

Australian Energy Market Commission

## STAKEHOLDER WORKSHOP PAPER

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

19 May 2009

REVIEW

## **Inquiries**

The Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

**E:** [aemc@aemc.gov.au](mailto:aemc@aemc.gov.au)

**T:** (02) 8296 7800

**F:** (02) 8296 7899

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## **About the AEMC**

The Council of Australian Governments, through its Ministerial Council on Energy, established the Australian Energy Market Commission (AEMC) in July 2005 to be the Rule maker for national energy markets. The AEMC is currently responsible for Rules and policy advice covering the National Electricity Market. It is a statutory authority. Our key responsibilities are to consider Rule change proposals, conduct energy market reviews and provide policy advice to the Ministerial Council as requested, or on AEMC initiative.

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## Abbreviations

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Commission	see AEMC
CPI	Consumer Price Index
DNSP	Distribution Network Service Provider
DUoS	Distribution Use of Service
MCE	Ministerial Council on Energy
MNSP	Market Network Service Provider
NEL	National Electricity Law
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company
NSP	Network Service Provider
Review	Review of National Framework for Electricity Distribution Network Planning and Expansion
RIT-D	Regulatory Investment Test for Distribution
RIT-T	Regulatory Investment Test for Transmission
Rules	National Electricity Rules
SCO	Standing Committee of Officials
TNSP	Transmission Network Service Provider
TUoS	Transmission User of Service

## Stakeholder Workshops

### Workshop 1 - Melbourne: Annual Planning Process and Reporting Requirements

Wednesday, 27 May 2009  
10:00 am to 4:30 pm (registration from 9:30 am)  
Bendigo Wangaratta Room, Level 5  
Hilton Melbourne International Airport  
Arrival Drive, Melbourne Airport  
Melbourne

### Workshop 2 - Brisbane: Regulatory Investment Test for Distribution and Dispute Resolution Process

Thursday, 4 June 2009  
10:00 am to 4:30 pm (registration from 9:30 am)  
Lawson 2 Room, Level 1  
Novotel Hotel  
200 Creek Street  
Brisbane

### Registration

Stakeholders wishing to attend the workshops are invited to register with the AEMC by 5:00 pm, 20 May 2009. Stakeholders can register for either or both workshops by completing the registration form on the AEMC website at:  
<http://www.aemc.gov.au/electricity.php?r=20090204.144643>

Please return the completed registration form by email to [registration@aemc.gov.au](mailto:registration@aemc.gov.au) or by fax to (02) 8296 7899.

As numbers for the workshops are limited, please limit the number of attendees from your organisation to a maximum of three people per a workshop.

Enquires regarding the workshops can be directed to [registration@aemc.gov.au](mailto:registration@aemc.gov.au).

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# 1 Introduction

## 1.1 Purpose of the Paper

As part of its Review into developing the national framework for electricity distribution network planning and expansion (the Review), the Australian Energy Market Commission (AEMC) will hold two workshops to discuss the appropriate design of the national framework.

On 6 May 2009, the AEMC issued an open invitation on its website, inviting interested parties to participate in the workshops. These workshops will provide an opportunity for interested parties to comment on a proposed “high level” design and contribute to the development of the national framework by discussing a number of key design issues. The workshops will also allow us to test our emerging thinking on how the framework should be applied before the AEMC’s recommendations are finalised for the Draft Report on the Review.

The purpose of this paper is to present our current proposal on the design and scope of the national framework and identify the issues to be addressed at the workshops. The purpose of this paper is also to inform discussion at the workshops and assist participants to prepare for the workshops. Please note that any positions presented at this stage should be viewed as a ‘work in progress’.

The first workshop, to be held in Melbourne, will focus on the annual planning process and reporting requirements for the national framework. The second workshop, to be held in Brisbane, will be based on the regulatory investment test for distribution and the dispute resolution process. The workshops will be conducted through a mixture of presentations from AEMC staff, and break-out sessions where participants will be separated into smaller groups and asked to address and develop proposals on individual issues. Sinclair Knight Metz (SKM), who has been engaged to assist the AEMC in the Review, will help the AEMC in facilitating the workshops.

The intention is for the workshops to operate as an open forum and to give all participants an opportunity to constructively engage with AEMC staff and its advisors, on the application and operation of the proposed national framework for distribution planning.

## 1.2 The Review Terms of Reference

The AEMC is undertaking this Review under direction from the Ministerial Council on Energy (MCE). The MCE’s Terms of Reference states that the national framework for distribution network planning shall include the following:<sup>1</sup>

- a requirement on distribution network service providers (DNSPs) to perform an annual planning process;

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<sup>1</sup> A copy of the MCE Terms of Reference is available at [www.aemc.gov.au](http://www.aemc.gov.au)

- a requirement on DNSPs to produce and make publicly available an annual planning report which has a 5 year planning horizon. At a minimum the annual plan must forecast distribution network constraints;
- a requirement for DNSPs to undertake a case by case project assessment process to identify the most economic option when considering network expansions and augmentations. This process is to be triggered using appropriate thresholds; and
- a dispute resolution process

### 1.3 Characteristics of a National Framework

The MCE's Terms of Reference also provided guidance on the required characteristics of the national framework, stating that the framework should:

- Ensure DNSPs have a clearly defined and efficient planning process which provides certainty in relation to approval of network expansion and augmentation to maintain the reliability of the electricity supply to consumers;
- Ensure DNSPs develop the network efficiently. This includes addressing a perceived failure by DNSPs to look at non-network alternatives (such as embedded generation, energy efficiency and conservation measures) in a neutral manner when making distribution augmentation assessments;
- Appropriate information transparency to allow:
  - network users, including distributed generators, to plan where best to connect to the network and provide an appropriate regulatory environment to facilitate this;
  - network users to understand how the timing of connection might affect connection charge arrangements, to the extent which connecting users contribute to upstream augmentation requirements; and
  - efficient planning by parties that may offer alternative, more cost-effective solutions to network augmentations to address emerging constraints;
- Ensure a level playing field for all regions in terms of attracting investment and promoting more efficient decisions, in that the same overarching regulatory framework applies across the National Electricity Market (NEM); and
- Reduce the regulatory compliance burden for participants operating in more than one region in the NEM.<sup>2</sup>

The current planning and reporting requirements vary significantly across jurisdictions in the NEM. In their submissions on the AEMC's Scoping and Issues

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<sup>2</sup> MCE, 2008, Terms of Reference, 17 December, p. 2.

Paper on the Review, distributors were generally concerned that the national framework should not impose duplicate obligations and significantly alter their current business processes.

Following the submission of the Final Report to the Review to the MCE, the MCE will consider the recommendations contained in the AEMC's Final Report and decide upon how to implement the framework. This Review is progressing based upon the assumption that if the AEMC recommendations are accepted by the MCE, then the jurisdictions will begin to roll back the current state based planning requirements. Hence the national framework should not result in the duplication of planning arrangements, nor is it being designed to work in parallel with the current jurisdictional requirements.

#### **1.4 Timetable for the Review**

We commenced the Review with the publication of a Scoping and Issues Paper on 12 March 2009. That paper sought views on the scope and key design issues for the national framework and, in particular, on what aspects of the current jurisdictional requirements should be maintained and what feature of the transmission planning framework were appropriate for distribution. 19 submissions on the Scoping and Issues Paper were received, copies of which are available on the AEMC website. AEMC staff also conducted a series of meetings with interested parties. We would like to thank participants for their submissions and for taking time to meet with AEMC staff to discuss the Review.

These workshops represent an important component in the policy development stage of the Review. The discussions and outputs of the workshops will assist us in developing our recommendations to the MCE on the design of the national framework.

We will consult on our proposed recommendations with the release of the Draft Report on the Review in July 2009 and a public forum on the Draft Report in August 2009. The public forum will provide a further opportunity for stakeholders to discuss the AEMC's recommendations and appropriate design for the national framework.

The next steps for the Review are set out below:

Publish Draft Report and specifications for the national framework	9 July 2009
Submissions due on Draft Report	13 August 2009
Public Forum on the Draft Report	Early August 2009
Final Report and draft Rules submitted to MCE	30 September 2009

## **1.5 SKM Report, “Advice on Development of a National framework for Electricity Distribution Network Planning and Expansion”**

SKM has been engaged by the AEMC to prepare a background report on the processes undertaken by electricity distributors in the NEM when expanding and augmenting their networks. SKM’s report will be released prior to the publication of the AEMC’s Draft Report on the Review.

Specifically, SKM was asked to provide a report which contained:

- a conceptual framework of how distribution network planning is undertaken in the NEM;
- a description of the jurisdictional planning/reliability standards, highlighting the differences in how the standards are determined across the jurisdictions;
- an understanding of how distributors plan to meet their jurisdictional standards;
- a description of how distributors engage with providers of non-network alternatives during their planning processes; and
- an evaluation of the potential for market benefits (i.e. benefits above the reliability standards) from augmentations to the distribution network.

The key findings of the SKM report include:

- the triggers for distributors’ capital projects are affected by the applicable security of supply and planning criteria in each jurisdiction;
- while there are developed frameworks emerging in the NEM for the measurement and reporting of reliability statistics, there are underlying differences in the reliability which can be delivered from different distribution systems;
- demand forecasting is a key element of, and input into, distributors’ planning process, however, SKM has observed there are material differences in the way forecasting is conducted;
- the majority of distributors have internally developed demand management programs, which they are pursuing at any given point in time (where distributors could be considered non-network “proponents” in this case);
- SKM believes the regulatory test in its current form is unsuitable for application to, and in fact specifically excludes, a wide range of reliability and refurbishment/replacement projects that distributors implement; and
- the types of costs and benefits that may be applied to distribution projects under the “market benefits” limb of the regulatory test are, with minor modifications, appropriate and sufficiently comprehensive for application to distribution.

