

Objectives of the Review and Workshops

Review of National Framework for Electricity Distribution
Network Planning and Expansion

ANNE PEARSON
Senior Director, AEMC

BRISBANE
4 JUNE 2009

AEMC

OVERVIEW

- Objectives of the Review
- Timetable for the Review
- Purpose of the Workshops
- Structure for Workshop 2

OBJECTIVES OF THE REVIEW

- Under the MCE's ToR, the national framework for distribution network planning will include:
 - A requirement on DNSPs to perform an annual planning process;
 - A requirement for DNSPs to produce and make publicly available an annual planning report with a 5 year horizon;
 - A requirement for DNSPs to undertake a case by case economic project assessment process when considering network expansions and augmentations; and
 - A dispute resolution process.

OBJECTIVES OF THE REVIEW

- MCE's ToR specified that the national framework should achieve the following outcomes:
 - DNSPs have a clearly defined and efficient planning process;
 - DNSPs develop the network efficiently and assess non-network alternatives in a neutral manner;
 - Appropriate information transparency for network users, including connecting users, and non-network proponents;
 - A level playing field for all regions in terms of investment attraction and promoting more efficient decisions; and
 - A reduced compliance burden for participants operating across multiple NEM regions.

TIMETABLE FOR THE REVIEW

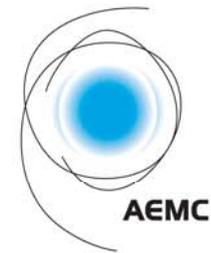
Milestone	Date
Publication of Scoping and Issues Paper	12 March 2009
Close of submissions on Scoping and Issues Paper	17 April 2009
Workshops on Indicative Framework Specifications	27 May and 4 June 2009
Publish Draft Report and framework specifications	9 July 2009
Submissions due on Draft Report	13 August 2009
Public forum on Draft Report	Early August 2009
Final Report and draft Rules submitted to the MCE	By 30 September 2009

PURPOSE OF THE WORKSHOPS

- For interested parties:
 - Opportunity to comment on the AEMC’s proposed “high level” design for the national framework
 - Opportunity to discuss the proposed design for the national framework with industry members from other jurisdictions
- For the AEMC:
 - Allows AEMC to present emerging thinking on the design and scope of the national framework before Draft Report publication
 - Opportunity for the AEMC to seek industry views on a range of policy and technical issues
- Indicative Framework Specifications do not represent the Commission’s draft recommendations for the national framework
- Any written submissions on the workshop papers should be received by **5pm, Friday 12 June 2009**

STRUCTURE FOR WORKSHOP 2

Time	Agenda item
10:10 am - 10:30am	Overview of the Indicative Framework Specification
10:30 am - 10:40 am	Introduction to group breakout sessions
10:40 am - 12:40 pm	Group breakout and presentations: Session 1
12:40 pm - 1:20 pm	<i>Lunch</i>
1:20 pm - 3:20 pm	Group breakout and presentations: Session 2
3:20 pm - 3:40 pm	<i>Afternoon tea</i>
3:40 pm - 4:10 pm	General questions from the floor
4:10 pm - 4:25 pm	Summary of workshop outcomes and achievements
4:25 pm - 4:30 pm	Concluding remarks



Overview of the Indicative Framework Specification

Review of National Framework for Electricity Distribution
Network Planning and Expansion

EAMONN CORRIGAN
Director, AEMC

BRISBANE
4 JUNE 2009

AEMC

OVERVIEW

- Principles and key design aspects for the national framework
- Summary of indicative RIT-D design
 - Design considerations
 - Project assessment process
 - Scope of projects subject to the RIT-D
 - Project Specification Threshold Test
 - Consultation and reporting requirements
- Summary of indicative dispute resolution process



Principles and key design aspects for the National Framework

AEMC

PRINCIPLES

1. Transparency
2. Economic Efficiency
3. Proportionate
4. Technology neutral
5. Consistency across the NEM
6. Fit for purpose reflecting local conditions
7. Builds on existing jurisdictions requirements
8. Consistency with transmission planning arrangements

KEY DESIGN ASPECTS

- Trade off between costs (including time) and benefits
 - *Making sure processes and information deliver positive benefits*
- Ensuring efficient network planning
 - *identifying and assessing appropriate market benefits and alternatives*
- Interaction between transmission and distribution network planning
 - *Clearly defined roles and responsibilities*
- Appropriate scope of projects under the national framework
 - *Need to make the framework proportionate*
- Need to reflect local conditions and type of distribution projects
- Need to get the definitions correct



