

17 April 2009

Dr John Tamblyn
Chairman
Australian Energy Market Commission
Level 5, 201 Elizabeth Street
Sydney NSW 2000

Dear Dr Tamblyn,

EPR0015 - Review of National Framework for Electricity Distribution Network Planning and Expansion

Grid Australia is pleased to make this submission in response to the Australian Energy Market Commission Review of National Framework for Electricity Distribution Network Planning and Expansion, Scoping and Issues Paper (March 2009). Grid Australia supports the development of a nationally consistent framework for planning and developing the distribution network. This submission discusses a number of areas where Grid Australia considers the regulatory burden of some options considered for the framework would exceed the potential benefits. Grid Australia considers the following features would provide a suitable framework:

- the scope of the regulated planning framework should be limited to direct control services;
- the Annual Planning Report (APR) should be a forward looking document that provides general information about emerging network requirements and there is little value in detailed review of the performance of past planning outcomes; and
- dispute resolution arrangements should be limited to the project assessment and consultation process, similar to the arrangements for transmission.

Grid Australia also considers that there is unlikely to be any significant potential for market benefits to be realised through investment in the distribution network, and the Commission should not require the assessment of market benefits through the new Regulatory Investment Test for Distribution (RIT-D).

The rest of this submission discusses these matters in more detail.

Criteria for the Review

The Commission has proposed the following decision making criteria for the Review:

- The extent to which the proposed national framework incorporates the variations in the existing jurisdictional distribution planning arrangements, including how well the framework is able to accommodate variations in jurisdictional distribution reliability standards;
- An appropriate balance between the regulatory burden on DNSPs and the benefits to the broader market;
- Ensuring a level playing field for all regions in terms of attracting investment and promoting more efficient decisions;
- Minimising the regulatory compliance burden for market participants operating in more than one region in the NEM;
- The effectiveness of the proposed annual planning process and annual planning report in identifying non-network solutions to augmentations and encouraging efficient planning by market participants;
- Access to and timeliness of the dispute resolution process; and
- Achieving consistency, to the extent appropriate, between the national framework for distribution planning and the electricity transmission planning framework.

Grid Australia broadly supports these proposed decision making criteria, particularly considerations around the appropriate extent of consistency between distribution and transmission planning frameworks. This is a key issue for transmission companies in the Review.

Grid Australia supports the use of the Annual Planning Report as the best vehicle to help inform and bring forward potential non-network solutions. However Grid Australia considers that the National Electricity Objective requires that the emphasis be on identifying economically efficient solutions, and not simply the identification of technically possible solutions. The decision making criteria should be amended to reflect this requirement for identifying efficient investments.

Scope for the Review

The Commission has asked whether the scope of the Review should extend to include negotiated services. Negotiated services are generally those services which are required to connect large customers to the existing network and are directly paid for by those customers. As the cost for the provision of negotiated services is not recovered through Distribution Use of System (DUoS) charges Grid Australia considers that these services should not be covered by this Review.

Annual Planning Requirements

The Commission is seeking stakeholder comment on the following aspects relating to annual planning:

- Which network assets and activities should be included in the planning requirements for the national framework?
- What should be the type and level of detail of information to be provided in the planning report?
- How should the planning and reporting process be implemented?

The purpose of an Annual Planning Report framework for distribution should be to provide a consistent, base level of information that will allow interested parties to identify

potential investment opportunities. It is important to recognise that no amount of standardised information in an APR can substitute for the project specific network analysis and financial modelling necessary to underpin an investment decision. It is important that potential investors also engage directly with the network businesses to discuss project specifics and not rely solely on the information in APRs. NSPs can not be liable for the investment decisions of others as no amount of information prepared in advance by NSPs can fully cover all possible aspects of others investment decision making.

This is not unique and is analogous to the situation in the investment planning community. There is a range of general information available in the marketplace to inform people of potential investment opportunities. By its nature, this information cannot be expected to address all the requirements of any individual investor. It is the responsibility of the investor to assess whether any particular opportunity is suitable for its own specific circumstances. In a similar way, the APRs can serve to highlight potential investment opportunities, but it remains the responsibility of the investor to fully assess the risks and potential rewards before committing to an investment. For the prudent investor, that should include, among other considerations, more detailed discussions with the relevant NSPs.

For this reason Grid Australia considers that the type and level of detail of information to be provided in APRs should remain general, and along the lines suggested in section 3.4.2 of the Scoping and Issues Paper. However Grid Australia does not consider it appropriate for an NSP to provide forecasts of loss factors, as these can be a significant factor in the financial viability of investment projects, and themselves can be strongly influenced by these same investment projects. For example, an embedded generator may look to locate in a part of the distribution network with a high loss factor, as it perceives it can receive more spot market revenue. However, if the loss factor is very sensitive to the load on the network at that location, the presence of that new generator may change the loss factor significantly and render the investment financially non-viable.

