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17 April 2009

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Review of National Framework for Electricity Distribution Network Planning and Expansion

This submission is made on behalf of Jemena Electricity Networks (Vic) Ltd (JEN). JEN appreciates the opportunity to provide comments on the AEMC's Review of a National Framework for Electricity Distribution Network Planning and Expansion.

To the extent that government policy is trying to encourage non-network solutions, JEN considers that the answer does not lie solely in additional planning requirements. Rather the focus should be on the regulatory framework and shaping of incentives to moderate the risk associated with non-network solutions, which would thereby encourage their uptake.

In addition, JEN draws the AEMC's attention an issue that will assume much greater importance in the future. While the test for distribution network investment is at present narrowly focused on reliability (with wider market benefit in some rare instances), a much broader assessment will be required in the future to accommodate:

- increasing expectations of customers for better reliability and quality of supply;
- the emergence of embedded generation and renewables;
- a drive for energy efficiency, especially in response to the CPRS;
- availability and cost of capital; and
- a need for increasing efficiency and network optimisation.

This raises the issue as to how distribution businesses can be confident that a new planning framework will allow them to not only efficiently conduct business-as-usual planning, but to develop approved plans for network development that will ensure their business responsiveness and sustainability in the medium and longer term.

While the AEMC's terms of reference may not directly encompass these matters, JEN considers that they raise important issues for a future network planning framework.

JEN looks forward to participation in further stages of the review. If required, I can be contacted on (02) 9270 4512 or email: sandra.gamble@JEN.com.au.

Yours sincerely



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REVIEW OF NATIONAL FRAMEWORK FOR ELECTRICITY DISTRIBUTION NETWORK PLANNING AND EXPANSION

1. Background

In 2007, the MCE Standing Committee of Officials (SCO) commissioned a report by NERA Economic Consulting and the Allen Consulting Group (NERA/ACG) to provide advice on a national framework for electricity distribution network planning, connections and capital contribution arrangements. JEN (then part of Alinta) contributed a substantial response to that report.¹

As noted in the preamble to the MCE's terms of reference for this review, it has become apparent that recent developments in the National Electricity Market (NEM) indicate that further analysis and consultation is required before the details of the arrangements governing planning and expansion of electricity distribution networks can be finalised.

The AEMC's Scoping and Issues Paper (the AEMC paper) indicates that the task for the Commission is to develop the detailed design, supported by proposed Rules, consistent with the MCE guidance on the characteristics and desired outcomes of the national framework.² JEN acknowledges this intent, but also notes the point made in the AEMC paper that a network planning and expansion framework is only one aspect of a wider set of arrangements and reforms to address key policy challenges, and that issues need to be addressed in a coordinated manner³.

JEN therefore urges the AEMC not to take a narrow perspective in this review, and assume that a quantum of additional distribution rules will elicit desired policy outcomes. Rather, the focus should be on the outcomes themselves, and analysis should identify where existing frameworks offer adequate distributor incentives to support the desired outcomes, or where only supplementary changes are needed.

To the extent that there may be any perceived lack of incentive for distributors to undertake non-network alternatives, it is important to examine whether this is a result of current legislative provisions or whether there are other reasons. As we have noted, in identifying possible solutions, the AEMC should have regard to requirements and incentives already contained in the economic regulatory framework.

2. Current frameworks

JEN considers that the current annual planning process in Victoria works relatively well. This process culminates with the publication of two planning reports annually – a transmission connection planning report and a distribution system planning report. These two reports are available to the public and they provide comprehensive information on network constraints, options, risk and economic assessments and a call for non-network proposals.

A unique feature of Victoria is that the distributors are responsible for planning and directing the augmentation of their distribution networks, as well as the transmission connection assets that connect their distribution networks to the shared transmission network.

Accordingly, the Victorian Electricity Distribution Code (the Code) requires the Victorian distributors to publish information on emerging network constraints through the above two key planning documents.

Given that existing planning arrangements in Victoria have been in place for nearly a decade, there is sufficient experience to indicate that these arrangements have been effective in fostering efficient development of the distribution networks and distributors' transmission connection assets.

¹ Alinta Response to NERA/Allen Consulting Recommendations - National Frameworks for Distribution Networks: Network Planning and Connection Arrangements, 9 October 2007.

² AEMC Scoping and Issues Paper: Review of National Framework for Electricity Distribution Network Planning and Expansion, 12 March 2009, p iii.