Regulatory Investment Test for Distribution (RIT-D)

AEMC

DESIGN CONSIDERATIONS

- Purpose of RIT-D is to identify the investment option (or groups of investment options) which maximises net economic benefits.
- Four aspects to the proposed design:
 - Assessment
 - Filtering process
 - Consultation and reporting process
 - Dispute resolution
- Rules set out principles
- As today, AER will be required to publish the RIT-D in accordance with the Rules
- AER also required to publish supporting guidelines
- If there is significant overlap with the RIT-T, might be sensible for AER to publish one set of documents

DESIGN CONSIDERATIONS- ToR

- MCE Terms of Reference is clear about the outcomes to be achieved by the national framework:

“ensure DNSPs develop the network efficiently. Addressing a perceived failure by DNSPs to look at non-network alternatives.....”

“Appropriate information transparency to allow efficient planning by parties that may offer alternatives, more cost-effective solutions.....”

“ Means to achieve these objectives is to require DNSPs to undertake standard and comprehensive forward planning, and where appropriately triggered, a robust economic assessment of alternatives”

- Therefore, the RIT-D needs to be:
 - An economic assessment of costs and benefits
 - Limited in scope
 - Inclusive and transparent

DESIGN CONSIDERATIONS

- Trade off between costs (including time) and benefits
- Greater volume of (smaller scale) projects
- Nature of distribution projects varies significantly
- Request for proposals can “occur too late in the process” or “don’t provide sufficient information for proponents to respond”
- Cost thresholds can be too simplistic and don’t relate to the potential for non-network alternatives
- Balance between the Annual Planning Report/Non-network Strategy and RIT-D consultation documents
- Balance between the role of dispute resolution and discretion given to DNSPs

PROJECT ASSESSMENT PROCESS

- Net present valuation of economic costs and benefits based upon reasonable scenario modelling
- Possibility of a single assessment of integrated set of projects
- Objective identification of credible options
- DNSPs to consider potential for market benefits for each credible option
- If it is considered that no market benefits are applicable, assessment becomes least cost
- Highest NPV becomes preferred option. Deterministic reliability projects allowed to have negative NPV
- Option to use Value of Unserved Energy in calculations
- Need to identify correct list of possible market benefits (e.g. option value from non-network projects or from initial “larger scale” projects)

SCOPE OF PROJECTS SUBJECT TO RIT-D

- Initial cost threshold to exempt minor projects [\$1m - \$2m?]
- Defined list of exemptions
 - “urgent and unforeseen investments”
 - investments where the most expensive and likely option is less than \$[1-2] million
 - investments designed to address an issue on a transmission network
 - “joint network investments”
 - investments to be provided as negotiated services, alternative control services or unclassified services (e.g., connection services)
- Dual Function Assets included
- Proposed inclusion of Replacement Assets
 - Need to assess optimal timing and co-optimisation
 - Large % of DNSPs capital expenditure
 - Hard to pro-rata projects between replacement and augmentation components
- Alternative is for more information disclosure on replacement projects in the APRs