We would like to thank DNSPs for providing assistance to SKM in the preparation of this report.

## 2 Principles for Developing the National Framework

Developing a set of principles from which to base the national framework for distribution planning will assist the policy development for the Review. Such principles can be used to evaluate the various options and to assess any proposed recommendations.

Based upon direction provided by the MCE in its Terms of Reference, the National Electricity Objective, submissions received on the Scoping and Issues Paper, and our discussions with stakeholders, the following set of principles will be applied during this Review.

1. **Transparency** – the national framework must ensure that sufficient information is made available to enable network users to make efficient decisions and non-network providers to propose feasible and credible alternatives to address network problems. The planning process must be clear, readily understandable and open to interested parties;
2. **Economic Efficiency** – the framework must promote efficient investment in distribution networks. The framework should provide for an assessment of all relevant economic benefits associated with the project;
3. **Proportionate** – the costs arising from the processes and regulatory requirements under the framework must be proportionate to the benefits. The extent of information provided and consultation process must strike the correct balance;
4. **Technology Neutral** – the framework should be technologically neutral, and not be biased towards network solutions where other non-network options can provide a comparable level of reliability;
5. **Consistency across the NEM** – the framework must ensure a level-playing field for all regions in terms of attracting investment and promoting more efficient decisions. This should reduce the regulatory compliance for participants operating in more than one region;
6. **Fit for purpose reflecting local conditions** – whilst accepting that consistency across the NEM is paramount, the framework should, where necessary, allow for differences in operating environments and network conditions across the DNSPs;
7. **Builds on existing jurisdictions requirements** – the national framework must properly incorporate the existing requirements and ensure that it does not result in any deterioration in the robustness and accountability of distribution planning compared to the current arrangements; and
8. **Consistency with transmission planning framework** – where appropriate, the national framework for distribution should be consistent with the arrangements for transmission planning. This is an important element in ensuring efficient joint planning of transmission and sub transmission networks and the delivery of an appropriate level of reliability and service quality at each transmission-distribution connection point.

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### **3 High Level Design for Proposed Framework**

The Indicative Framework Specification (see Appendix A) sets out proposed high level design for the national framework. The purpose of this specifications is to explain clearly and precisely, our emerging thinking for the national framework, consistent with the principles set out above. Some of the key features of the design are discussed below.

#### **3.1 Scope of assets and activities**

A key question for the Review is the appropriate scope of activities which will be covered by the national framework. Currently we propose that any activity/asset which materially affects the performance of the shared network must fall within the remit of the national framework as it would be essential that such activities and assets are effectively planned.

However, we consider the level of detail that should be reported on in the Annual Planning Report must recognise the nature and importance of that asset and the volume of projects in that asset class. DNSPs undertake a large number of minor projects (i.e., 11KV feeders) each year and we recognise that it could be inappropriate to require the distributors to provide the same level of information for projects such as zone sub-stations.

The Indicative Framework Specification currently sets out the annual planning requirements that should apply to all DNSP activities and assets, while the proposed annual reporting requirements could apply to sub transmission substations, zone substations, high voltage lines and any other major investment only. This proposal appears consistent with the opinions from a majority of the submissions received on the Scoping and Issues Paper.

#### **3.2 Purpose of Annual Planning Report**

The Annual Planning Report would provide transparency to the planning process and appropriate information for interested parties, such as non-network proponents. The information included should capture the planning of all relevant activities undertaken and provide some specific information to allow non-network proponents to assess the potential to engage with a DNSP to further explore and develop a non-network solution. The emerging thinking is that the Annual Planning Report should provide a sound basis from which to further develop non-network solutions rather than be expected to enable non-network proponents to furnish complete solutions.

The Annual Planning Report should also provide clarity about the planning methodology employed by DNSPs in order to provide transparency and certainty in relation to the assessment and development of network investments. This should include consideration of how the planning process takes into consideration potential high stress events, such as extreme weather or bush fires, and inform on the asset management strategy used by the DNSP.

### 3.3 Engagement with non-network proponents

In terms of ensuring DNSPs fairly and adequately consider non-network solutions and engage with non-network proponents, we query whether publishing information alone would achieve this objective. In submissions to the Scoping and Issues Paper and in stakeholder meetings, both DNSPs and demand side advocates considered that formal planning requirements would not provide all the answers to increasing demand side participation and that more proactive engagement with non-network providers and financial incentives would be required.<sup>3</sup>

To address this, our emerging thinking is that there needs to be a specific obligation on DNSPs to develop a Non-network Strategy as part of their annual planning process. The Non-network Strategy could clarify the processes that DNSPs would follow to engage with non-network proponents and encourage greater efficiency over time. This would form the basis for constructive engagement to occur. We propose to include an obligation that would require the DNSP to:

- use reasonable endeavours to engage with non-network proponents;
- publish a paper which clarifies the methods with which DNSPs will engage with non-network proponents, including the processes they will follow for assessing non-network proposals;
- establish and maintain a register of interested parties; and
- establish and maintain a database of non-network proposals and corresponding assessment outcomes.

Ensuring proper recognition of the potential for non-network options is a requirement of the MCE's Terms of Reference. We see this proposed Non-network Strategy as being a key contribution towards this goal.

### 3.4 Joint planning process

Stakeholder submissions and comments from meetings noted that the requirements relating to joint planning and joint investments need clarification. To address this, our emerging thinking is that for each joint network investment the Transmission Network Service Provider (TNSP) and DNSP would need to agree on a party to be responsible for the investment. This would provide flexibility and cater for any specific project requirements. If the parties cannot agree, the Australian Energy Regulator (AER) could be given the ability to appoint the responsible party.

Only one Regulatory Investment Test should be applied to the joint investment and the current proposal in the Indicative Framework Specification is that the Regulatory

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<sup>3</sup> Some stakeholders also noted that the relatively prescriptive processes for demand management that currently apply in NSW and South Australia have not contributed to increases in the implementation of non-network solutions.

Investment Test for Transmission (RIT-T) should apply to all joint network investments as the RIT-T is likely to cover a broader scope of market benefits.<sup>4</sup>

### **3.5 Role and objectives of the Regulatory Investment Test for Distribution (RIT-D)**

The objective of the Regulatory Investment Test for Distribution (RIT-D) is to identify the investment option (or groups of investment options) which maximises net economic benefits to all those who produce, consume and transport electricity in the NEM. Under the proposed RIT-D, it is suggested that the project assessment process should involve an economic assessment of both costs and benefits associated with each credible investment option.

The RIT-D would be based upon a cost benefit analysis of the future where each credible option is to take place, compared to the situation where no investment option is implemented. It should not require a level of analysis that is disproportionate to the scale and likely impact of the options being considered and be capable of being applied in a predictable, transparent and consistent manner.

Under the proposed RIT-D, DNSPs would be required to consider all classes of market benefits and costs identified in the National Electricity Rules, and quantify the applicable classes of market benefits and costs for each credible investment option.

### **3.6 Project Specification Threshold Test for RIT-D**

To ensure the application of the RIT-D is proportional to the scale and characteristics of the potential investment, our emerging thinking is to introduce a Project Specification Threshold Test to the RIT-D framework.

The purpose of the Project Specification Threshold Test would be to allow applicable investments to follow an abbreviated RIT-D process with more limited reporting and consultation requirements. In the Indicative Framework Specification, it is proposed that the types of investments which would be subject to this abbreviated RIT-D process include: investments where there is no material potential for non-network options or impact on the quality of service experienced by end use customers; and where the purpose of the proposed investment is for like-for-like asset replacement.

### **3.7 Dispute Resolution Process**

We note that it would be sensible to align the dispute resolution process for distribution with that developed by the Commission for transmission. In addition, we do not believe that the dispute process should be extended to the contents of the Annual Planning Reports. Sufficient business and regulatory drivers should exist to ensure that DNSPs carry out appropriate planning and produce accurate forecasts. Stakeholders generally supported the alignment of the dispute resolution process for distribution with the process in place for transmission. The majority of stakeholders

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<sup>4</sup> See the RIT-T Draft Rule Determination and Draft Rule on the AEMC website, [www.aemc.gov.au](http://www.aemc.gov.au).

believed that the dispute resolution process should be a compliance review of the application of the RIT-D and not be extended to a merits review or to issues regarding the contents of the Annual Planning Reports.

## 4 Issues to be Discussed at Stakeholder Workshops

### 4.1 Workshop 1: Annual Planning Process and Reporting

The following issues relating to the annual planning process and reporting requirements will be raised for further consideration and discussion at Workshop 1.

#### 4.1.1 Joint planning framework

TNSPs and DNSPs are required under the Rules to carry out joint planning. Based on feedback from stakeholders, it would appear that more clarity is required in this area. The following questions are raised for discussion and consideration:

- a. The Indicative Framework Specification (sections 3.b. and 5, Appendix A.1) proposed that for a joint network investment the NSPs must agree on a responsible NSP to address the identified need for investment.<sup>5</sup> If the NSPs cannot agree, then the AER shall appoint a responsible NSP. Is this a practical approach? Are there any specific factors that should be considered?
- b. The Indicative Framework Specification would require that all joint network investments are to be subject to a single Regulatory Investment Test. Are there any issues with this approach and are there any specific factors that should be considered?
- c. Should all joint investments should be assessed under the provisions of the Regulatory Investment Test for Transmission (RIT-T)?
- d. Joint network investment – this term should capture the investments that would be subject to joint planning between the TNSPs and DNSPs.

