



Submission by

Alternative Technology Association

on the

**Review of National Framework for
Electricity Distribution Network Planning
and Expansion**

17th April 2009

By Email to: submissions@aemc.gov.au

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1. Introduction

The Alternative Technology Association (ATA) welcomes the opportunity to provide comment on the Scoping and Issues Paper for the Review of the National Framework for Electricity Distribution Network Planning and Expansion.

ATA is a not-for-profit organisation established in 1980 to empower our community to develop and share sustainable solutions for the way we live and to promote the uptake of sustainable technologies in order to protect our environment. The organisation provides service to over 5,000 members, who are actively promoting sustainability in their own homes by using good building design, energy efficiency and renewable energy technologies.

2. Scoping & Issues Paper - Proposed Approach

ATA is appreciative of the AEMC's approach in consulting widely on the issue of distribution network planning. ATA's interest in this policy area relates to how the distribution network planning process can be further strengthened to take advantage of demand side participation, where it can be demonstrated that it would better serve the National Electricity Objective (NEO).

On this basis, ATA is somewhat concerned by the structure of the Scoping and Issues Paper in that it appears the AEMC is constrained to consider particular aspects of the existing distribution network planning process (i.e. assessment of network and non-network alternatives, dispute resolution and public reporting), and is not able to take into account broader aspects relating to DNSP regulation and the NEO itself.

Numerous studies over the past few years have alluded to the inherent conflict between the potential of demand management opportunities within the distribution network and the revenue models for DNSPs¹²³. ATA remains sceptical of the ability of network service providers to achieve absolute efficiency in the network planning process (and therefore for the NEO to be fully achieved) whilst such strong incentives to increase 'electricity throughput' are in place.

Indeed, with difficulties associated with the timing and quality of information currently provided through the distribution network planning process, and with DNSPs having strong incentives for network solutions, a more thorough approach is required in the distribution network planning process to ensure that non-network alternatives are properly considered.

¹ Institute for Sustainable Futures, 2009, *Win, Win, Win: Regulating Electricity Distribution Networks for Reliability, Consumers and the Environment*. University of Technology, Sydney.

² Kaufmann, L, 2008, *Energy Market Policy and Regulatory Barriers: How Energy Networks Can Contribute to Energy Market Objectives*. Pacific Economics Group for Essential Services Commission, Victoria. Online at: <http://www.esc.vic.gov.au/NR/ronlyres/7B753CB8-21A9-43A0-8972-DC8DAC849F01/0/EnergyMarketPolicyandRegulatoryBarriers.pdf>

³ Consumer Utilities Advocacy Centre, 2008. *Beyond Free Market Assumptions: Addressing Barriers to Distributed Generation*. CUAC, Melbourne.

Ultimately, ATA believes that a distribution network planning process that seeks to achieve investment efficiency *‘in the long term interests of consumers’* is one that prioritises the consideration of cost effective demand management options ahead of distributed generation options, with network augmentation being a last resort, where no technically feasible and cost effective non-network alternatives exist.

ATA’s response to the individual questions posed in the *Scoping and Issues Paper* is outlined below.

3. Annual Planning Requirements

Q4. In addition to emerging constraints, what other types of potential problems of the distribution network should be included in annual planning reports?

It is assumed that one of the primary purposes of planning reports is to encourage DNSPs or the market to find efficient non-network solutions. On this basis, any asset or activity that could be substituted by a non-network alternative should be included in annual reports.

Q6. Should the annual planning report including reporting on work carried out by DNSPs including reporting of actual network performance information and historical data?

This information may be particularly useful in reviewing the effectiveness of network planning decisions, and in turn in further refining the distribution network planning process to ensure efficient decision making and investment is being achieved.

Q7. What factors need to be considered to ensure the level of detail of the information provided is useful and appropriate to stakeholders?

For planning reports to be useful to providers of services relating to non-network alternatives, they should include⁴:

- The location of proposed asset building activity (specifically, the report should identify, by postcode, the areas in which a non network alternative could substitute for the building of the network asset);
- The estimated cost of the proposed investment;
- The timing of the proposed investment;
- The time by which a non network alternative would have to be proved firm by, and implemented by;
- The estimated payment a non network alternative could attract, including the criteria a non network alternative would have to meet to secure that value. This could include reliability, or availability criteria; and
- Details of any non network alternative already considered and reasons for its rejection.

⁴ Consumer Utilities Advocacy Centre, 2008. *Beyond Free Market Assumptions: Addressing Barriers to Distributed Generation*. CUAC, Melbourne.