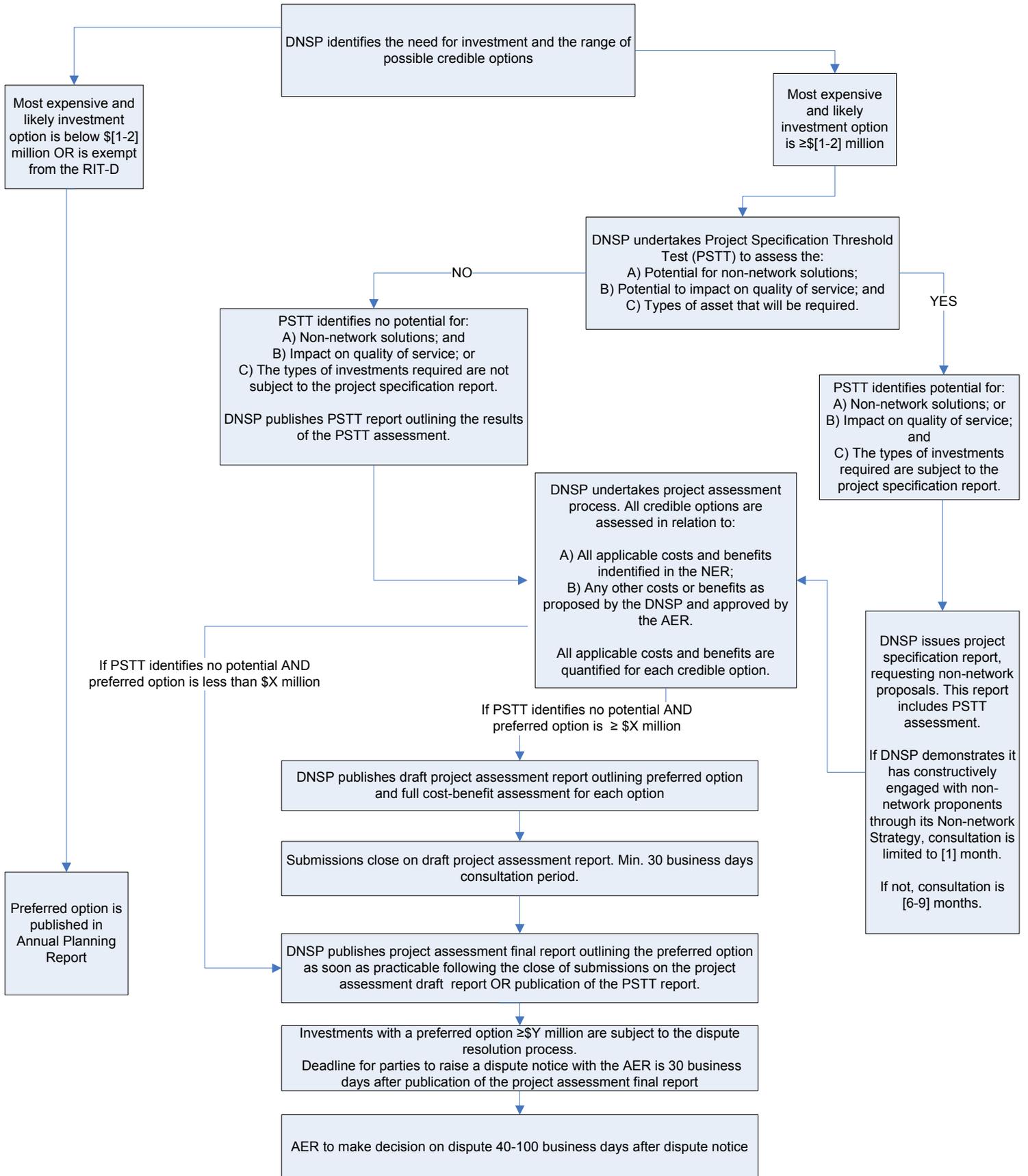
PROJECT SPECIFICATION THRESHOLD TEST

- Objective of the Project Specification Threshold Test (PSTT) is to identify those projects:
 - where a pre-assessment consultation stage would be beneficial; and
 - where there is no need for a draft project assessment report
- Need to develop defined criteria for the PSTT:
 - No potential for non-network options
 - No material impact on quality of service
 - Certain type of projects should be exempt
 - [No material market benefits]
- Should occur soon in the planning process after the system limitation has been identified

CONSULTATION AND REPORTING

- RIT-D process is tailored to the characteristics of the identified need for investment to ensure the reporting and consultation requirements are proportionate to the potential benefits.
- Proposed RIT-D has five main stages:
 1. Project specification threshold test
 2. Project specification report
 3. Project assessment process
 4. Project assessment draft report
 5. Project assessment final report
- Possible exemption from draft report stage (for defined projects below a defined cost threshold [\$35m?])
- Combination of cost thresholds and the project specification threshold test will determine the applicable reporting and consultation requirements.

Regulatory Investment Test for Distribution (RIT-D) Process May 2009



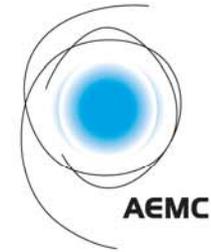


Dispute Resolution Process

AEMC

DISPUTE RESOLUTION PROCESS

- Dispute resolution process to be based on process proposed for RIT-T, which will provide for consistency between distribution and transmission.
- Dispute resolution process would only apply to the application of the RIT-D (i.e. compliance review), rather than a merits review. This will ensure the process is proportionate in terms of cost and time.
- Accessible process, but AER has the option to immediately reject invalid/misconceived applications
- Annual planning reports would not be subject to the dispute resolution process.
- AER to assess and make determinations on disputes within 40-60 days, depending on the complexity of the dispute.



