurbishment, replacement, and urgent and unforeseen investments subject to the *Distribution Annual Planning Report*, for the purposes of determining whether the amounts are:

- (1) \$5 million referred to in clauses 5.6.5CB(a)(2) and (9);
- (2) \$10 million referred to in clause 5.6.6AB(t)(2); and
- (3) \$20 million referred to in clause 5.6.6AB(y); and
- (4) \$2 million referred to in clause S5.8(7)

(each a *cost threshold*) needs to be changed to maintain the appropriateness of the *cost thresholds* over time by adjusting those cost thresholds to reflect any increase or decrease in the input costs since [insert commencement date of Rule] in respect of the first cost threshold review and since the date of the previous review in respect of every subsequent cost threshold review.

[18] Clause 5.6.5E Review of Costs Thresholds

After clause 5.6.5E(f), insert:

- (g) The *AER* must undertake its *cost threshold review* for the *regulatory investment test for distribution* at the same time it undertakes its *cost threshold review* for the *regulatory investment test for transmission*.
- (h) The *AER* may *publish* a draft determination under paragraph (c), a notice under paragraph (d), or a final determination under paragraph (e) for any *cost threshold reviews* under paragraphs (a) and (a1) as a single document.

[19] Clause 5.6.6 Regulatory investment test for transmission procedures

In clauses 5.6.6(a), 5.6.6(b), 5.6.6(c), 5.6.6(d), 5.6.6(e), 5.6.6(g), 5.6.6(j), 5.6.6(k), 5.6.6(l), 5.6.6(n), 5.6.6(p), 5.6.6(r), 5.6.6(s), 5.6.6(t), 5.6.6(v), 5.6.6(y), and 5.6.6(z) after “*Transmission Network Service Provider*” wherever occurring, insert “or *Distribution Network Service Provider* (as the case may be)”.

[20] Clause 5.6.6 Regulatory investment test for transmission procedures

In clause 5.6.6(u)(4) after “*Transmission Network Service Provider’s*” wherever occurring, insert “or *Distribution Network Service Provider’s* (as the case may be)”.

[21] Clause 5.6.6 Regulatory investment test for transmission procedures

In clauses 5.6.6(b), 5.6.6(j), 5.6.6(l), 5.6.6(t), and 5.6.6(y) after “*transmission investment*” wherever occurring, insert “or *joint network investment* (as the case may be)”.

[22] Clause 5.6.6 Regulatory investment test for transmission procedures

After clause 5.6.6(i), insert:

- (il) A *Distribution Network Service Provider* may discharge its obligation under paragraph (d) to make the *project specification consultation report* available by including the *project specification consultation report* as part of its *Distribution Annual Planning Report*.

[23] Clause 5.6.6 Regulatory investment test for transmission procedures

After clause 5.6.6(m), insert:

- (m1) A *Distribution Network Service Provider* may discharge its obligation under paragraph (j) to make the *project assessment draft report* available by including

the *project assessment draft report* as part of its *Distribution Annual Planning Report* provided its *Distribution Annual Planning Report* is published within 12 months of the end date of the consultation period required under paragraph (h) or within 12 months of the end of such longer time period as is agreed by the *AER* in writing under paragraph (j).

[24] Clause 5.6.6 Regulatory investment test for transmission procedures

After clause 5.6.6(x), insert:

- (x1) A *Distribution Network Service Provider* may discharge its obligation under paragraph (s) and (t) to make the *project assessment conclusions report* available by including the *project assessment conclusions report* as part of its *Distribution Annual Planning Report* provided that the *Distribution Annual Planning Report* is published within 4 weeks from the date of making available the *project assessment conclusions report* under paragraph (s) or (t), as the case may be.

[25] Clause 5.6.6A Disputes in relation to application of regulatory investment test for transmission

In clauses 5.6.6A(a), 5.6.6A(c), 5.6.6A(d), 5.6.6A(d1), 5.6.6A(e), 5.6.6A(f), and 5.6.6A(h), after “*Transmission Network Service Provider*” wherever occurring, insert “or *Distribution Network Service Provider* (as the case may be)”.

[26] Clause 5.6.6A Disputes in relation to application of regulatory investment test for transmission

In clause 5.6.6A(a), after “*Transmission Network Service Provider’s*”, insert “or *Distribution Network Service Provider’s* (as the case may be)”.