³ Ibid.

In other states, transmission network service providers (TNSPs) plan transmission connection assets in consultation with the distributors. In contrast, the Victorian distributors have a distribution licence responsibility to plan and direct the augmentation of transmission connection assets. Victorian distributors are exposed to S-factor penalties arising from transmission connection outages if it can be demonstrated they are responsible as a result of inadequate network planning. Therefore, there is an incentive to adopt efficient planning practices.

3. Method of response in this submission

Rather than specifically addressing every question raised in the AEMC paper, we have grouped our comments mainly under the issues set out in the table in chapter 7.

4. The Commission's approach to the review

The Commission's seven proposed criteria for the review are set out on page 9 of the AEMC paper. JEN considers that the proposed criteria are comprehensive and appropriate for the review.

The first criterion particularly notes that a national framework should accommodate variations in the existing jurisdictional distribution planning arrangements and distribution reliability standards. It will be important for the Commission to assess objectively the effectiveness of the existing arrangements in each jurisdiction. It may well be impracticable for the review to propose adopting a nationally uniform set of arrangements drawing on elements from all of the existing jurisdictions.

JEN fully endorses the second proposed criterion, that there should be an appropriate balance between the regulatory burden on distributors and the benefits to the broader market. The review should analyse the costs and benefits of any proposed rule changes that would materially increase the regulatory burden on distributors.

5. Scope of the annual planning and reporting process

While the level of information that the Victorian distributors are required to publish in their distribution and transmission connection planning reports appears adequate, there may be value in including some additional information on a case-by-case basis, where such issues may impact on the provision of network-based and non-network solutions to emerging constraints.

However, it is doubtful whether any significant benefit would accrue from the preparation of additional reports to advise non-network proponents of potential opportunities, given the comprehensive requirements of the Victorian Distribution Code.

JEN also notes that as part of the price review process, distributors are required to provide the AER with detailed forecasts of their capital and operating expenditure, and to justify that the expenditure is efficient and prudent. The NER require distributors to have explicit regard to non-network alternatives and potential trade-offs between capital and operating expenditure. Thus, there is already one 'filter' for potential non-network solutions in the economic framework.

The solutions discussed in the annual planning report (APR) should reflect the outcomes of joint annual transmission and distribution planning processes. The APR should include both distribution and transmission network options. It is inefficient that reporting thresholds or requirements should differ between transmission and distribution systems for different outcomes to the same issue.

JEN concurs that the Australian Energy Market Operator's (AEMO) website would be an appropriate central location for the publication of distributor planning reports.

6. Type and level of detail of information to be provided in annual planning reports

The AEMC review should identify the audience and purpose of each stage of the planning process, particularly the APR. An important issue is how the APR relates to other reporting and planning requirement obligations such as those required by the Australian Energy Regulator (AER) and jurisdictional technical regulation. There should be no overlap between the purpose and scope of the APR and other documents.

Finding the appropriate level and type of information disclosure requires careful consideration by the AEMC. To be successful, it is important that the information disclosure and planning regime be focused on stakeholder requirements comprising both network and non-network alternatives. Stakeholder requirements must be clearly understood to ensure that the planning information sought is proportionate to the expected benefits that can realistically be achieved. This should facilitate efficient and timely screening of potential projects.

JEN considers that the type of information required from distributors should be consistent with that required from transmission.

6.1 Historical data

In JEN's view, it would be inappropriate for APRs to include mandated historical data and network performance information for a number of reasons.

JEN suggests that the annual planning report should be focused on current and future network development. It should be a forward looking plan which provides information to both inform market participants of planned projects and allow non-network proponents to identify opportunities for alternative solutions. There is no pressing reason for the APR to include historical information.

Requiring the annual planning report to include historical information and data would duplicate current reporting obligations and significantly increase the reporting and regulatory burden on distributors for no clear benefit. In Victoria, distributors currently provide network performance data to the AER for publication as part of its annual performance and regulatory reports. It will therefore be unnecessary to duplicate these reporting obligations in APRs.

In our response to the NERA/ACG recommendations, JEN submitted that the proposed information regime did not balance the costs imposed on businesses by the release of highly detailed information against the usefulness or relevance of the information to be provided to the market⁴.

JEN considered that there should be a distinction between general information available to the market and specific detailed information required by genuine applicants proposing non-network solutions. The latter information should be met by specific information exchange between businesses and proponents.

