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Dr John Tamblyn
Chairman
Australian Energy Market Commission
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Dear Dr Tamblyn

**AEMC REVIEW OF NATIONAL FRAMEWORK FOR ELECTRICITY DISTRIBUTION NETWORK PLANNING AND EXPANSION**

**(AEMC Reference EPR0015)**

CitiPower and Powercor Australia (**the Businesses**) welcome the opportunity to comment on the Australian Energy Market Commission's (**AEMC**) *Scoping and Issues Paper – Review of National Framework for Electricity Distribution Network Planning and Expansion* (**Review**).

***Introduction***

The Businesses' support the retention of the current Victorian network planning arrangements under the national distribution planning framework as they:

- Are well developed and have served Victorians well;
- Provide detailed information to, and opportunity for consultation with, non-network proponents; and
- Are unique in respect of planning and directing the augmentation of transmission connection facilities. In contrast to other jurisdictions, Victorian distribution network service providers (**DNSPs**) are responsible for planning and directing the augmentation of these assets.

The Businesses wish to comment on the following aspects of the AEMC Review, being:

- Network planning arrangements and the interaction between transmission and distribution network planning;
- Regulatory Investment Test for Distribution (**RIT-D**);
- Dispute resolution; and

- Bank guarantees and the pass through of transmission connection charges.

## *1. Network planning arrangement*

*(Refer questions in Chapter 3 of the AEMC Review)*

The *Victorian Electricity Distribution Code* **(Code)** requires the five Victorian DNSPs to notify registered participants, the National Energy Market Management Company (**NEMMCO**) and interested parties of emerging network constraints through two key planning documents:

- The annual *Transmission Connection Planning Report* (**TCPR**), which is jointly prepared by the five Victorian DNSPs in conjunction with the relevant transmission authorities, SP AusNet and VENCorp. The TCPR sets out details of plans to meet expected demand at transmission connection points over the following ten years; and
- An annual *Distribution System Planning Report* (**DSPR**), which provides detailed information on emerging network constraints and identifies, where possible, alternative network options for alleviating those constraints over a five year period.

These planning reports are currently published on the DNSPs' websites.

Importantly, in contrast to arrangements in other Australian jurisdictions, Victorian DNSPs are responsible for planning and directing the augmentation of transmission connection assets[1]. In accordance with the Code's requirements, information relating to transmission connection assets is included in the annual TCPR.

The Businesses consider that:

- The current Victorian planning arrangements are well developed and have served Victorians well to date. The Businesses therefore support the retention of their current arrangements under a national framework;
- The new regulatory framework must have regard for the unique Victorian transmission connection planning arrangements. The Businesses note that the current arrangements, whereby the DNSPs are responsible for planning and directing the augmentation of transmission connection assets, are required by their *Electricity Distribution Licences*;
- The nature of the information required by the Code for inclusion in the Businesses' current planning reports is comprehensive and already meets the majority of the information requirements proposed by the AEMC;
- The current planning arrangements provide adequate information for, and opportunity for consultation with, non-network proponents. It is unlikely that there would be any further net benefit arising from requiring the Businesses to prepare additional and separate reports / information packages for the purposes of non-network proponents. The Businesses emphasise that the Code currently obliges them to:
    - Include non-network alternatives, such as embedded generation or demand management in their planning considerations; and

[1] Clause 14 of each DB's Distribution Licence sets out this requirement. In all other Australian jurisdictions Transmission Network Service Providers (**TNSP**) have responsibility for planning and augmenting the transmission connection assets that connect to the DNSP's network.

- Invite expressions of interest from proponents of alternative project solutions, including non-network solutions such as embedded generation or demand management, as part of their planning process. The TCPR and DSPR serve as the vehicles through which interested parties are advised of opportunities for the provision of non-network alternatives to address emerging constraints.

- The five year DSPR should continue to be published annually in the last quarter of year prior to its initial year of application. This aligns with the Businesses' investment forecasting cycle; and
- The Australian Energy Market Operator's (**AEMO**) website is a reasonable central location for the publication of DNSP network planning reports.

***2. Regulatory Investment Test for Distribution (RIT-D)***

*(Refer questions in Chapter 4 of the AEMC Review)*

In November 2007 the Australian Energy Regulator (**AER**), in accordance with clause 5.6.5A of the *National Electricity Rules* (**Rules**), developed and published a Regulatory Test and associated application guidelines. These guidelines apply to both distribution and transmission businesses.