#### 4.1.2 Design of the Non-network Strategy

We propose that each DNSP would have its own processes for engaging with non-network proponents and assessing non-network proposals. Our emerging thinking is that the Non-network Strategy would provide transparency to, and encourage efficiency in, these processes. The Indicative Framework Specification provides an outline of the possible structure of a Non-network Strategy. The following questions are raised for discussion and consideration:

- a. The Indicative Framework Specification (sections 3.c and 4, Appendix A.1) sets out an outline of a proposed a Non-network Strategy. What are the issues that require further consideration? Will the framework assist DNSPs and non-network proponents to engage and progress non-network solutions?
- b. The Indicative Framework Specification sets out an outline of the information that could be included in a Non-network Strategy document. Will this information be helpful to non-network proponents? Are there any other items that should be included?
- c. The Indicative Framework Specification currently proposes that each DNSP establish and maintain a database of non-network proposals considered. We

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<sup>5</sup> The definition of “joint network investment” requires further consideration, as set out in 4.1.8.

intend that this would assist non-network proponents in understanding the requirements for preparing proposals and avoid any duplication of effort by both non-network proponents and DNSPs going forward. Would this database be helpful to DNSPs and non-network proponents and would more clarity be required in the Rules as to the contents of the database?

#### **4.1.3 Scope of activities/assets to be included in the Annual Planning Process and Annual Planning Report**

The appropriate scope of the activities to be included in the framework is a key consideration. We are currently proposing that the planning process should encompass the requirement to plan for all assets. However, we recognise that it is unlikely to be practical or provide any benefits for the reporting requirements to require the same level of detail to be provided for all projects undertaken by DNSPs. The following questions are raised for discussion and consideration:

- a. The emerging thinking is that the planning process should capture all assets. Are there any specific factors that need to be considered in applying this requirement?
- b. The Indicative Framework Specification proposes that the activities and investments relating to sub-transmission substations, zone substations, high voltage lines and “major investments” should require more detailed reporting. Is this an appropriate scope?
- c. The term “major investment” should capture any significant investment in the network that is not an investment for a sub-transmission substation, zone substation or high voltage lines. We are currently proposing that major investments would be subject to the reporting (and RIT-D) requirements under the national framework. What should be the scope and definition of major investment in the Rules? Would it be appropriate to include major investments in the scope of the framework?
- d. We are currently proposing that planning related to “major flow paths” should also be included in the national framework. The term major flow paths should capture parts of the distribution system that carries significant load. Is this appropriate? What should be the scope and definition of major flow paths in the Rules?

#### **4.1.4 Defining system limitations**

Each DNSP would apply its planning methodology to identify system limitations and the need for network investments. The Indicative Framework Specification (section 7.e, Appendix A.1) sets out the current thinking on the information that could be published about system limitations. The following questions are raised for discussion and consideration:

- a. The term “system limitation” should capture any distribution network problems and be broader than “constraints”. It is proposed that the term system limitations would be used in place of constraints. What should be the scope and definition of system limitation in the Rules?
- b. Currently the proposed scope is that system limitation information would be published for sub-transmission substations, zone substations, high voltage

lines and any other major investments.<sup>6</sup> This would seem to reflect the majority of views expressed by stakeholders in submissions. Is this scope appropriate?

- c. Are the factors to be reported on (as outlined in section 7.e, Appendix A.1) sufficient to assist non-network proponents to engage with DNSPs to develop potential non-network solutions?
- d. A problem or constraint on the distribution network could be caused by a number of factors other than a capacity constraint. The Indicative Framework Specification currently proposes that the cause of system limitations be explained. Are the factors provided (section 7.e.iv, Appendix A.1) reasonable and are there any other factors that should be specified?

#### **4.1.5 High stress events planning**

The Indicative Framework Specification (sections 3.a.v and 7.i, Appendix A.1) sets out the proposal that the planning and reporting requirements should include provisions for “high stress events”. The following questions are raised for discussion and consideration:

- a. What should be the scope and definition of “high stress events”?
- b. The Indicative Framework Specification proposes the requirement for the DNSP to report on the methodology used to plan for high stress events, as well as providing analysis and explanation on the potential impacts of the high stress events. Are there any specific information requirements that should be specified? What other factors related to high stress events should be considered?

#### **4.1.6 Depth of information in the Annual Planning Report by asset type**

The Indicative Framework Specification (section 7.f, Appendix A.1) sets our current proposal on the reporting requirements relating to network investments to address system limitations. The following questions are raised for discussion and consideration:

- a. We propose that specific information on investments should be reported on for all investments that:
  - is a solution to address a system limitation on a sub-transmission substation, zone substation, high voltage line or a major investment; and
  - would be provided as a direct control service; and
  - is exempt from the RIT-D or where the RIT-D does not apply.

The information that should be reported for these investments are set out in the Indicative Framework Specification (section 7.f.ii, Appendix A.1). Would this information be helpful to stakeholders and how would the information be used? Are there any other factors that should be reported?

- b. The Indicative Framework Specification proposes that details relating to system limitations where any investment has not been identified should also be reported. Are the requirements set out in the Indicative Framework

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<sup>6</sup> The definition of “major investments” requires further consideration, as set out in 4.1.3.

Specification (section 7.f.iii, Appendix A.1) sufficient? Should any other specific information be provided?

#### **4.1.7 Other questions for discussion**

The following questions are raised for discussion and consideration:

- a. Should a Distribution Network Advisory Committee be established? What would be the purpose and objectives of this Committee? Would it be of benefit to stakeholders? (Indicative Framework Specification section 3.d, Appendix A.1).
- b. What should be the timeframe for publishing the Distribution Annual Planning Report? (Indicative Framework Specification section 6, Appendix A.1).

## **4.2 Workshop 2: Regulatory Investment Test for Distribution and Dispute Resolution**

### **4.2.1 Project Specification Threshold Test and threshold value**

Under the Indicative Framework Specification, it is proposed that a Project Specification Threshold Test be included as a part of the RIT-D process (see Indicative Framework Specification, section 6, Appendix A.2). Under the proposed Project Specification Threshold Test, DNSPs would be required to assess the identified need's potential for non-network solutions, impact on the quality of service experienced by end use customers, and the type of assets that be required to meet the identified need. The purpose of the Project Specification Threshold Test would be to exempt projects from the project specification stage which:

- Fall below a defined threshold;
- Have no material potential for non-network solutions or impact on the quality of service experienced by end use consumers; and
- Relate to certain types of assets where the RIT-D is unlikely to identify alternative options for the identified need, such as replacement assets.

The intention of the Project Specification Threshold Test is to reduce the regulatory burden associated with the RIT-D and to limit the number and type of projects which are subject to additional reporting and consultation.

- a. What other matters should DNSPs be required to assess when undertaking the Project Specification Threshold Test?
- b. What should be the threshold for this Test?

### **4.2.2 Constructive engagement with non-network proponents prior to the Project Specification Threshold Test**

Under the Indicative Framework Specification, if a DNSP has constructively engaged with non-network proponents through its Non-network Strategy and sought to develop non-network options prior to undertaking the Project Specification Threshold Test, the consultation period on the project specification report would be

reduced from 6-9 months to 1-2 months (see Indicative Framework Specification, section 7g, Appendix A.2). The intention of this provision is to encourage DNSPs to engage with non-network proponents and identify alternative non-network options to identified needs as part of their day to day planning practices.

- 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?
- b. How long should this accelerated consultation period be?
- c. What should be the time period for consultation if the DNSP has not undertaken this prior consultation?

#### **4.2.3 Scope of projects subject to RIT-D**

Under the proposed scope of projects subject to the RIT-D, “urgent and unforeseen” investments would be exempt from the RIT-D (see Indicative Framework Specification, section 2c, Appendix A.2). A similar exemption was also proposed by the Commission under the RIT-T. An exemption for “urgent and unforeseen” investments is intended to ensure that the RIT-D does not impede the ability for a DNSP to make an investment, where the need for that investment was beyond the control of the DNSP and could not have been reasonably foreseen by the DNSP (e.g. natural disasters). Any exemption would need to be defined in the Rules in a manner that would prevent opportunities for businesses to exploit this exemption.

- a. How should “urgent and unforeseen” investments be defined in the Rules?

Under the proposed Project Specification Threshold Test, certain types of assets will be exempt from the project specification stage of the RIT-D (see Indicative Framework Specification, section 6c, Appendix A.2). One of the objectives of the Project Specification Threshold Test would be 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. However, these assets would still be subject to the project assessment process.

- b. What types of assets should be exempt from the project specification stage of the Regulatory Investment Test for Distribution?
- c. How should each of these exempt assets be defined in the Rules?

#### **4.2.4 Types of market benefits and costs to be assessed under the RIT-D**

Under the proposed project assessment process, DNSPs would be required to assess each credible option against each applicable market benefit and cost identified in the Rules (see Indicative Framework Specification, section 4, Appendix A.2). DNSPs would also be able to assess credible options against any other market benefits or costs that have been proposed by the DNSP and agreed to by the AER.

- a. What types of market benefits and costs should be included in the Rules for the RIT-D?
- b. How should environmental costs and benefits be considered in the project assessment process?

#### **4.2.5 Level and type of information to be included in RIT-D reports**

Under the Indicative Framework Specification, a DNSP would need to report on its progress of its project assessment process at various stages of the RIT-D.