Q8. For the areas that are to be reported on, what specific factors should be considered? For example for emerging constraints, how should emerging constraints be classified and how could they be consistently set out?

Potential opportunities for market participants to propose non-network alternatives should be included in the Reports. These non-network opportunities could be presented in order of size, location, value, and timing.

Q9. Should a distinction be made between general information that is publicly available and more detailed information for embedded generators and demand side response proponents?

Information is required for both the general public and for market participants offering demand side services. It would be useful if the information for these two classes of reader were structured separately so as to be useful for both (with a significant increase of technical detail provided to demand side proponents so as to be useful for evaluation of viable non-network alternatives).

Q10. Would the Australian Energy Market Operator's website be the appropriate central location for the planning reports to be stored and published?

Most likely, the AEMO website would be suitable. Importantly however, is that the Reports are promoted to market participants so that they are aware of network investment opportunities. Market participants in this sense could include not just formal energy response or demand side service providers, but local councils, local energy and environmental action groups and businesses seeking opportunities for cost effective energy efficiency, demand management and/or distributed generation.

Q11. What would be the appropriate timeframe for the publication of the DNSP annual planning report (noting the relationship between the timeframe for the publication of the TNSP annual planning report and the DNSP/TNSP joint planning requirements)?

It would seem appropriate that the DNSP annual planning report be aligned with TNSP reporting requirements.

4. Project Assessment and Consultation Process

Q12. What types of investments should be subject to the project assessment process?

Any investment activity that could potentially be served by a non-network alternative.

Q13. *What are the appropriate thresholds to trigger the project assessment process?*

It is important that thresholds are low enough to signal to non-network alternatives and that they can't be disaggregated to avoid the assessment process. ATA believes the NSW threshold of \$200,000 is satisfactory on this front.

Q14. *Should the thresholds be indexed in accordance with CPI or subject to a periodic review?*

The thresholds should be CPI indexed and be subject to periodic review. It is important that project assessment criteria can be adapted to advancements in market trends with respect to emerging technologies that may be able to provide network solutions at further reduced cost.

Q15. *What factors should be considered in an RFP process and how should this be specified in the NER compared to AER guidelines? Including:*

- *what defines a credible option?*

Different market participants will have different interpretations of what is a credible option in an RFP process. On this basis, ATA believes there is limited use in defining a credible option and that this debate is better had through the dispute resolution process, where a detailed engineering analysis can be undertaken.

- *what information is needed to enable market participants to raise alternatives?*

Refer question 7.

- *how long should the consultation take place?*

Demand side response projects are likely to have different lead times, depending on the type of DSR project being facilitated. ATA's understanding is that for many distributed generation projects, it is likely that in excess of 12 and potentially up to 18 months is required, whilst energy efficiency and demand management projects may be developed within a year.

The timing of consultation however will be crucial in providing sufficient lead time for project research and planning to occur.

- *should an RFP process include elements to deal with the potential issue of DNSPs seeking assurance from non-network proponents for the performance of a non-network option?*

ATA supports the requirement for any non-network alternative to meet performance parameters, as set out by the RFP.

Q16. What is the appropriate list of costs and benefits associated with distribution projects, and should that list be mandated in the NER?

ATA supports the approach of the AEMC to incorporate a wide range of costs and benefits into the network planning process. Whilst we understand the difficulties in accurately defining the exact cost / benefit of any network investment decision, we maintain that assigning values to non-network alternatives, and allowing demand side market participants to capture those values, will be crucial to their successful implementation within the NEM.

Whilst ATA understands that there would be concerns regarding the impact that a broader cost / benefit analysis could have on network planning timescales, we are firmly of the view that a thorough planning process is of greater benefit to consumers and to the network generally in the longer term. As such, distribution network planning frameworks should be designed to allow the time for full cost / benefit analysis to occur.

On this basis, ATA supports the approach that has been put forward by a number of other organisations advocating for a greater role for demand side participation, in that different non-network alternatives be prescribed with a 'proxy value' of market benefits.

Such proxies could be delivered through market rules, or other policy instruments such as feed in tariffs, or energy efficiency rebates and/or programs. Most importantly, a consistent national framework would be required in this area in order to provide long term certainty to market participants, and allow proponents of multiple technologies to compete on an equal footing. And whilst it would be appropriate for a list of factors to be considered to be prescribed in the NER, proxy values will likely need to be subject to review and revision and so would be better placed outside the rules.