Group Breakout Sessions

Review of National Framework for Electricity Distribution
Network Planning and Expansion

SARAH LAU
Advisor, AEMC

BRISBANE
4 JUNE 2009

AEMC

GROUP BREAKOUT SESSIONS

- AEMC is seeking comments on six areas in regards to the RIT-D and the dispute resolution process
- Two group breakout sessions will be held, with three areas for discussion in each session
- Attendees will be broken into six colour-coded groups with each group to focus on one allocated area
- Following group discussions, each group will present their response
- Discussions from today will be considered by the AEMC in the development of its recommendations for the Draft Report



SESSION 1 QUESTIONS

AEMC

SESSION 1 QUESTIONS

1. **Project Specification Threshold Test (PSTT) and threshold value**

- Purpose of PSTT is to ensure reporting and consultation requirements of the RIT-D are proportionate to the characteristics of the identified need.
- Proposed PSTT assesses:
 - Material potential for non-network options to the identified need
 - Material potential for identified need to impact on the quality of service experienced by end users
 - Type of assets required to address the identified need
- Proposed investments which do not meet the requirements of the PSTT are not subject to the project specification stage, but are required to undergo project assessment process.
- Investments which don't meet PSTT and are below a defined threshold, will also not be subject to the Project Assessment Draft Report stage.

SESSION 1 QUESTIONS

1. Project Specification Threshold Test (PSTT) and threshold value

- a) What matters should DNSPs be required to assess when undertaking the PSTT? *(see section 6b)*
- b) What should be the threshold for the PSTT? *(see section 2aii)*
- c) For projects which do not meet the PSTT, what should be the threshold for the Project Assessment Draft Report? *(see section 9a)*

SESSION 1 QUESTIONS

2. Engagement with non-network proponents prior the Project Specification Threshold Test (PSTT)

- DNSPs are able to consult under an accelerated consultation period on their project specification reports, if prior to the PSTT:
 - the DNSP has constructively engaged with non-network proponents through its Non-network Strategy; and
 - Sought to develop alternative credible non-network options either internally or via consultation.
- It is proposed consultation would be reduced from [6-9] months to [1-2] months if DNSP has taken these actions.
- Purpose of this opportunity for accelerated consultation is to encourage DNSPs to engage with non-network proponents and identify non-network opportunities on a day to day basis.

SESSION 1 QUESTIONS

2. Engagement with non-network proponents prior the Project Specification Threshold Test (PSTT)

- a) How should DNSPs be required to demonstrate that they undertaken this prior consultation with non-network proponents in order to consult on project specification reports under an accelerated consultation period? (see *section 7g*)
- b) How long should this accelerated consultation period be? What should be the time period for consultation if the DNSP has not undertaken this prior consultation? (see *section 7g*)

SESSION 1 QUESTIONS

3. Scope of projects subject to the RIT-D and specification stage

- The following types of investments will be exempt from the RIT-D:
 - “urgent and unforeseen investments”
 - investments where the most expensive and likely option is less than \$[1-2]m
 - investments designed to address an issue on a transmission network
 - “joint network investments”
 - investments to be provided as negotiated services, alternative control services or unclassified services.
- Under the proposed Project Specification Threshold Test, certain types of assets will be exempt from the project specification stage of the RIT-D.
- The intention is to exempt assets from the project specification stage, where the RIT-D is unlikely to identify alternative options for the identified need, such as replacement assets.
- Note- replacement assets would still be subject to the RIT-D and project assessment process.

SESSION 1 QUESTIONS

3. Scope of projects subject to the RIT-D and specification stage

- a) What types of investments should be exempt from the RIT-D? How should these investments be defined? *(see section 2)*
- b) What types of assets should be exempt from the project specification stage of the RIT-D? How should each of these exempt assets be defined in the Rules? *(see section 6c)*

SESSION 1 QUESTIONS

1. Black and Blue Groups – Project Specification Threshold Test (PSTT) and threshold value
2. Green and Red Groups – Engagement with non-network proponents prior the Project Specification Threshold Test
3. Silver and Yellow Groups – Scope of projects subject to the RIT-D and specification stage



SESSION 2 QUESTIONS

AEMC

SESSION 2 QUESTIONS

4. Types of market benefits and costs to be assessed under the RIT-D

- Under proposed project assessment process, DNSPs would be required to quantify all applicable market benefits and costs in the Rules against each credible option. This would promote economically efficient investments.
- Proposed framework allows reliability augmentations to have a negative net economic benefit.
- Option for DNSPs to quantify additional market benefits and costs if agreed to by the AER. This ensures process is “fit for purpose”.
- Project assessment process is consistent with proposed RIT-T, but more limited list of market benefits.
- Need to ensure that future investments are developed consistently with climate change policies.