The Commission has raised the question of whether the planning process should include an assessment of the accuracy of past planning and provide explanations for any differences. Grid Australia considers that the APR is a forward looking document and that robust planning processes should be based on the latest available information. The APR's value is in providing up-to-date and useful information on future network development, and there is no clear benefit in making it retrospective in nature. There is little or no value in re-examining planning outcomes after the fact, as circumstances and factors may change as time progresses. It would, however, be reasonable to provide suitable analysis around any material changes that occur to future demand forecasts from one year to the next.

The Commission has asked for comments on where and when the DNSP APRs should be published and asked whether the AEMO website should be the central location. Grid Australia can see no benefit in storing these APRs centrally. Potential investors will typically already have relationships with their local NSP and mandating a central publishing location would cause significant confusion about the role of the AEMO. Publishing links on the AEMO website that direct interested parties to the documents on the website of the relevant NSP would be consistent with the existing practices for Regulatory Test consultation documents.

Project Assessment and Consultation Process

The Commission is seeking stakeholder comment on the following aspects relating to the project assessment framework:

- What should be the scope of projects subject to the RIT-D process?
- What are the requirements for identifying and consulting upon the range of options?
- What costs and benefits should be recognised and quantified in the assessment?
- What should be the decision-making criteria used to determine which option passes the test?

Scope of the RIT-D and consultation process

Grid Australia considers that the existing definitions for what new distribution network assets are subject to the Regulatory Test remain suitable for use under a new RIT-D. Specifically, the application to augmentations is a definition that is well established and understood, and there is no evidence to suggest that it needs to be changed.

Currently, both DNSPs and TNSPs are required to apply the regulatory test to options identified by the joint planning process. That is, the same test applies to all options being considered. The AEMC has previously highlighted that the joint planning process helps to ensure that the most efficient combination of TNSP and DNSP augmentations are implemented.

In keeping with the focus on efficiency, Grid Australia considers that it does not make practical sense for both the RIT-D and the RIT-T to apply to joint planning processes. Such a situation would be administratively complex, duplicative and wasteful in terms of timing and resources.

Identification and quantification of costs and benefits

Grid Australia recognises and supports the policy direction that the assessment of network investments should identify and quantify market benefits in order to promote efficient investment decision making. However, it is important that the potential quantum of market benefits is kept in perspective. For instance, the Commission has raised a hypothetical example where a distribution network project could increase the transfer capability for embedded generators, leading to lower dispatch costs.

Grid Australia has no direct knowledge of instances where embedded generators are constrained off, but we assume it is most likely to occur during periods of low demand – it would be odd for a generator to invest to locate within the load area of the distribution network and then be constrained off at peak load times. If we assume that a 30MW embedded generator was being constrained off by 10MW during low load times (say 40% of the time) then the potential energy being constrained is 35,000MWh per annum. As energy prices are lower during off-peak times the potential dispatch cost savings can also be assumed to be low. If the savings are \$5/MWh then the total dispatch cost saving is \$175,000 per annum. A potential network investment to deliver this benefit would need to cost less than \$1.5 - \$2 million in order to be justified. Grid Australia considers that there are likely to be few, if any, instances where these sorts of benefits by themselves could support network investment.

The Commission has raised the possibility of having to value reliability benefits in order to distinguish between options which have the same costs but differ in the amount (and timing) over which they exceed the minimum standards. Grid Australia considers that such an approach is not necessary as the present value analysis approach embodied in the Regulatory Test already captures these effects.

This situation is dealt with by conducting the financial analysis over an extended period of time (typically between 15 and 25 years) such that minimum standards that can be met by an initial investment will require additional investment in future years. This additional investment is included in the model, but may not be recommended for implementation at this time, so that a cheaper up-front option that only meets the standards for a short time does not unfairly present as lower overall cost than a more expensive up-front option. The fact that the cheaper option requires subsequent additional investment in order to maintain the standard is captured in the analysis and the option that shows the lowest long run PV is the recommended option, even if it is higher initial cost.

Transmission entities each have more than 10 years practical experience in applying these methodologies, and Grid Australia would be pleased to work with the Commission staff to provide real-life examples of these principles and how the existing framework is suitable.

Dispute Resolution Process

The Commission is seeking feedback on the following aspects of the proposed dispute resolution process:

- What should be the scope of issues subject to dispute resolution?
- How should the dispute resolution process operate?
- What should be the outcome of the process?

The Commission has specifically raised the issue of the dispute resolution being extended beyond the project assessment process undertaken by DNSPs and to apply to matters arising from the APRs.

In Grid Australia's view, the APR is a purely informational document of a general nature, and NSPs can not be liable for decisions made by individuals in reliance on that document. Accordingly, there is no basis for any disputes rights to arise from the annual planning process. It is only individual NSP investment decisions that can possibly give rise to disputes under the Rules, and even then only on grounds such as those currently provided for as part of the Regulatory Test consultation process.

Grid Australia considers that the dispute resolution arrangements proposed for the RIT-T provide a suitable basis for similar provisions under the RIT-D. This includes, who may initiate a dispute, the process to be followed, the role of the AER, and the form of the determination of the dispute.

Grid Australia will be pleased to discuss any of the matters raised in this submission with the Commission staff.

Yours sincerely,



**Greg Hesse
A/Chairman
Regulatory Managers Group**