Specifically, ATA supports the following factors to be included in any cost / benefit analysis:

- The social cost of greenhouse gas emissions (as opposed to the cost of emission abatement);
- Other emissions that impact on health (e.g. nitrous oxides, sulphur oxides);
- The value of energy reliability, energy security and fuel use efficiency;
- Analysis that incorporates future uncertainty of fuel costs;
- To whom cost and benefits accrue – specifically, investment should be undertaken that minimises costs and maximises benefits to consumers;

Q17. How should the range of benefits to be quantified under the project assessment process be determined?

Refer question 16.

Q18. How can the project assessment process ensure that environmental benefits are appropriately treated and quantified?

ATA's view is that the only way environmental benefits can be appropriately quantified is for them to be assigned a financial value and then treated accordingly through the network planning process, as discussed in the response to question 16.

Q19. How should a net benefit test be designed for distribution investments assessments? What are appropriate circumstances where a least cost assessment should be applied, and if so, should the two limbs of the regulatory test be maintained?

ATA considers defining a further threshold or benchmark for a least cost assessment to be problematic and therefore of negligible value in the context of the overall NEO. ATA would support any assessment of network investment triggered by the agreed threshold to be subject to a full cost / benefit analysis, seeking to maximise the effective utilisation of capital over time.

5. Dispute Resolution Process

Q21. Should the dispute resolution process only apply to project assessments undertaken by DNSPs under the regulatory test or should the dispute resolution process also apply to matters arising from DNSPs' annual planning processes?

Whilst the dispute resolution process should apply specifically to assessments, there will likely be a need for some level of independent dispute resolution when it comes to the planning process itself. For instance, if market participants seek to challenge information provided by DNSPs in regards to network constraints or the potential of non-network alternatives already considered and rejected, an independent process would be required to facilitate this.

Q22. What is the appropriate scale of distribution projects that should be subject to the dispute resolution process? Should the threshold for the dispute resolution process be aligned with the threshold for the project assessment process?

ATA supports access to dispute resolution to be available for any project assessment. Whilst concerns will no doubt be raised in regards to cost, it is likely that precedents would quickly be established that could further streamline future proposals of the same kind.

Q23. Who should be able to initiate the dispute resolution process?

Whilst only parties specifically involved in the project assessment process should be eligible to initiate a dispute resolution process, any interested party should be able to challenge DNSP information provided in a planning report.

Q24. What process should be followed to resolve disputes and what should be the timing for this process? Should parties be required to undertake formal mediation process before the dispute is referred for a binding determination? What aspects of the proposed process for transmission should apply to distribution?

Obviously disputes would need to be resolved in a timely manner so as to maintain network reliability requirements. Having proxy values assigned to non-network alternatives could assist in this process as disputes over their value could be dealt with separately from specific project assessment disputes.

Whilst it may be beneficial to have disputes subject to initial mediation, given their technical nature, it is likely that the majority will require detailed engineering and economic analysis, independent of the parties involved.

Further, ATA would support the existing arrangements for access to transmission dispute resolution being applied to distribution.

Q26. Should the appointed arbiter have the ability to reject disputes immediately if the grounds for the dispute are invalid, misconceived or lacking in substance?

Given the potential of information asymmetries in the distribution network planning process, ATA would consider a more transparent approach to be for the arbiter to inform the relevant parties of the grounds for immediate rejection, thereby giving both (or all) the opportunity to amend their application for re-submission in a timely manner.

Q27. Should the dispute resolution process be restricted to reviewing the DNSP's compliance with the NER and requiring the DNSP to amend its analysis in its project assessments or annual planning report if it is found that it has not fully complied (i.e. compliance review)? Or, should the dispute resolution process provide for a review of the outcomes of the DNSP's project assessments or annual planning report and if it is found that the DNSP has not reached the best outcomes, direct the DNSP to implement the most suitable outcomes (i.e. merits review)?

ATA considers that both of these outcomes would be relevant to the dispute resolution process.

6. Common Issues

Q29. Should "urgent" investments be exempt from aspects of the national framework? If so, how should "urgent" be defined?

As with least cost assessment, ATA believes defining 'urgent' to be extremely problematic and would in general exacerbate the already inherent bias that DNSPs have towards network augmentation solutions.

7. Further Contact

Feel free to contact us should you have any questions regarding the content of this submission. I am available directly on (03) 9631 5417 or via email at: damien@ata.org.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'D. Moyse', with a large, stylized flourish at the end.

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