7. Implementation of the annual planning and reporting process

JEN considers that the current planning consultation process provides sufficient flexibility for the businesses to reach efficient and timely solutions. Imposing further requirements without establishing a specific need for them may in fact impede efficient planning and much needed investment.

JEN considers that the AEMC's evaluation should recognise that the planning framework needs to be proportionate to the benefits expected from conducting an open planning process. That is, the level of detail required and the costs of delivering this information reflect the expected benefits of a transparent planning process.

8. Thresholds to trigger project assessment under the RIT- D

JEN concurs with the AEMC that the regulatory investment test should be both efficient and proportionate. The AEMC paper observes that there are a number of differences between transmission and distribution to be considered. Distribution augmentations tend to be needed for reliability reasons and are less likely to deliver wider market benefits. Hence this may justify a less elaborate regulatory test for distribution than for transmission.

In JEN's view the RIT-D should only apply to standard control services relating to stand alone augmentation projects and augmentation projects that have both augmentation and replacement components, where increased demand is the principle driver of the project. The distribution RIT should be consistent with the RIT for transmission investments, but potentially simplified to reflect

⁴ Alinta Response to NERA/Allen Consulting Recommendations - National Frameworks for Distribution Networks: Network Planning and Connection Arrangements, 9 October 2007, p 9.

the narrower range of likely market benefits, the larger number of investment decisions undertaken and the generally shorter timeframe available to plan distribution investments. In the absence of a clear case for the materiality of market benefits, one simplification could be to limit the consideration of market benefits from the RIT-D.

ENA also considers that the RIT applied to distribution should apply to augmentation projects initiated for the purposes of addressing a distribution need over a certain monetary threshold, and that the analysis should apply to the whole end-to-end project and cover distribution, transmission connection and shared transmission network components as appropriate. Generally the regulatory test analysis should be led by distributors as they are responsible for delivering solutions required for their networks.

JEN considers that the regulatory test for distribution (RIT-D) should use a cost-benefit framework that provides for the investment requirements driven by any applicable deterministic standard.

In relation to other matters canvassed in the Issues Paper regarding the RIT-D, JEN considers that:

- The RIT-D should apply to augmentation capital expenditure only and should not be extended to replacement capital expenditure;
- The threshold for undertaking a public RIT-D should be no less than the current threshold of \$5 million which applies in the RIT-T. The threshold could simply be subject to CPI indexation rather than incurring the cost of a periodic review;
- JEN agrees with the AEMC paper (page 21) that any prospective project below the threshold would not be required to undertake the project assessment process.

A distribution specific regulatory test should recognise the relatively narrow scope for distribution investment to impact on broader market benefits. Therefore, a simpler test to that applying in transmission is more appropriate. This view takes account of the largely reliability-based augmentations that are undertaken, while still providing scope for market benefits to be considered in the very small number of cases where this is relevant.

Responsibility for completing an investment test in relation to a project should be determined having regard to the original intent of the augmentation. Thus, if augmentation is required to relieve a distribution constraint and/or a transmission connection constraint, and that project involves augmentation of the shared transmission network, then the entire project should be assessed under the distribution project assessment process (RIT-D). TNSPs would be able to participate in the application of the RIT-D to any particular project through the public consultation process.

Consistency in the approach between transmission and distribution is critical, particularly at the interface between distribution and transmission assets where they have the same characteristics as the transmission assets. Presently where projects are at or around this interface (that is, future constraints may be addressed by either transmission or distribution investment) or are subject to joint planning, the consultation and analysis process between transmission and distribution is broadly similar. However, there are differences in the detail of consulting and reporting. In these circumstances there appears to be no benefit (rather there would be confusion) in applying different consultation and reporting processes for the solution to a constraint depending on whether the solution is distribution or transmission.

Rules need to ensure that the outcome for either a distribution or transmission investment option is determined by the total least cost solution and not establish two different regimes for transmission and distribution planning methodologies.

JEN agrees with the AEMC paper that the approach of defining cost thresholds has the risk of being too simplistic by either capturing too many or too few projects⁵.

⁵ AEMC Scoping and Issues Paper: Review of National Framework for Electricity Distribution Network Planning and Expansion, 12 March 2009, p 22.

JEN therefore proposes that the approach should have regard to what is proposed for transmission businesses – ie a threshold of \$5 million.