[27] Clause 5.6.6A Disputes in relation to application of regulatory investment test for transmission

In clause 5.6.6A(g), after “*Transmission Network Service Provider*”, insert “or the *Distribution Network Service Provider*”.

[28] Clause 5.6.6AA Determination that proposed transmission investment satisfies the regulatory investment test for transmission

In clauses 5.6.6AA(a), 5.6.6AA(b), 5.6.6AA(c), and 5.6.6AA(e) after “*Transmission Network Service Provider*” wherever occurring, insert “or *Distribution Network Service Provider* (as the case may be)”.

[29] Clause 5.6.6AA Determination that proposed transmission investment satisfies the regulatory investment test for transmission

In clause 5.6.6AA(d), omit “and 5.6.6AA”, and substitute “5.6.6AA, and 5.6.6AC”.

[30] Schedule 5.1.9 Protection systems and fault clearance times

In clause S5.1.9(j), omit “new network investment” and substitute “investments”.

[31] Clause 6.5.6 Forecast operating expenditure

In clause 6.5.6(e)(10), omit “.” and substitute:

; and

- (11) any relevant *final project assessment report* required under clauses 5.6.6AB(u) or (v) (as the case may be).

[32] Clause 6.5.7 Forecast capital expenditure

In clause 6.5.7(b)(4), omit “*regulatory test*” and substitute “*regulatory investment test for transmission* or the *regulatory investment test for distribution* (as the case may be)”.

[33] Clause 6.5.7 Forecast capital expenditure

In clause 6.5.7(e)(10), omit “.” and substitute:

; and

- (11) any relevant *final project assessment report* required under clauses 5.6.6AB(u) or (v) (as the case may be).

[34] Schedule 6.2 Regulatory Asset Base

In clause S6.2.2(3), omit “*regulatory test*” and substitute “*regulatory investment test for transmission* or the *regulatory investment test for distribution* (as the case may be)”.

[35] Clause 6A.6.7 Forecast capital expenditure

In clause 6A.6.7(b)(4)(ii), omit “*regulatory test*” and substitute “*regulatory investment test for distribution*”.

[36] Schedule 6A.2 Regulatory Asset Base

In clauses S6A.2.1(e)(2)(ii)(B), S6A.2.2(3) and S6A.2.3(a)(3), omit “*regulatory test*” and substitute “*regulatory investment test for distribution*”.

[37] Clause 8.2.1 Application of dispute resolution provisions

In clause 8.2.1(h)(13), after “clause 5.6.6A” insert “or 5.6.6AC”.

[38] Chapter 10 Deleted Definitions

In Chapter 10, omit the following definitions:

new distribution network investment

Investment in a *new large distribution network asset* or a *new small distribution network asset*.

new large distribution network asset

An asset of a *Distribution Network Service Provider* which is an *augmentation* and in relation to which the *Distribution Network Service Provider* has estimated it will be required to invest a total capitalised expenditure in excess of \$10 million, unless the *AER* publishes a requirement that a *new large distribution network asset* is to be distinguished from a *new small distribution network asset* if it involves investment of a total capitalised expenditure in excess of another amount, or satisfaction of another criterion. Where such a specification has been made, an asset must require total capitalised expenditure in excess of that amount or satisfaction of those other criteria to be a *new large distribution network asset*.

new network investment

Means:

(a) *new distribution network investment*; or

(b) investment in a *transmission network asset* of a *Transmission Network Service Provider* which is:

- (1) an *augmentation*; and
- (2) designed to address limitations in respect of a *distribution network* notified under clause 5.6.2(e)(2); and
- (3) estimated by the *Transmission Network Service Provider* to have an estimated capital cost in excess of \$5 million (as varied in accordance with a *cost threshold*)

determination).

new small distribution network asset

An asset of a *Distribution Network Service Provider* which is an *augmentation* and:

- (a) in relation to which the *Distribution Network Service Provider* has estimated it will be required to invest a total capitalised expenditure in excess of \$1 million, unless the *AER* publishes a requirement that an asset will be a *new small distribution network asset* if it involves investment of a total capitalised expenditure in excess of another amount, or satisfaction of another criterion. Where such specification has been made, an asset must require total capitalised expenditure in excess of that amount or satisfaction of those other criteria to be a *new small distribution network asset*; and
- (b) is not a *new large distribution network asset*.

regulatory test

The test developed and published by the *AER* in accordance with clause 5.6.5A, as in force from time to time, and includes amendments made in accordance with clause 5.6.5A.