- a. For projects that fall outside the scope of the RIT-D, project details would need to be included in the Annual Planning Report. The Indicative Framework Specification (see section 7f, Appendix A.1) outlines the proposed scope and details to be included. Are these factors appropriate?
- b. For projects that do not meet the requirements of the Project Specification Threshold Test, the DNSP would be required to report on its assessment results of the Project Specification Threshold Test (See Indicative Framework Specification, section 6d, Appendix A.2). What type of information should be included in this report?
- c. For projects that meet the requirements of the Project Specification Threshold Test, the emerging thinking is that the DNSP would issue a project specification report which would include the assessment results of the Project Specification Threshold Test and limited information on the range of credible options for the proposed investment (see Indicative Framework Specification, section 7c, Appendix A.2). What level and type of information should be included in the project specification report?
- d. Under the Indicative Framework Specification, DNSPs will be required to publish project assessment final reports for all proposed investments subject to the RIT-D (see Indicative Framework Specification, section 10). DNSPs will also be required to publish a project assessment draft report prior to finalising their assessment for a more limited range of proposed investments (see Indicative Framework Specification, sections 8 and 9, Appendix A.2). What level and type of information should be included in the draft and final project assessment reports?

#### **4.2.6 Scope and design of the dispute resolution process**

Under the proposed Indicative Framework Specification, it is proposed that a dispute resolution process only apply to proposed investments above a defined threshold. (see Indicative Framework Specification, section 11, Appendix A.2). The intention of this provision would be to limit the potential number of proposed investments which are subject to 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?
- b. Or should all projects 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?

# A Indicative Framework Specification

## A.1 Annual Planning Process and Reporting Requirements

May 2009 – Workshop Version

### 1. Objectives of the Annual Planning Process

The objectives of the Annual Planning Process are to:

- provide a clearly defined and efficient planning process which provides certainty in relation to the approval of network expansion and augmentation to maintain the security and reliability of the electricity supply to consumers;
- ensure efficient development of the network, including to ensure that non-network alternatives are considered in a neutral manner;
- provide appropriate information transparency;
- ensure a level playing field for all regions in terms of attracting investment and promoting more efficient decisions; and
- reduce the regulatory compliance burden for participants operating in more than one region in the NEM.

### 2. Scope of the Annual Planning Process

- a. Each *Distribution Network Service Provider* shall carry out an annual planning process analysing the expected future operation of its *distribution networks* over a minimum forward planning period.
- b. The minimum forward planning period for the purpose of the annual planning process is 5 years for *distribution networks* and 10 years for *transmission networks*.
- c. <sup>7</sup>
- d. The annual planning process shall apply to all *distribution network* assets and associated investments identified.

### 3. Requirements of the Annual Planning Process

- a. The Annual Planning Process shall require each *Distribution Network Service Provider*, for its *distribution networks*, to:
  - i. prepare forecasts of:
    1. maximum demands [including loads for distribution feeders, network, sub-transmission substations, zone substations, high voltage lines, and at a system level];
    2. number of customer connections at a system level;
    3. energy consumption at a system level;
    4. level of embedded generation;

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<sup>7</sup> The classification of sub-transmission assets will need to be clarified. It may be more appropriately included with transmission.

- ii. based on the outcomes of the forecasts in clause 3.a.i, identify *system limitations*<sup>8</sup> on the *distribution network*;
  - iii. identify the need for investments and options available to address the *system limitations*, and to carry out the requirements of the *Regulatory Investment Test for Distribution* and the *Non-network Strategy* where appropriate;
  - iv. undertake effective *asset management*;<sup>9</sup>
  - v. take into account the potential for *high stress events*;<sup>10</sup> and
  - vi. take into account any other jurisdictional specific requirements.
- b. The Annual Planning Process shall require each *Distribution Network Service Provider* to undertake joint planning with each *Transmission Network Service Provider* of the *transmission networks* to which the *Distribution Network Service Provider's distribution networks* are connected.
- i. The joint planning will identify any system limitations that will affect both *transmission networks* and *distribution networks* or will require action by both the *Distribution Network Service Provider* and *Transmission Network Service Provider* to address a *system limitation*.
  - ii. The joint planning will identify the potential requirement for a *joint network investment*.<sup>11</sup>
  - iii. Where the necessity for a *joint network investment* is identified, the *Network Service Providers* must determine one *Network Service Provider* that is to be responsible for planning for and carrying out the *Regulatory Investment Test* for that *joint network investment*.
  - iv. [All joint network investments will be assessed under the provisions of the *Regulatory Investment Test for Transmission*]
  - v. [Where the *Network Service Providers* cannot agree on a responsible party, the *Australian Energy Regulator* shall appoint a lead *Network Service Provider*].
- c. The Annual Planning Process will require each *Distribution Network Service Provider* to use reasonable endeavours to engage with non-network proponents in a neutral manner. This shall include the requirement for each *Distribution Network Service Provider* to implement a *Non-network Strategy*.
- d. [*Distribution Network Service Providers* shall establish a *Distribution Network Advisory Committee*.<sup>12</sup> The *Distribution Network Advisory Committee*:
- i. will have the objectives of:
    - 1. considering potential improvements to the methods with which *Distribution Network Service Providers* carry out planning, including

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<sup>8</sup> Will need to define "system limitation", which should cover off a broader spectrum of potential problems than "constraints".

<sup>9</sup> Will need to define "asset management".

<sup>10</sup> Will need to define "high stress events".

<sup>11</sup> Will need to consider the definition and scope of "joint network investment".

<sup>12</sup> The establishment of a *Distribution Network Advisory Committee* is an idea raised for further consideration and discussion. The potential advantage of an *Advisory Committee* is to provide a forum to share information and facilitate the further development of efficient planning practices.

- considering the planning for *system limitations* and/or potential investments affecting more than one *distribution network*;
- 2. the role of considering and recommending a common approach to the format and presentation of information to be published in the *Distribution Annual Planning Report*;
- ii. shall consist of one representative from each Distribution Network Service Provider as nominated by its Chief Executive Officer, making up its members;<sup>13</sup>
- iii. shall appoint a chairperson from its members; and
- iv. shall meet at least once every [six months].]

#### 4. Non-network Strategy

- a. The objective of the *Non-network Strategy* is to provide transparency regarding the consideration and assessment of non-network solutions by *Distribution Network Service Providers*. This would encourage the engagement of non-network proponents in network planning and streamline the development process to improve efficiency and provide certainty over the recovery of investments.
- b. Each *Distribution Network Service Provider* must prepare and publish a *Non-network Strategy* which sets out:
  - i. the process which the *Distribution Network Service Provider* follows to develop, investigate, assess and report on potential non-network solutions;
  - ii. the process with which the *Distribution Network Service Provider* follows to engage and consult with potential non-network proponents to determine their level of interest and ability to participate in the development process;
  - iii. the process with which the *Distribution Network Service Provider* follows to negotiate with non-network proponents to further develop a potential solution;
  - iv. information a non-network proponent is to include in a non-network solution proposal;
  - v. an outline of the criteria that a potential non-network proponent should meet or consider for negotiated offers;
  - vi. an outline of the criteria that a potential non-network proponent should meet or consider for standard offers;
  - vii. the principles that the *Distribution Network Service Provider* considers in developing the payment levels for standards offers;
  - viii. any applicable incentive payment schemes for the implementation of non-network solutions and how the criteria for the incentive scheme is assessed by the *Distribution Network Service Provider*;
  - ix. sources of publicly available information that non-network proponents may access;
  - x. how non-network proponents may contact the *Distribution Network Service Provider* to request additional information or register as an interested party;
  - xi. the process, including the information that would be provided, for updating the parties registered on the *Register of Interested Parties*;

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<sup>13</sup> The appointment and tenure of members requires consideration.

- xii. the *Distribution Network Service Provider's* contact details;
  - xiii. the methodology to be used for determining *avoided Customer TUOS charges*, in accordance with clause 5.5 of the *Rules*; and
  - xiv. [other requirements?]
- c. The *Non-network Strategy* and any revisions shall be approved by the *Australian Energy Regulator*.
  - d. The *Non-network Strategy* shall be published by [31 December 2010].
  - e. The *Distribution Network Service Provider* shall review its *Non-network Strategy* at least once every [three] years.
  - f. Each *Distribution Network Service Provider* must establish and maintain a public database of non-network proposals/case studies that have been assessed and the outcomes of the assessment.<sup>14</sup>
  - g. Each *Distribution Network Service Provider* must establish and maintain a *Register of Interested Parties* for those parties wishing to be advised of developments relating to specific constraints.
  - h. The *Register of Interested Parties* shall be published on the *Distribution Network Service Provider's* website.

## 5. Joint Planning Process

- a. If a need for a *joint network investment*<sup>15</sup> is identified by a *Distribution Network Service Provider* or a joint planning review between a *Distribution Network Service Provider* and a *Transmission Network Service Provider*, then the *Distribution Network Service Provider* and the relevant *Transmission Network Service Provider* must undertake a joint planning process to address the identified need.
- b. The joint planning process must determine the *Network Service Provider* which will be responsible for:
  - i. Planning of the investment;
  - ii. Undertaking the *Regulatory Investment Test* to address the identified need; and
  - iii. The construction or provision of the preferred option.<sup>16</sup>
- c. A single *Regulatory Investment Test* must be undertaken by the responsible *Network Service Provider* to address the identified need. [All *joint network investments* will be assessed under the provisions of the *Regulatory Investment Test for Transmission*]<sup>17</sup>

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<sup>14</sup> Should the *Distribution Network Advisory Committee* be established, the *Advisory Committee* could be charged with setting the criteria of the database and/or maintaining the database.

<sup>15</sup> The definition of a "joint network investment" needs consideration

<sup>16</sup> Should the joint planning process determine a single network service provider which will be responsible for both undertaking the *Regulatory Test* for the identified need and the construction or provision of the investment?

- d. The *Network Service Provider* which is not responsible for undertaking:
  - i. The Regulatory Investment Test to address the identified need; and
  - ii. The construction or provision of the preferred option;

will be deemed to have discharged its obligations to undertake the *Regulatory Investment Test* in response to the identified need for a *joint network investment* under the *Rules*.