Importantly, the AER prepared these documents in accordance with a fully consultative process and several changes were made to the Regulatory Test as a result of this process. The Businesses consider there is no reason why the AEMC should not adopt the AER's current Regulatory Test, for the purposes of the RIT-D. The AEMC should not, so soon after the Regulatory Test has been reviewed and revised by the AER, be seeking to develop new national arrangements without drawing heavily on the existing Regulatory Test prepared by the AER.

The Businesses note that that as part of the AEMC review of national transmission planning arrangements it has published a Draft Rule in relation to Regulatory Investment Test for Transmission (**RIT-T**) (**Draft RIT-T Rule**). The Businesses support some aspects of this Rule as set out below.

The Businesses consider that:

- Both the market benefits and the reliability limb of the AER's Regulatory Test should be retained in the RIT-D or the limbs should be amalgamation in the same way as they have been in the Draft RIT-T Rule. This is because the Businesses currently use different limbs of the Regulatory Test in different circumstances. While the Businesses often apply the market benefits limb of the Test, many of the augmentations undertaken by the Businesses relate to regulatory compliance obligations, which are better managed under the reliability limb (least cost option). The Businesses would, therefore support clause 5.6.5B(b) of the Draft RIT-T Rule in the RIT-D Rule, if limbs of the test are amalgamated:

  ***Clause 5.6.5B(b)***

  *The purpose of the regulatory investment test for transmission is to identify the credible option that:*

  *(i) maximises the present value of net economic benefits; or*

  *(ii) if the relevant credible option is a reliability augmentation, minimises the net economic costs*

*to all those who produce, consume and transport electricity in the market (the "preferred option"). For the avoidance of doubt, the regulatory investment test for transmission may identify a preferred option that may, in the relevant circumstances, have a negative value where the network investment is a reliability augmentation.*

- Consistent with the current Regulatory Test arrangements and the Draft RIT-T Rule requirements (clause 5.6.5C(a)), the RIT-D should apply to augmentation capital expenditure (**capex**) only and should not be extended to apply to replacement capex. Replacement capex is a major part of the Businesses' work programs, and applying the RIT-D to this capex would result in administrative costs that would far outweigh any possible benefits. Further, the Businesses' asset replacement programs are already subject to an efficiency review, every 5 years, through the price review process;
- An augmentation project should be classified by the original intent of the augmentation. This means that if there is a need to augment to relieve a distribution constraint, which ultimately requires the augmentation of the shared transmission network, then that project should be assessed under the distribution project assessment process (RIT-D). Accordingly, the DNSP would be responsible for assessing the whole end to end project, including the following components of the project: distribution; transmission connection; and shared transmission network (associated with the transmission connection). This means that the RIT-D should explicitly cover transmission connection assets;
- Joint DNSP and transmission network service provider **(TNSP)** planning arrangements should be workable, practical and provide clear responsibilities. Accordingly, joint planning arrangements should provide for:
    - TNSPs liaising with and providing costing and other necessary information to DNSPs in order for DNSPs to undertake the RIT-D; and
    - DNSPs have sole responsibility for undertaking the RIT-D. This approach would facilitate a single streamlined reporting and consultation process which will make it easier for non-network proponents and other interested parties to provide input.
- Where shared transmission assets are included within the scope of a project that has been subject to a RIT-D, and the project satisfies the requirements of the RIT-D, then the relevant TNSP should be deemed to have met its obligations to conduct a RIT-T (in respect of the shared transmission network assets). Consequently, the resulting shared transmission network assets would provide prescribed transmission services in accordance with the Rules;
- The current Regulatory Test threshold of $10 million has regard for the net benefits associated with undertaking such tests. The Businesses note that reducing the threshold below $10 million is not likely to increase the uptake of non-network solutions. This is because non-network proponents are generally unable to take on the financial liability associated with the DNSP's Service Target Performance Incentive Scheme (**STPIS**). In the Businesses' experience the STPIS has acted as the greatest barrier to the uptake of non network solutions. Accordingly, this matter would firstly need to be addressed in order to encourage the uptake of non-network investments;