[39] Chapter 10 Substituted Definitions

In Chapter 10, substitute the following definitions:

considered project

- (a) In respect of a *transmission network augmentation*, a project that meets the following criteria:
 - (1) the *Network Service Provider* has acquired the necessary land and easements;
 - (2) the *Network Service Provider* has obtained all necessary planning and development approvals;
 - (3) as applicable:
 - (i) the *augmentation* project has passed the *regulatory investment test for transmission*;
 - (ii) the *augmentation* project has passed the *regulatory investment test for distribution*;
 - (iii) in respect of a *transmission investment* which has not been subject to a *regulatory investment test for distribution transmission* or a *regulatory investment test for distribution*, an intention to proceed with the project has been published in the *Network Service Provider's Annual Planning Report* or *Distribution Annual Planning Report* (as the case may be); or
 - (4) construction has either commenced or the *Network Service Provider* has set a

firm date for it to commence.

(b) In respect of a *distribution network augmentation*, a project that meets the following criteria:

- (1) the *Network Service Provider* has acquired the necessary land and easements;
- (2) the *Network Service Provider* has obtained all necessary planning and development approvals; and
- (3) construction has either commenced or the *Network Service Provider* has set a firm date for it to commence.

cost threshold

Has the meaning given in clauses 5.6.5E(a) and 5.6.5E(a1).

cost threshold review

Has the meaning given in clauses 5.6.5E(a) and 5.6.5E(a1).

dispute notice

Has the meaning given in clauses 5.6.6A(c)(1) and 5.6.6AC(c)(1).

disputing party

Has the meaning given in clauses 5.6.6A(c) and 5.6.6AC(c)(1).

identified need

The reason why the *Transmission Network Service Provider* or the *Distribution Network Service Provider* proposes that a particular investment be undertaken in respect of its *transmission network* or *distribution network*.

interested party

- (a) In Chapter 5, a person, including an end user or its *representative*, who, in *AEMO's* opinion, has, or identifies itself to *AEMO* as having, an interest in relation to the *network* planning and development activities covered under rule 5.6 or in the determination of *plant standards* covered under clause 5.3.3(b2).
- (b) Despite the definition in (a) above, in clauses 5.6.6, 5.6.6A, 5.6.6AB, and 5.6.6AC, a person including an end user or its *representative* who, in the *AER's* opinion, has or identifies itself to the *AER* as having the potential to suffer a material and adverse market impact from the proposed *transmission investment* or *distribution investment* (as the case may be) that is the *preferred option* identified in the *project assessment conclusions report* or the *final project assessment report* (as the case may be).
- (c) In Chapter 6 or Chapter 6A, a person (not being a *Registered Participant* or *AEMO*) that has, in the *AER's* opinion, or identifies itself to the *AER* as having, an interest in the

- (d) In Chapter 2, a person including an end user or its *representative* who, in *AEMO's* opinion, has or identifies itself to *AEMO* as having an interest in relation to the structure of *Participant Fees*.

plant

In relation to a *connection point*, includes all equipment involved in generating, utilising or transmitting electrical energy.

In relation to *dispatch bids and offers*, controllable generating equipment and controllable loads.

In relation to the *statement of opportunities* prepared by *AEMO*, individually controllable generating facilities registered or capable of being registered with *AEMO*.

In relation to the *regulatory investment test for transmission*, any of the above definitions for *plant* relevant to the application of the *regulatory investment test for transmission* to a proposed *transmission investment*.

In relation to the *regulatory investment test for distribution*, any of the above definitions for *plant* relevant to the application of the *regulatory investment test for distribution* to a proposed *distribution investment*.

potential transmission project

Investment in a *transmission asset* of a *Transmission Network Service Provider* which:

- (1) is an *augmentation*; and
- (2) is designed to address limitations in respect of a *distribution network* notified under clause 5.6.2(e)(2);
- (3) is estimated by the *Transmission Network Service Provider* to have an estimated capital cost in excess of \$5 million (as varied in accordance with a *cost threshold determination*);
- (4) the *AEMC* identifies as likely, if constructed, to relieve forecast *constraints* in respect of *national transmission flow paths* between *regional reference nodes*.

preferred option

Has the meaning given in clause 5.6.5B(b) and 5.6.5CA(b).

publish/publication

A document is published by the *AER* if it is:

- (a) published on the *AER's* website; and

(b) made available for public inspection at the *AER's* public offices; and

(c) in the case of a document inviting submissions from members of the public – published in a newspaper circulating generally throughout Australia.