- e. Where the *Distribution Network Service Provider* and the relevant *Transmission Network Service Provider* cannot agree on who will be the responsible party for addressing the identified need for a *joint network investment*, the need for the *joint network investment* will be assessed under the provisions in the *Regulatory Investment Test for Transmission* [by the *Network Service Provider* appointed by the AER].<sup>18</sup>

## 6. Distribution Annual Planning Report

- a. By [dd mmm] each year, each *Distribution Network Service Provider* must publish the *Distribution Annual Planning Report* setting out the outcomes from carrying out the annual planning process for the forward planning period beginning [1 January] the following year.<sup>19</sup>
- b. Within [one month] following the publication of the *Distribution Annual Planning Report*, the *Distribution Network Service Provider* [may/must] conduct a public forum.
- c. The *Distribution Annual Planning Report* must be certified by the Chief Executive Officer and a Director of the *Distribution Network Service Provider* that:
  - i. the *Distribution Annual Planning Report* meets the *Distribution Network Service Provider's* obligations under the *Rules* and any other applicable *regulatory instruments*;
  - ii. the *Distribution Annual Planning Report* accurately represents the relevant policies of the *Distribution Network Service Provider*;
  - iii. the *Distribution Network Service Provider* has complied with those policies or have provided details of where it has not complied; and
  - iv. the *Distribution Network Service Provider* is committed to implementing the requirements outlined in its *Distribution Annual Planning Report*.

## 7. Contents of the Distribution Annual Planning Report

The *Distribution Annual Planning Report* must set out information on the following:

- a. *Distribution Network Service Provider* and network, including:
  - i. description of the network;

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<sup>17</sup> Need to consider this further. Our initial consideration is that the RIT-T is preferable because it permits competition benefits and dispatch savings market benefits to be quantified.

<sup>18</sup> Which regulatory investment test should apply if the distribution network service provider and the transmission network service provider can not agree who will be the responsible party for addressing the need for a joint network investment? Which network service provider should be responsible for undertaking this 'default' regulatory investment test?

<sup>19</sup> It is noted that DNSPs currently publish planning reports within different timeframes. The timing requirements for the national framework will need further consideration.

- ii. description of the operating environment;
  - iii. types of assets and the number of each type of asset;<sup>20</sup>
  - iv. identifying sections of the *distribution network* that connect major *load centres*;<sup>21</sup>
  - v. planning methodology used, including the methodology used to identify the need for investments and the assumptions applied; and
  - vi. analysis and explanation of any aspects of the *Distribution Annual Planning Report* that has changed significantly from previous results (e.g. changes in forecast load values);
- b. Performance of the network, including:<sup>22</sup>
- i. description of the *reliability standards* that apply, including the relevant codes, standards and guidelines;
  - ii. description of the *quality of supply standards* that apply, including the relevant codes, standards and guidelines;
  - iii. summary of the performance of the *distribution network* against the *reliability* and *quality of supply standards* for the preceding year; and
  - iv. a qualitative assessment of how the *Distribution Network Service Provider* has complied with the applicable standards; its processes to ensure compliance; and a description of any areas of the standards that were not met in the preceding year and the corrective action taken;
- c. Asset Management including:<sup>23</sup>
- i. the asset management strategy and methodology adopted, and the methodology used to assess the adequacy of the distribution system; and
  - ii. [how the investment requirements are optimised between requirements for replacement and augmentation;]
- d. Forecasts for the forward planning period, including:
- i. description of the forecasting methodology used; sources of input information; and the assumptions applied;
  - ii. load forecasts for the network as a whole; major *load centre connections*;<sup>24</sup> major connection points; zone substations; sub-transmission assets; giving consideration to:
    - 1. total capacity;

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<sup>20</sup> Will need to consider the type of assets to be included.

<sup>21</sup> Will need to consider the definition and/or description of these sections of the distribution network.

<sup>22</sup> It is noted that the reporting requirements for the performance of the network may duplicate reporting requirements under other regulatory obligations. The potential benefits of including the information in the planning report is to provide transparency, clarity and context for the system limitation and investment requirements. If the information is reported elsewhere, it could potentially be replicated here at limited additional cost. However, it is noted that different timing requirements for reporting may impact the replication of information.

<sup>23</sup> The requirements for this section will need further consideration. The asset management strategy to be provided may include a description of the strategies for asset inspection and condition assessment and asset age profiling and refurbishment/replacement strategy.

<sup>24</sup> Will need to further consider the definition of load centre connections – refer to section 7.a.iv

2. firm delivery capacity (summer and winter);
  3. peak load (summer and winter);
  4. load sharing/load transfer capabilities;
  5. power factor at time of peak load; and
  6. [others?];
- iii. forecasts of future connection points and zone substations, including location and timing;
  - iv. forecasts of reliability targets at a system level and by feeder categories; and
  - v. forecasts of any factors that may affect the *distribution network* that may lead to [major investments<sup>25</sup>] to be undertaken, including factors affecting:
    1. fault levels;
    2. voltage and other system security requirements;
    3. ageing assets or unreliable assets; and
    4. [others?];
- e. *System limitations* and network transfer capability, including:
- i. description of the methodology used to identify potential *system limitations*; sources and types of input information,<sup>26</sup> including the assumptions that are applied;
  - ii. potential system limitations for sub-transmission substations, zone substations, high voltage lines and any other system limitation that would require [major investments] in the *distribution network*;
  - iii. the location and timing of the system limitation;
  - iv. the cause of the system limitation including whether the system limitation is caused by one or more of the following factors:
    1. forecast load exceeding [system capability]; [the extent of the overload; frequency of overload; length of overload; power factor at time of peak load;]
    2. the requirement for asset replacement or refurbishment;
    3. the requirement for reliability improvement;
    4. the requirement for quality of service improvement;
    5. fault levels being exceeded;
    6. protection, control and/or communications systems becoming inadequate; and
    7. the requirement to meet other regulatory obligations;
  - v. where an estimated reduction in forecast load would defer a forecast system limitation, include the relevant connection points at which the estimated reduction

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<sup>25</sup> Will need to consider the scope and definition of “major investment”.

<sup>26</sup> “Types of input information” could include whether the load forecasts were based on 10%, 50% or 90% PoE forecasts.

- in forecast load may occur and the estimated reduction in forecast load in MW needed;
- vi. analysis of any potential load transfer capability between supply points that may decrease the impact of the system limitation or defer the requirement for investment;
  - vii. impact of the system limitation, if any, on the capacity at the transmission connection points; and
  - viii. other jurisdictional requirements<sup>27</sup>;
- f. For each proposed *new distribution network investment* for which the *Regulatory Investment Test for Distribution* has been completed, provide:<sup>28</sup>
- i. a summary of the outcomes or progress of the Regulatory Investment Test for Distribution including any consultation undertaken under the Non-network Strategy or any other consultation on the investment;
  - ii. a description of the investment required (preferred option) and how it will alleviate the system limitation;
  - iii. timing of the investment;
  - iv. the total capitalised expenditure and estimated [annual operating costs];
  - v. a summary of any other options considered and the reasons for selecting the preferred option;
  - vi. any factors that may result in the preferred option being altered;
  - vii. any impacts on network users, including potential impacts on connection charges and distribution use of system charges; and
  - viii. [others?];

Where the *Regulatory Investment Test for Distribution* has been commenced but not completed, the *Distribution Network Service Provider* shall provide such information where practicable;

- g. For each identified system limitation which will require a *Regulatory Investment Test for Distribution* an estimation of the date when the business intend to commence the *Regulatory Investment Test for Distribution*;
- h. For each committed project where the *new distribution network investment* is exempt from the *Regulatory Investment Test for Distribution*, or for which the *Regulatory Investment Test for Distribution* does not apply and the estimated capital cost is more than \$[X]m:
  - 1. a description of the investment required (preferred option) and how it will alleviate the *system limitation*;
  - 2. timing of the investment;
  - 3. the total capitalised expenditure and estimated [annual operating costs];
  - 4. a list of any reasonable network or non-network alternative to the proposed project which has been considered by the *Distribution Network Service Provider*; and

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<sup>27</sup> e.g. worst performing feeder analysis required in QLD.

<sup>28</sup> The current definition of new distribution network investment in the Rules may need to be reviewed.

5. an explanation as to why the *new distribution network investment* was exempt from the *Regulatory Investment Test for Distribution* or why the *Regulatory Investment Test for Distribution* did not apply.
- i. Joint planning undertaken with the *Transmission Network Service Provider*, including:<sup>29</sup>
    - i. the process and methodology used by the *Network Service Providers* to undertake joint planning;
    - ii. planned *joint network investments* and the *Network Service Provider* responsible for each investment; and
    - iii. where additional information on the joint planning and *joint network investments* may be obtained;
  - j. [*Distribution Network Advisory Committee* including:
    - i. any outcomes or decisions of the *Distribution Network Advisory Committee* that impacted on the planning activities undertaken by the *Distribution Network Service Provider*];
  - k. High Stress Events:
    - i. description of the methodology used in the planning process to take into account potential *high stress events* that could be expected to occur, consistent with the size and complexity of the distribution system and any other locational or geographical requirements;
    - ii. explanation of the potential impacts of the *high stress events* on the forecasts produced and *system limitations* identified and the processes in place to mitigate the potential impacts; and
    - iii. the capacity of the business to manage and respond to such *high stress events*;
  - l. Any other information as required by jurisdictions.

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<sup>29</sup> It is noted that there may be changes to the provisions in the Rules governing TNSP planning requirements. These provisions will need to be reviewed and reconciled for consistency.