- The RIT-D should have regard for the customer connection timeframes. The Businesses emphasise that that their Licence conditions (clause 6.1) require them to offer to connect customers within set timeframes. The Businesses consider that the RIT-D should have regard for these timeframes and not unnecessarily delay connections, particularly those which require deep transmission network augmentation. The Businesses emphasise that the planning timing horizons for the distribution system are considerably shorter than for transmission and unless appropriately managed the Regulatory Test may unnecessarily impede the process and cause considerable inconvenience to connecting customers;
- The following clauses in the Draft RIT-T Rule should be reflected in the development of the RIT-D Rule:
    - Clause 5.6.5B(a) - this provides that the AER must develop and publish the RIT-T ; and
    - Clause 5.6.5B(d) - this provides that the AER must develop an associated guideline for the operation and application of the RIT-T.
- The list of "benefits" as per clause 5.6.5B(4) of the Draft RIT-T Rule, should not be included in the development of the RIT-D Rule. Rather the Businesses consider that the RIT-D Rule should prescribe only the minimum costs and benefits that should be considered as part of the RIT-D, being:
    - *Costs* – The capital construction costs and operating and maintenance costs of a project, the costs of any negative consequential impacts resulting directly from the project, and the cost of complying with relevant laws, regulations and applicable administrative requirements relevant to the project; and
    - *Benefits* – The value of customer reliability (**VCR**) otherwise known as the unserved energy.
- The AER should have responsibility for determining, in the RIT-D, or associated Guideline made pursuant to the Rules:
    - Any additional costs and benefits associated with distribution investment;
    - The circumstances in which additional costs and/or benefits should be considered.
- Undertaking a cost benefit assessment for an augmentation project that exceeds $500,000 and for which a DNSP is not required to undertake a RIT-D, is administratively costly and likely to deliver little, if any, any benefit. The Businesses consider that it would be more efficient for the AER to review and approve a DNSP's capital governance processes and procedures as part of the regulatory determination process. This would provide the AER with confidence that DNSPs are undertaking investment in accordance with efficient and transparent processes and procedures.

### *3. Dispute resolution*

*(Refer questions in Chapter 5 of the AEMC Review)*

The Businesses consider that:

- Consistent with clause 5.6.5B(e)(iii) of the Draft RIT-T Rule, the AER should have full responsibility for dispute resolution; and
- Consistent with clause 5.6.6A(A) of the Draft RIT-T Rule, the scope for disputes should be restricted to matters of compliance with the Rules only and not the merits of a decision. This provides greater clarity and specification to the process and will therefore:
    - Assist in ensuring that dispute resolution is applied consistently across all prospective investments; and
    - Minimise the possibility of the planning process being unnecessary delayed by parties raising baseless or vexatious disputes in order to delay projects.

### *4. Bank guarantees and the pass through of transmission connection charges*

The Businesses would also like to raise two further matters, which are directly related to the AEMC's Review.

The first matter relates to the ability of TNSPs to require bank guarantees. The Businesses believe TNSPs should not be able to raise bank guarantees from connecting DNSPs where the connection assets and/or shared network assets provide prescribed transmission services. This is because the TNSPs are effectively guaranteed the return of and on these assets through their inclusion in the regulatory asset base. In the case of connection assets and /or shared network assets that are classified as negotiated services, the TNSP may be able to seek a bank guarantee however the Rules should be amended to provide assessment criteria, in relation to when and how TNSPs may require bank guarantees.

The second matter relates to recovery of transmission connection charges. The Rules (in particular Clause 6.18.7) requirements should be clarified such that they provide for all transmission charges, include TUoS and transmission connection asset charges, to be passed through to network users via distribution tariffs. Clause 6.18.7 of the Rules provides that:

> *"a pricing proposal must provide for tariffs designed to pass on to customers the charges to be incurred by the distribution network service provider for transmission use of system services".*

While clause 6.18.7 of the Rules appears consistent with the current jurisdictional arrangements, whereby DNSPs pass though to customers the charges incurred for transmission use of system services (defined as TUoS and connection asset charges), the definition of customer transmission use of system refers only to TUoS and does not include customer connection asset charges. In particular chapter 10 of the Rules contains the following definitions in relation to TUoS services:

- *Transmission use of system* – a generator transmission use of system service or a customer transmission use of system service;
- *Customer transmission use of system* – a service provided to a transmission network user for use of the transmission network for the conveyance of electricity (including where it has been negotiated in accordance with clause

5.4A(f)(3)) that can be reasonably allocated to a transmission network user on a locational basis, but does not include generator transmission use of system services.

This means that 6.18.7 of the Rules does not clearly provide for the pass through of costs arising from transmission connection assets. The Businesses consider that the definition of customer transmission use of system should therefore be amended to include, or make reference to, connection asset charges.

Should you have any further questions in relation to this submission, please do not hesitate to contact me on (03) 9683 4465 or at bcleeve@powercor.com.au.

Yours sincerely

[signed]

**Brent Cleeve**

**MANAGER PRICE REVIEWS**