In clause 5.6, a document is published by the *Distribution Network Service Provider* if it is:

(a) published on the *Distribution Network Service Provider's* website; and

(b) made available for public inspection at the *Distribution Network Service Provider's* public offices.

Otherwise, a document is published by someone else if it is made available to *Registered Participants* electronically.

reliability corrective action

Investment by a *Transmission Network Service Provider* or a *Distribution Network Service Provider* in respect of its *transmission network* or *distribution network* for the purpose of meeting the service standards linked to the technical requirements of schedule 5.1 or in *applicable regulatory instruments* and which may consist of *network* or *non-network* options.

[40] Chapter 10 New Definitions

In Chapter 10, insert the following new definitions in alphabetical order:

audit

For the purposes of paragraph 5.6.5CB(g) an audit is an examination of the specified matters conducted to the standard specified for an "audit" in Auditing Standard AUS106: "Explanatory Framework for standards on Audit and Audit Related Services" prepared by the Auditing Standards Board, as varied from time to time.

asset management

In Chapter 5, the development and implementation of plans and processes, encompassing management, financial, consumer, engineering, information technology and other business inputs to ensure assets achieve the expected level of performance and minimise costs to consumers over the expected life cycle of the assets.

Demand Side Engagement

Has the meaning given in clause 5.6.2AA(k).

Demand Side Engagement Register

Has the meaning given in clause 5.6.2AA(k).

Demand Side Engagement Strategy

Has the meaning given in clause 5.6.2AA(j).

design fault level

The maximum level of fault current that a *facility* can sustain while maintaining operation at an acceptable *performance standard*.

Distribution Annual Planning Report

Has the meaning given in clause 5.6.2AA(t).

distribution asset

The apparatus, equipment and *plant*, including *distribution lines*, *substations* and *sub-transmission lines*, of a *distribution system*.

distribution investment

Expenditure on assets and services which is undertaken by a *Distribution Network Service Provider* or any other person to address an *identified need* in respect of its *distribution network*.

draft project assessment report

The report prepared under clause 5.6.6AB(m).

final project assessment report

The report prepared under clauses 5.6.6AB(u) or (v).

firm delivery capacity

The maximum allowable output or *load* of a *network*, *facility* or *equipment* under *single contingency* conditions, including any short term overload capacity giving consideration to external factors, such as ambient temperature, that may affect the capacity of the *network* or *facility*.

forward planning period

Has the meaning given in clause 5.6.2AA(e).

joint network investment

An investment identified under clause 5.6.2AA(t) which affects both a *transmission network* and *distribution network* or an investment which would require action by the *Transmission Network Service Provider* and the *Distribution Network Service Provider*.

Jurisdiction Specified Date

The date prescribed by regulation made under the application Act of a participating jurisdiction (a *local regulation*), on which the *Distribution Network Service Provider* must have published the *Distribution Annual Planning Report*.

load transfer capacity

Meeting the *load* requirements for a *connection point* by the reduction of *load* or group of *loads* at the *connection point* and increasing the *load* or group of *loads* at a different *connection point*.

non-network provider

Parties who provide non-network solutions as a alternative to network augmentation, including *embedded generation* and demand response.

normal cyclic rating

The normal level of allowable *load* on a *primary distribution feeder* giving considerations to external factors, such as ambient temperature and wind speed, that may affect the capacity of the *primary distribution feeder*.

primary distribution feeder

A *distribution line* connecting a *sub-transmission* asset to either other *distribution lines* that are not *sub-transmission lines*, or to *distribution* assets that are not *sub-transmission* assets. For the avoidance of doubt, a *zone substation* may be considered as a *sub-transmission* asset.

project specification report

The report prepared under clause 5.6.6AB(h).

regulatory investment test for distribution

The test developed and *published* by the *AER* in accordance with clause 5.6.5CA, as in force from time to time, and includes amendments made in accordance with clause 5.6.5CA.

regulatory investment test for distribution application guidelines

The guidelines developed and *published* by the *AER* in accordance with clause 5.6.5CA as in force from time to time, and include amendments made in accordance with clause 5.6.5CA.

review

For the purposes of paragraph 5.6.5CB(f) a review is an examination of the specified matters conducted to the standard specified for a "review" in Auditing Standard AUS106: "Explanatory Framework for standards on Audit and Audit Related Services" prepared by the Auditing Standards Board, as varied from time to time.