## A.2 Regulatory Investment Test for Distribution and Dispute Resolution process

May 2009 – Workshop Version

### 1. Principles

- a. The *AER* must develop and publish the *Regulatory Investment Test for Distribution* in accordance with this clause.
- b. The purpose of the *Regulatory Investment Test for Distribution* is to identify the *distribution* investment option (or group of *distribution* investment options) which maximises net economic benefits to all those who produce, consume and transport electricity in the *National Electricity Market*. The test will involve an economic assessment of both costs and benefits associated with all of the *credible options*.
- c. The *Regulatory Investment Test for Distribution* shall comprise of three sequential stages; a *Project Specification Threshold Test* stage; a *Project Specification* stage, and a *Project Assessment* stage.
- d. The extent of consultation and the nature of assessment required will vary depending upon the specific characteristics of the identified need in question. This will be achieved through a combination of cost thresholds and a *Project Specification Threshold Test*.
- e. For the avoidance of doubt, where the *distribution* investment options being considered under the *Regulatory Investment Test for Distribution* are necessitated principally by an inability to meet the service standards linked to the technical requirements of schedule 5.1 of the National Electricity Rules, or in an applicable regulatory instrument, the net economic benefit of the most economic option could be negative.
- f. <sup>30</sup> This should not prevent a *Distribution Network Service Provider* from applying a Value of Unserved Energy (probabilistic planning) approach to the project assessment if it wishes to do so.<sup>31</sup>
- g. The *Regulatory Investment Test for Distribution* should permit the single assessment of an integrated set of related and similar *distribution* investments.<sup>32</sup>
- h. The *Regulatory Investment Test for Distribution* shall:

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<sup>30</sup> This provision allows investments for the purposes of meeting service or reliability standards (i.e. reliability investments) to have a negative net economic benefit (i.e. the costs of the investment may exceed its market benefits). However, reliability investments would still be subject to a cost benefit assessment under the project assessment process.

<sup>31</sup> We are interested in views in the practical application of this. The concept is that any business which is subject to deterministic reliability standards should have the option of basing the project assessment on Value of Unserved Energy if it wishes to do so.

<sup>32</sup> This provision allows for the consideration of a program of integrated investments in a single project assessment. However, this needs to be within reason, and we need to consider appropriate framework for this.

- i. be based upon a cost benefit analysis of the future (which includes assessment of reasonable scenarios of future supply and demand) were each *credible option* to take place, compared to the situation where no *distribution* investment option is implemented;
  - ii. not require the level of analysis to be disproportionate to the scale and likely impact of the *distribution* investments options being considered; and
  - iii. be capable of being applied in a predictable, transparent and consistent manner.
- h. The Dispute Resolution Process applies to the *Distribution Network Service Provider's* application of the *Regulatory Investment Test for Distribution* and the basis on which the *Distribution Network Service Provider* has classified the proposed *distribution* investment as a reliability augmentation.

## 2. Scope of Projects Subject to the Regulatory Investment Test for Distribution

- a. A *Distribution Network Service Provider* must undertake the *Regulatory Investment Test for Distribution* as part of the consideration of any *distribution* investment (or set of related and similar *distribution* investments) being proposed by the *Distribution Network Service Provider*, except in circumstances where:
- i. the proposed *distribution* investment is required to address an *urgent and unforeseen* network issue that would otherwise put at risk the reliability of the *distribution network* as described in clause 2c);
  - ii. the estimated capital cost of the most expensive and likely *distribution* investment option to address the relevant identified need which is technically and economically feasible is less than \$[1-2]<sup>33</sup> million (as varied in accordance with a *cost threshold determination*);
  - iii. the proposed *distribution* investment is designed to ensure that a *transmission network* meets the level required by the minimum power system security and reliability standards. For the avoidance of doubt, such investments shall be assessed under the *Regulatory Investment Test for Transmission*;
  - iv. The proposed *distribution* investment will be a *joint network investment*<sup>34</sup>; or
  - v. The *distribution* investment is to be provided as a negotiated distribution service, alternative control service, or as an unclassified distribution service.<sup>35</sup>

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<sup>33</sup> The appropriate threshold for the Regulatory Investment Test for Distribution needs to be defined.

<sup>34</sup> The definition of "joint network investments" needs consideration.

<sup>35</sup> The types of services which are exempt from the Regulatory Investment Test for Distribution require consideration. Currently negotiated distribution services, alternative control services and unclassified distribution services are exempt.

- b. For the avoidance of doubt, if the proposed *distribution* investment is to be provided as a *dual function asset*, the identified need for the *distribution* investment shall be assessed under the *Regulatory Investment Test for Distribution*.
- c. A *distribution* investment shall be classified as being *urgent and unforeseen*<sup>36</sup> if:
  - i. the *distribution* investment is required to be operational within [6] months of the *Distribution Network Service Provider* identifying the identified need; and
  - ii. the event causing the need for the *distribution* investment was beyond the reasonable control of the *Distribution Network Service Provider* and could not reasonably have been foreseen by the *Distribution Network Service Provider*; and
  - iii. a failure to rectify the adverse consequences of the event would be likely to materially adversely affect the reliability and security of the *Distribution Network Service Provider's* network, or render the *Distribution Network Service Provider* unable to make supply available to a customer requiring new or increased supply.
- d. For a *distribution* investment which is classified as being *urgent and unforeseen*, the *Distribution Network Service Provider* must provide the following information in its *Annual Planning Report*:
  - i. the date when the *distribution* investment becomes operational;
  - ii. the purpose of the *distribution* investment;
  - iii. the total cost of the *distribution* investment ; and
  - iv. an explanation of the ranking of any reasonable *credible options* to the proposed new *distribution* investment which are being or have been considered by the *Distribution Network Service Provider*. These alternatives could include, but are not limited to, generation options, demand side options, and options involving other *distribution* or *transmission* network.
- e. A *Distribution Network Service Provider* must not treat different parts of an integrated set of related and similar *distribution* investments to an identified need as distinct and separate *distribution* investments for the purposes of determining whether the *Regulatory Investment Test for Distribution* applies to each of those *distribution* investments.

### 3. Application of the Regulatory Investment Test for Distribution – Selection of credible options

- a. A *credible option* is a *distribution* investment option (or group of options) that:
  - i. addresses the identified need;

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<sup>36</sup> The definition of “urgent and unforeseen” investments needs consideration. Note, as negotiated services are exempt from the Regulatory Test for Distribution, augmentations caused by new large customers would not be defined as an “urgent and unforeseen” investment.

- ii. is (or are) commercially and technically feasible;
  - iii. can be implemented in sufficient time to meet the identified need;
  - iv. complies with recognised industry standards for operational and safety requirements to connect to a *distribution* network; and
  - v. is (or are) identified as a *credible option* in accordance with clause 3b).
- b. In applying the *Regulatory Investment Test for Distribution*, a *Distribution Network Service Provider* must consider, in relation to all identified needs, all *distribution* investment options that could reasonably be classified as *credible options*, taking into account without bias:
- i. energy source;
  - ii. technology;
  - iii. ownership;
  - iv. whether the new network investment or non network alternative is intended to be regulated; and
  - v. whether the *credible option* has a proponent.
- b. The absence of a proponent will be a factor for consideration in assessing possible *credible options*, but will not in itself exclude a *distribution* investment option from being a *credible option*.

#### 4. Application of the Regulatory Investment Test for Distribution – Quantification of Market Benefits and Costs

- a. The *Regulatory Investment Test for Distribution* shall involve consideration of the following classes of market benefits<sup>37</sup> in respect of each *credible option* for a *distribution* investment:
- i. changes in voluntary load curtailment;
  - ii. changes in involuntary load shedding and customer interruptions caused by network outages, using a reasonable forecast of the value of electricity to customers;
  - iii. changes in the parties' (other than *Distribution Network Service Provider*'s) costs due to:
    - 1. differences in the timing of new plant;
    - 2. differences in capital costs;
    - 3. differences in the operational and maintenance costs; and
    - 4. differences in the timing of distribution investments;
  - iv. changes in distribution losses; and

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<sup>37</sup> The classes of market benefits which are included in the *Regulatory Investment Test for Distribution* requires consideration.

- v. any other benefits that are determined to be relevant by the *Distribution Network Service Provider* and have been agreed to by the AER.
- b. The *Regulatory Investment Test for Distribution* shall involve consideration of the following classes of costs<sup>38</sup> in respect of each *credible option* for a *distribution* investment:
- i. costs incurred in constructing or providing the *credible option*;
  - ii. operating and maintenance costs over the operating life of the *credible option*;
  - iii. the cost of complying with laws, regulations and applicable administrative requirements in relation to each *credible option*; and
  - iv. any other costs that have been determined to be relevant by the *Distribution Network Service Provider* and have been agreed to by the AER.
- c. Any cost or market benefit which cannot be measured as a cost or market benefit to *Generators, Distribution Network Service Providers, Transmission Network Service Providers, Market Customers*, and consumers of electricity may not be included in any analysis proposed in accordance with this test.
- d. The *Regulatory Investment Test for Distribution* shall include a quantification of classes of all market benefits outlined in clause 4a) and a quantification of classes of all costs outlined in clause 4b), unless the *Distribution Network Service Provider* can demonstrate in the *project assessment draft report* why a particular class of benefit or cost is not expected to be applicable to that project.
- e. Any judgement by a *Distribution Network Service Provider* of whether a particular class of benefit or cost applies to a *credible option* must be exercised in a manner which is objective and have regard to any submissions received where relevant, on the *project specification report* and *project assessment draft report*.
- f. If the identified need for the proposed investment is an inability to meet the service standards linked to the technical requirements of schedule 5.1 of the National Electricity Rules or in applicable regulatory instruments, the quantification assessment for the classes of benefits set out in (i) and (ii) in clause 4a) above, may only relate to any additional benefits above that which would have been delivered by a project that was the minimum required to meet the relevant reliability obligation.
- g. The *Regulatory Investment Test for Distribution* shall, as a minimum, list or provide for:
- i. the method or methods permitted for estimating the magnitude of the different classes of market benefits;
  - ii. the method or methods permitted for estimating the magnitude of the different classes of costs; and

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<sup>38</sup> The classes of costs which are included in the Regulatory Investment Test for Distribution require consideration, especially whether environmental costs are properly incorporated.