SESSION 2 QUESTIONS

4. Types of market benefits and costs to be assessed under the RIT-D

- a) What types of market benefits and costs should be included in the Rules for the RIT-D? *(see sections 4a and 4b)*
- b) How should environmental costs and benefits be considered in the project assessment process?

SESSION 2 QUESTIONS

5. Level and type of information to be included in RIT-D reports

- DNSPs will be required to report and consult on each applicable stage of the RIT-D process for proposed investments.
- RIT-D process is tailored to the characteristics of the identified need for investment to ensure reporting and consultation requirements are proportionate to the potential benefits.
- Reporting and consultation requirements will provide transparency to DNSP's decision making and ensure that investments are being made in an economically efficient and technology neutral manner.
- Majority of proposed investments will not be subject to each stage of the proposed RIT-D.

SESSION 2 QUESTIONS

5. Level and type of information to be included in RIT-D reports

What level and type of information should be provided in:

- a) The Project Specification Threshold Test (PSTT) Report, for projects which do not meet the requirements of the PSTT? *(see section 6, esp 6d)*
- b) The Project Specification Report, to outline the PSTT assessment, identify the range of credible options and seek comment on alternative options? *(see section 7c)*
- c) The Project Assessment Draft and Final Report, to identify and seek comment on the DNSP's preferred option? *(see sections 8 and 10)*

SESSION 2 QUESTIONS

6. Scope and design of the dispute resolution process

- Purpose of the dispute resolution process is to provide a timely and accessible mechanism for interested parties to question DNSPs' decision making and provide transparency to DNSPs' decisions and behaviour.
- Process should also be proportionate in terms of time and cost.
- Dispute resolution process would only apply to the application of the RIT-D (i.e. compliance review) under the NER, following the publication of the Project Assessment Final Report.
- AER may direct DNSP to amend its Project Assessment Final Report if:
 - The DNSP has not correctly applied the RIT-D;
 - The DNSP has incorrectly misclassified project as a reliability augmentation; or
 - There was a manifest error in the DNSP's calculations.

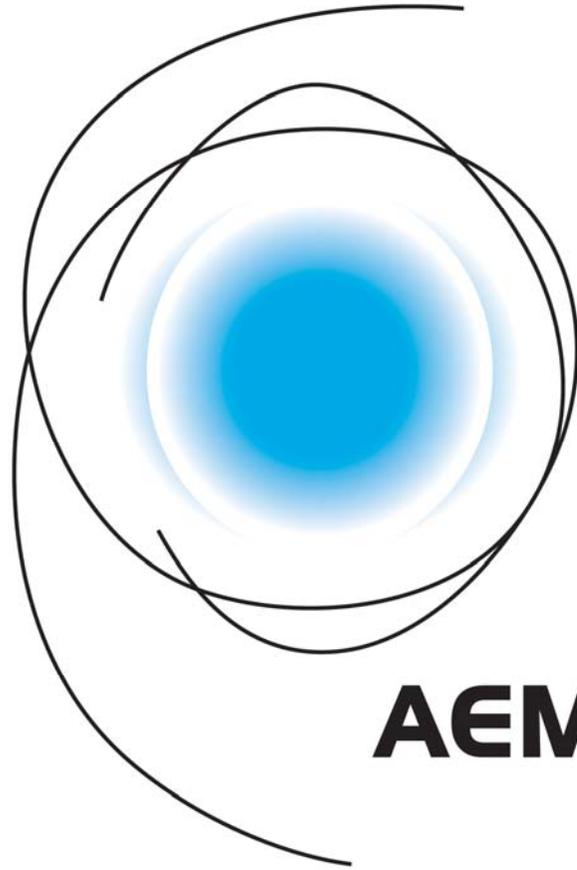
SESSION 2 QUESTIONS

6. Scope and design of the dispute resolution process

- a) Should the dispute resolution process be limited to proposed investments which are subject to the RIT-D and above a defined threshold? If so, what should be this threshold? (*see section 11*)
- b) Or should all proposed investments which are subject to the RIT-D be subject to the dispute resolution process?
- c) What would be the pros and cons of each approach?

SESSION 2 QUESTIONS

1. Black and Blue Groups – Level and type of information to be included in RIT-D reports
2. Red and Green Groups – Types of market benefits and costs to be assessed under the RIT-D
3. Silver and Yellow Groups – Scope and design of the dispute resolution process



AEMC