Specification Threshold Test

The test assessed under clause 5.6.6AB(d).

sub-transmission

Any part of the *power system* which operates to deliver electricity from the *transmission network* to the *distribution network*. For the avoidance of doubt, *sub-transmission* assets may form part of the *distribution network*.

sub-transmission line

A power line connecting a *sub-transmission* asset to either the *transmission system* or another *sub-transmission* asset. For the avoidance of doubt, a *zone substation* may be considered as a *sub-transmission* asset.

system limitation

Has the meaning given in clause 5.6.2AA(f)(2).

total capacity

The theoretical maximum allowable output or *load* of a *network* or *facility* with all *network* components and equipment intact.

transmission asset

The apparatus, equipment and *plant*, including *transmission lines* and *substations*, of a *transmission system*.

transmission-distribution connection point

The agreed point of *supply* established between a *Transmission Network Service Provider* and a *Distribution Network Service Provider*.

zone substation

A *substation* for the purpose of connecting a *distribution network* to a *sub-transmission network*.

Schedule 3 Amendment of National Electricity Rules

[1] Chapter 11 Savings and transitional arrangements

After rule 11.29, insert:

Part Z Regulatory Investment Test for Distribution

11.30 Rules consequent on making of the National Electricity Amendment (Regulatory Investment Test for Distribution) Rule 2009

11.30.1 Definitions

For the purposes of this rule 11.30:

Amending Rule means the National Electricity Amendment (Regulatory Investment Test for Distribution) Rule 2009.

commencement date means the date on which the Amending Rule commences operation.

current application means any action taken or process initiated under the *Rules* which relies on or is referenced to the *regulatory test* and is not completed as at [commencement date + one year].

initiated means in respect of a *new distribution network investment* (as defined under the *Rules* immediately prior to the commencement date), that consultation already commenced in respect of that investment in accordance with the old clause 5.6.2(f).

new clauses 5.6.5CA, 5.6.5D and 5.6.5E means clauses 5.6.5CA, 5.6.5D and 5.6.5E of the *Rules* after the commencement date.

old clause 5.6.2 means clause 5.6.2 of the *Rules* (and all definitions in, and relevant provisions of, the *Rules* amended by the Amending Rule) as in force immediately before the commencement date.

old clause 5.6.2(f) means clause 5.6.2(f) of the *Rules* (and all definitions in, and relevant provisions of, the *Rules* amended by the Amending Rule) as in force immediately before the commencement date.

old clause 5.6.2(h) means clause 5.6.2(h) of the *Rules* (and all definitions in, and relevant provisions of, the *Rules* amended by the Amending Rule) as in force immediately before the commencement date.

old clause 5.6.2(i) means clause 5.6.2(i) of the *Rules* (and all definitions in, and relevant provisions of, the *Rules* amended by the Amending Rule) as in force immediately before the commencement date.

11.30.2 Period when Amending Rule applies to distribution investment

- (a) For the period from the commencement date to [commencement date + one year]:
- (1) new clauses 5.6.5CA, 5.6.5D and 5.6.5E have no effect in respect of *distribution investment*; and
 - (2) old clause 5.6.2, and the *regulatory test* and *regulatory test application guidelines* promulgated from time to time under clause 5.6.5A, continue to apply in respect of *distribution investment*.
- (b) From [commencement date + one year]:
- (1) new clauses 5.6.5B-E will have effect in respect of *distribution investment*;
 - (2) old clause 5.6.2, and the *regulatory test* and *regulatory test application guidelines* promulgated from time to time under clause 5.6.5A, continue to apply in respect of any current application; and
 - (3) for the purposes of a report prepared under old clause 5.6.2(h) before [commencement date + one year], old clause 5.6.2(i) applies to any current application in relation to a new large distribution network asset (as defined under the *Rules* immediately prior to the commencement date).

[2] Chapter 11 Savings and transitional arrangements

In Appendix 1, clause 6.5.7(b)(4), , omit “*regulatory test*” and substitute “*regulatory investment test for transmission* or the *regulatory investment test for distribution* (as the case may be)”.