- iii. the appropriate method and value for specific inputs, where relevant, for determining the discount rate(s) to be applied.

## 5. Review of Costs Thresholds

- a. Every [3] years<sup>39</sup> the AER must undertake a review (the “*cost threshold review*”) of the changes in the input costs used to calculate the estimated capital costs in relation to *distribution* investment assets subject to the *Regulatory Investment Test for Distribution* and the *Regulatory Investment Test for Distribution* dispute resolution process, for the purposes of determining whether the amounts (each “*cost threshold*”) needs to be changed to maintain the value of the cost thresholds over time by adjusting those cost thresholds to reflect any increase or decrease in the input costs since:
  - i. [insert commencement date of Rule] in respect of the first *cost threshold review*; and
  - ii. the date of the previous review in respect of every subsequent *cost threshold review*.
- b. Each *cost threshold review* is to be commenced by the AER on 31 July of the relevant year, with the first such review to be initiated in [insert year for first review].
- c. Within 6 weeks following the commencement of a *cost threshold review*, the AER must publish a draft determination outlining:
  - i. whether the AER has formed the view that any of the cost thresholds need to be amended to reflect increases or decreases in the input costs to ensure that the value of the cost thresholds is maintained over time;
  - ii. its reasons for determining whether the cost thresholds need to be varied to reflect increases or decreases in the input costs;
  - iii. if there is to be a variation in a cost threshold, the amount of the new cost threshold and the date the new cost threshold will take effect; and
  - iv. its reasons for determining the amount of the new cost threshold.
- d. At the same time as it publishes the draft determination under paragraph (c), the AER must publish a notice seeking submissions on the draft determination and which specifies the period within which written submissions can be made which must be within 5 weeks from the date of the notice.
- e. The AER must consider any written submissions received during the cost threshold consultation period in making its final determination in respect of the matters outlined in paragraph (c).
- f. This final determination must be made and published by the AER within 5 weeks following the end of the cost threshold consultation period (the “*cost threshold determination*”).

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<sup>39</sup> The timing of the AER’s cost threshold reviews requires consideration. Option for the AER to conduct this review at the same time as its cost threshold reviews for the Regulatory Investment Test for Transmission.

## 6. Regulatory Investment Test for Distribution Process- Project Specification Threshold Test stage

- a. The *Project Specification Threshold Test* stage shall be initiated by a *Distribution Network Service Provider's* assessment of an identified need for proposing a *distribution* investment against the *Project Specification Threshold Test*.
- b. In undertaking the *Project Specification Threshold Test*, the *Distribution Network Service Provider* must assess the:
  - i. reasons (identified need) for proposing the *distribution* investment, including the assumptions used in identifying the identified need;
  - ii. the material potential for the use of non-network options to either defer or remove the need for the *distribution* investment to address the identified need, including:
    1. the indicative costs of potential non-network options; and
    2. the assumptions used to make this assessment;
  - iii. the material potential for the identified need to impact on the quality of service experienced by end use customers, including:
    1. estimated changes in voluntary load curtailment by end use customers;
    2. estimated changes in involuntary load shedding and customer interruptions caused by network outages; and
    3. the assumptions used to make this assessment; and
  - iv. the types of *distribution* investments that may be required to meet the identified need.<sup>40</sup>
- c. Under the *Project Specification Threshold Test*, the following types of *distribution* investments are exempt from the project specification stage of the *Regulatory Investment Test for Distribution*:
  - i. *Distribution* investments related to the refurbishment or replacement of existing assets, which are not intended to augment the distribution network.<sup>41</sup>
- d. If a *Distribution Network Service Provider* determines in its *Project Specification Threshold Test report* that:
  - i. the identified need has:

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<sup>40</sup> Should DNSPs be required to assess any other factors when undertaking the Project Specification Threshold Test?

<sup>41</sup> The types of assets which are exempt from the project specification stage needs to be considered.

1. no material potential for non-network options to either defer or remove the need for a *distribution* investment to address the identified need; and
  2. no material potential impact on the quality of service experienced by end use customers; or
- ii. under clause 6c) the types of *distribution* investments that may be required to meet the identified need are exempt from the project specification stage of the *Regulatory Investment Test for Distribution*,

then the *Distribution Network Service Provider*:

- iii. must publish and make publicly available a *Project Specification Threshold Test report* which outlines its assessment against the *Project Specification Threshold Test* as soon as practicable after the completion of the assessment. The *Project Specification Threshold Test report* must also be circulated to the *Distribution Network Service Provider's Register of Interested Parties* within 5 business days of the publication of the report; and
  - iv. is not required to publish a *project specification report* in accordance with clause 7.
- e. A summary of the *Project Specification Threshold Test* assessments undertaken by the *Distribution Network Service Provider* each year must be published in the *Distribution Network Service Provider's Annual Planning Report*. The *Distribution Network Service Provider's Annual Planning Report* must include information on:
- i. For each *Project Specification Threshold Test* assessment undertaken:
    1. The name of the *distribution* investment;
    2. The identified need for the *distribution* investment, including the amount of load which needed to be managed, or other *system limitation*<sup>42</sup> which triggered the investment;
    3. The date the *Project Specification Threshold Test* was undertaken; and
    4. The outcome of the *Project Specification Threshold Test*.
  - ii. The methodology and assumptions used by the *Distribution Network Service Provider* in undertaking *Project Specification Threshold Tests*.<sup>43</sup>

## 7. Regulatory Investment Test for Distribution Process - Project specification stage

- a. The project specification stage shall be initiated by a *Project Specification Threshold Test* assessment by a *Distribution Network Service Provider* which determines that:
  - i. the identified need has:

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<sup>42</sup> The definition of "system limitation" requires consideration.

<sup>43</sup> The information to be included in Annual Planning Reports on the Project Specification Threshold Test assessments undertaken by Distribution Network Service Providers each year needs to be considered.

1. material potential for non-network options to either defer or remove the need for a *distribution* investment to address the identified need; or
  2. material potential impact on the quality of service experienced by end use customers; and
- ii. the types of *distribution* investments that may be required to meet the identified need are not exempt under clause 6c) from the project specification stage of the *Regulatory Investment Test for Distribution*.
- b. A *Distribution Network Service Provider* will be required to consult on the identified need for the *distribution* investment through the publication of a *project specification report*.
- c. The *project specification report* prepared by the *Distribution Network Service Provider* must contain the following information:
- i. a description of the identified need for the *distribution* investment;
  - ii. the assumptions used in identifying the identified need;
  - iii. a summary of the *Distribution Network Service Provider's* assessment of the identified need against the *Project Specification Threshold Test*, including:
    1. the material potential for the use of non-network options to either defer or remove the need for *distribution* investment to address the identified need;
    2. the material potential for the identified need to impact on quality of service experienced by end use customers;
    3. the types of *distribution* investments that may be required to meet the identified need; and
    4. the methodology and assumptions used by the *Distribution Network Service Provider* in undertaking the *Project Specification Threshold Test*.
  - iv. the technical characteristics of the identified need that a non-network option would be required to deliver, such as:
    1. the size of load reduction or additional supply;
    2. location;
    3. contribution to system security or reliability;
    4. contribution to system fault level; and
    5. operating profile;
  - v. a description of all *credible options*. These options can include, but are not limited to, alternative *distribution* options, generation options, demand side options, and options

involving other *transmission* and *distribution* networks and could include groups of *credible options*<sup>44</sup>; and

- vi. for each *credible option*, the *Distribution Network Service Provider* must provide information on:
  1. A technical definition or characteristics of the *credible option*;
  2. Estimated construction timetable and commissioning date; and
  3. To the extent practicable, the total indicative capital and operational costs.<sup>45</sup>
- d. The *project specification report* shall be published in a timely manner having regard to the ability of interested parties to identify the scope for, and develop, alternative *credible options* or variants to the *credible options*.
- e. *Project specification reports* must be circulated to the *Distribution Network Service Provider's Register of Interested Parties*.
- f. A *Distribution Network Service Provider* must publish any preliminary or supplementary information where such information is likely to enhance the ability of interested parties to engage constructively in the *project specification report* consultation process.
- g. Interested parties must be provided with not less than [6- 9]<sup>46</sup> months to make submissions on each *project specification report*. If the *Distribution Network Service Provider* has:
  - i. constructively engaged with non-network proponents through its *Non-network Strategy* on the identified need for the investment prior to undertaking the *Project Specification Threshold Test*; and
  - ii. sought to identify scope for, and develop, alternative credible non-network options or variants to the identified *credible options* either internally or via consultation with non-network proponents;<sup>47</sup>

then interested parties must be provided with not less than [1-2] months to make submissions on the *project specification report*. *Distribution Network Service Providers* must outline the basis on which it has adhered to (i) and (ii) in 7g) above in its *project specification report* if it seeks to consult under this accelerated timeframe.

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<sup>44</sup> Should DNSPs be required to identify all credible options in the project specification report? Is this level of information appropriate for the project specification stage, as this information will also be required under the project assessment draft report.