9. Identifying and consulting on options during project assessments

In the light of the current Victorian planning and reporting process, and having regard to a balance between additional burden and potential benefits, JEN considers that the request for proposal (RFP) processes canvassed in the AEMC paper is unnecessary, certainly for small augmentations. Moreover, JEN considers the inclusion of project information as contemplated on page 17 of the AEMC paper is sufficient to identify network investment opportunities.

As noted in section 2 above, Victorian distributors have incentives under the present regulatory framework to actively facilitate the deployment of efficient non-network solutions. Additionally, the service incentive (S factor) scheme provides financial incentives to maintain and improve the reliability of distribution networks.

Before considering whether individual investment proposals should be subject to a mandatory RFP process, JEN suggests that the AEMC should consider whether non-network solution providers have any capacity to assume appropriate S-factor risk in order to offer a viable substitute for network investment.

Generally, distributors should have the flexibility to utilise whatever processes they consider will give them the most efficient solutions.

Whilst there may be circumstances where a RFP is appropriate, JEN considers that jurisdictional experience has shown that compulsory and prescriptive RFP processes will not consistently deliver cost effective demand management options.

10. Identification and quantification of the costs and benefits of distribution projects

JEN suggests that environmental and demand management issues are better managed through specific incentive schemes, rather than through an economic evaluation process.

JEN does not favour the inclusion of a list of costs and benefits in the NER. It is important to provide a simple process which does not devote significant resources trying to identify benefits which may not in fact exist.

JEN suggests that the Rules should codify the principles of the RIT-D. If necessary, more detailed guidance governing the application of these principles should be developed through an industry guideline.

JEN does not support complex regulation such as the application of imposed criteria based on either maximising or minimising ratios of net benefits to net costs or net costs to net benefits respectively. Regulators should not be put in the position of determining whether a business case exists for a particular project. This is best left to businesses. Distributors should be able to assess options across a range of scenarios and develop their own judgements of the best option. Appropriately, separate tests apply in Chapter 6 of the rules for capital expenditure that can be rolled into each distributor's asset base.

11. Decision making criteria to determine most economic option

JEN suggests that the decision criteria to be applied under the RIT-D (in circumstances where mandatory reliability obligations are not in place) should be sufficiently flexible to enable matters such as the risk to supply reliability to be taken into consideration in determining the timing and scale of response to alleviate a constraint.

JEN considers that there should be consistent thresholds for economic analysis of options between transmission and distribution businesses. This is because the administrative costs of analysis and public review, and potential scope for non-network alternatives, are similar between transmission and distribution projects. It is not appropriate for a lower threshold for public economic analysis to apply in distribution, as this outcome is likely to expose an excessive number of projects to analysis, leading to disproportionate costs compared with the realisable benefits.

In contrast, the economic methodology needs to be specific for distribution investments as considerations differ between distribution and transmission.

12. Dispute Resolution Process

The question of the scope of dispute resolution regarding transmission project assessment was examined in detail by the AEMC in its 2008 review of national transmission planning arrangements⁶.

The Commission's reasoning regarding this matter is relevant. Consistent with the arrangements proposed by the AEMC (and accepted by the MCE) in relation to the RIT-T, the scope for disputes of a RIT-D should be restricted to matters of compliance with the Rules only and not the merits of a distributor's project assessment. JEN would not support any extension of the scope of dispute resolution to the merits of a regulatory test analysis and considers it should remain limited to due process, namely, the distributor's compliance with the NER and the regulatory test.

JEN considers that the dispute resolution process established for the RIT-T should be mirrored for distribution.

13. 'Common Issues'

Under this heading, JEN particularly wishes to comment on issue/question 28 - the appropriate balance of specification on the national framework between the NER and supporting guidelines.

We note the AEMC paper's comment (p 33) that *'prescription in the NER promotes certainty and stability of regulatory outcomes, but it may reduce the regulator's ability to accommodate the particular circumstances of individual market participants in regulatory decisions.'* However the development of guidelines by the AER does not resolve this limitation. The use of guidelines rarely adds value to the approach specified through principles in the Rules. Guidelines are also more inflexible. A distributor cannot formally initiate a change in the guidelines if there is a problem with complying with them or if market circumstances change.

It is far better for adequate principles to be established in the Rules, and for distributors to demonstrate compliance with those principles (and the AER to assess compliance) rather than overlaying clarifying guidelines on top of the Rules.

⁶ AEMC, *National Transmission Planning Arrangements: Final Report to MCE*, 30 June 2008, page 61.