<sup>45</sup> Should DNSPs be required to provide cost, timing and technical information on all credible options in the project specification report? Is this level of information appropriate for the project specification stage, as this information will also be required under the project assessment draft report.

<sup>46</sup> The length of the consultation period on the project specification report requires consideration.

<sup>47</sup> What actions should DNSPs have undertaken to consult with non-network proponents and develop alternative credible non-network options, in order to benefit from an accelerated consultation period on their project specification reports?

## 8. Regulatory Investment Test for Distribution Process - Project assessment draft report

- a. A *Distribution Network Service Provider* must publish and make publicly available a *project assessment draft report* within 12 months, or such longer time as agreed to by the AER, of the publication by the *Distribution Network Service Provider* of either a *Project Specification Threshold Test report* or a *project specification report*.
- b. The *project assessment draft report* must be circulated to the *Distribution Network Service Provider's Register of Interested Parties*.
- c. The *project assessment draft report* shall include the following information:
  - i. a description of the identified need for the *distribution* investment, including the location of the identified need and whether it was necessitated principally by an inability to meet the service standards linked to the technical requirements of schedule 5.1 of the National Electricity Rules, or in an applicable regulatory instrument;
  - ii. if applicable, a summary of, and commentary on, the submissions to the *project specification report*;
  - iii. a description of each *credible option* being assessed;
  - iv. a quantification of the profile of each applicable class of cost and market benefit for each *credible option*;
  - v. a detailed description of the methodologies used in quantifying each class of cost and market benefit;
  - vi. the reasons why the *Distribution Network Service Provider* has determined that a class or classes of market benefits or costs do not apply to a *credible option*;
  - vii. the results of a net present value analysis of each *credible option* and accompanying explanatory statements regarding the results;
  - viii. the identification of the proposed *preferred option* which maximises the net present value of economic benefits.
  - ix. for the proposed *preferred option*, details on:
    1. Technical definition or characteristics;
    2. Estimated construction timetable and commissioning date;
    3. Indicative cost(s); and
    4. a statement and accompanying detailed analysis that the *preferred option* satisfies the *Regulatory Investment Test for Distribution*, and, where the *Distribution Network Service Provider* considers that the *distribution* investment satisfies the *Regulatory Investment Test for Distribution* as a reliability augmentation, analysis of why the

*Distribution Network Service Provider* considers that the proposed *distribution* investment is a reliability augmentation.

- d. The *Distribution Network Service Provider* must seek submissions from *Registered Participants* and *interested parties* on the *preferred option* presented, and the issues addressed in the *project assessment draft report*.
- e. The consultation period on the *project assessment draft report* must not be less than 30 business days from the publication date of the report.
- f. Within four weeks of the end of the consultation period on the *project assessment draft report*, at the request of an interested party, the *Distribution Network Service Provider* must use its best endeavours to meet with the interested party if:
  - i. having considered all submissions, the *Distribution Network Service Provider*, acting reasonably, considers that the meeting is necessary or desirable; or
  - ii. a meeting is requested by two or more interested parties.

#### **9. Regulatory Investment Test for Distribution Process - Exemption from the project assessment draft report**

- a. A *Distribution Network Service Provider* is exempt from publishing a *project assessment draft report* if:
  - i. the *Distribution Network Service Provider* has published a *Project Specification Threshold Test* report which determined that:
    - 1. there is:
      - a. no material potential for non-network options to either defer or remove the need for a distribution investment to address the identified need; and
      - b. no material potential for the identified need to impact on the quality of service experienced by end use customers; or
    - 2. the types of assets that may be required to meet the identified need are exempt from the project specification stage under clause 6c); and
  - ii. the estimated capital cost of the most expensive and likely *distribution* investment option (or set or options) which are both technically and economically feasible for meeting the identified need is less than \$[X] million.<sup>48</sup>

#### **10. Regulatory Investment Test for Distribution Process - Project assessment final report**

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<sup>48</sup> Investments above a defined threshold that did not pass the Project Specification Threshold Test will be subject to the project assessment draft report stage. The appropriate threshold for these investments requires consideration.

- a. The *Distribution Network Service Provider* shall publish a *project assessment final report* as soon as practicable after the end of the consultation period on the *project assessment draft report*.
- b. If the proposed investment is exempt from the *project assessment draft report* stage, the *Distribution Network Service Provider* must publish the *project assessment final report* as soon as practicable after the publication of the *Project Specification Threshold Test report*.
- c. The *project assessment final report* must set out the matters detailed in the *project assessment draft report* and summarise the submissions received from interested parties and the *Distribution Network Service Provider's* response to each such submission.
- d. The *project assessment final report* must include the following information:
  - i. a description of the identified need for the *distribution* investment,, including the location of the identified need and whether it was necessitated principally by an inability to meet the service standards linked to the technical requirements of schedule 5.1 in the National Electricity Rules, or in an applicable regulatory instrument;
  - ii. a description of each *credible option* that was assessed;
  - iii. a quantification of the profile of each applicable class of cost and market benefit for each *credible option*;
  - iv. a detailed description of the methodologies used in quantifying each class of cost and market benefit;
  - v. the reasons why the *Distribution Network Service Provider* has determined that a class or classes of costs and market benefits do not apply to a *credible option*;
  - vi. the results of a net present value analysis of each *credible option* and accompanying explanatory statements regarding the results;
  - vii. the identification of the *preferred option* which maximises the net present value of economic benefits.
  - viii. for the *preferred option*, details on:
    1. Technical definition or characteristics;
    2. The construction timetable and commissioning date;
    3. Indicative cost(s); and
    4. a statement and accompanying detailed analysis that the *preferred option* satisfies the *Regulatory Investment Test for Distribution*. and, where the *Distribution Network Service Provider* considers that the *distribution* investment satisfies the *Regulatory Investment Test for Distribution* as a reliability augmentation, analysis of why the *Distribution Network Service Provider* considers that the proposed *distribution* investment is a reliability augmentation.

- e. A *Distribution Network Service Provider* may discharge its obligation to make the *project assessment final report* available by including the *project assessment final report* as part of its Annual Planning Report.

## 11. Dispute Resolution Process

- a. *Registered Participants, the AEMC, Connection Applicants, Intending Participants, and interested parties* may, by notice to the AER, dispute conclusions made by the *Distribution Network Service Provider* in the *project assessment final report*, but only in relation to projects where the *preferred option* identified in the *project assessment final report* has an estimated capital cost equal to or greater than \$[Y]<sup>49</sup> million (as varied in accordance with *cost threshold determinations*).
- b. Disputes under this clause may be made only in relation to:
  - i. the application of the *Regulatory Investment Test for Distribution*; or
  - ii. the basis on which the *Distribution Network Service Provider* has classified the proposed investment as being a reliability augmentation.
- c. A dispute under this clause may not be in relation to any matters set out in the *project assessment final report* which are:
  - i. treated as externalities by the *Regulatory Investment Test for Distribution*; or
  - ii. related to an individual's personal detriment or property rights.
- d. A person disputing the *project assessment final report* must within 30 business days after the publication of the *project assessment final report*:
  - i. give notice of the dispute in writing setting out the grounds for the dispute (the *dispute notice*) with the AER; and
  - ii. at the same time give a copy of the *dispute notice* to the relevant *Distribution Network Service Provider*.
- e. Within 40 business days after receiving the *dispute notice* (or within an additional period of up to 60 business days where the AER notifies *interested parties* that the additional time is required to make a determination because of the complexity or difficulty of the issues involved), the AER must either:
  - i. reject any dispute by written notice to the person who initiated the dispute if the AER considers that the grounds for dispute are invalid, misconceived or lacking in substance;
  - ii. notify the *Distribution Network Service Provider* that the dispute has been rejected; or
  - iii. make and publish a determination:

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<sup>49</sup> Should the dispute resolution process be limited to projects above a defined threshold?

1. directing the *Distribution Network Service Provider* to amend the matters set out in the *project assessment final report*; or
  2. stating that, based on the grounds of the dispute, the *Distribution Network Service Provider* will not be required to amend the *project assessment final report*.
- f. In making a determination on the dispute, the *AER*:
- i. must only take into account information and analysis that the *Distribution Network Service Provider* could reasonably be expected to have considered or undertaken at the time that it performed the project assessment;
  - ii. publish its reasons for making a determination;
  - iii. may disregard any matter raised by a party in the dispute that is misconceived or lacking in substance; and
  - iv. may request further information from a party bringing a dispute, or from the *Distribution Network Service Provider* (in which case the period of time for rejecting a dispute or issuing a determination is extended by the time it takes the relevant party to provide the requested further information to the *AER*).
- g. The *AER* may only make a determination to direct the *Distribution Network Service Provider* to amend the matters set out in the *project assessment final report*, if it determines that:
- i. that the *Distribution Network Service Provider* has not correctly applied the *Regulatory Investment Test for Distribution* in accordance with the National Electricity Rules; or
  - ii. that the *Distribution Network Service Provider* has misclassified the proposed *distribution investment* as being a reliability augmentation; or
  - iii. there was a manifest error in the calculations performed by the *Distribution Network Service Provider* in applying the *Regulatory Investment Test for Distribution*.
- h. A disputing party or the *Distribution Network Service Provider* (as the case may be) must as soon as reasonably practicable provide any information requested under clause 11fiv) to the *AER*.
- i. The relevant period of time in which the *AER* must make a determination under clause 11eiii) is automatically extended by the period of time taken by the *Distribution Network Service Provider* or a disputing party to provide any additional information requested by the *AER*, provided:
- i. the *AER* makes the request for the additional information at least 7 business days prior to the expiry of the relevant period; and
  - ii. the *Distribution Network Service Provider* or the disputing party provides the additional information within 14 business days of receipt of the request.

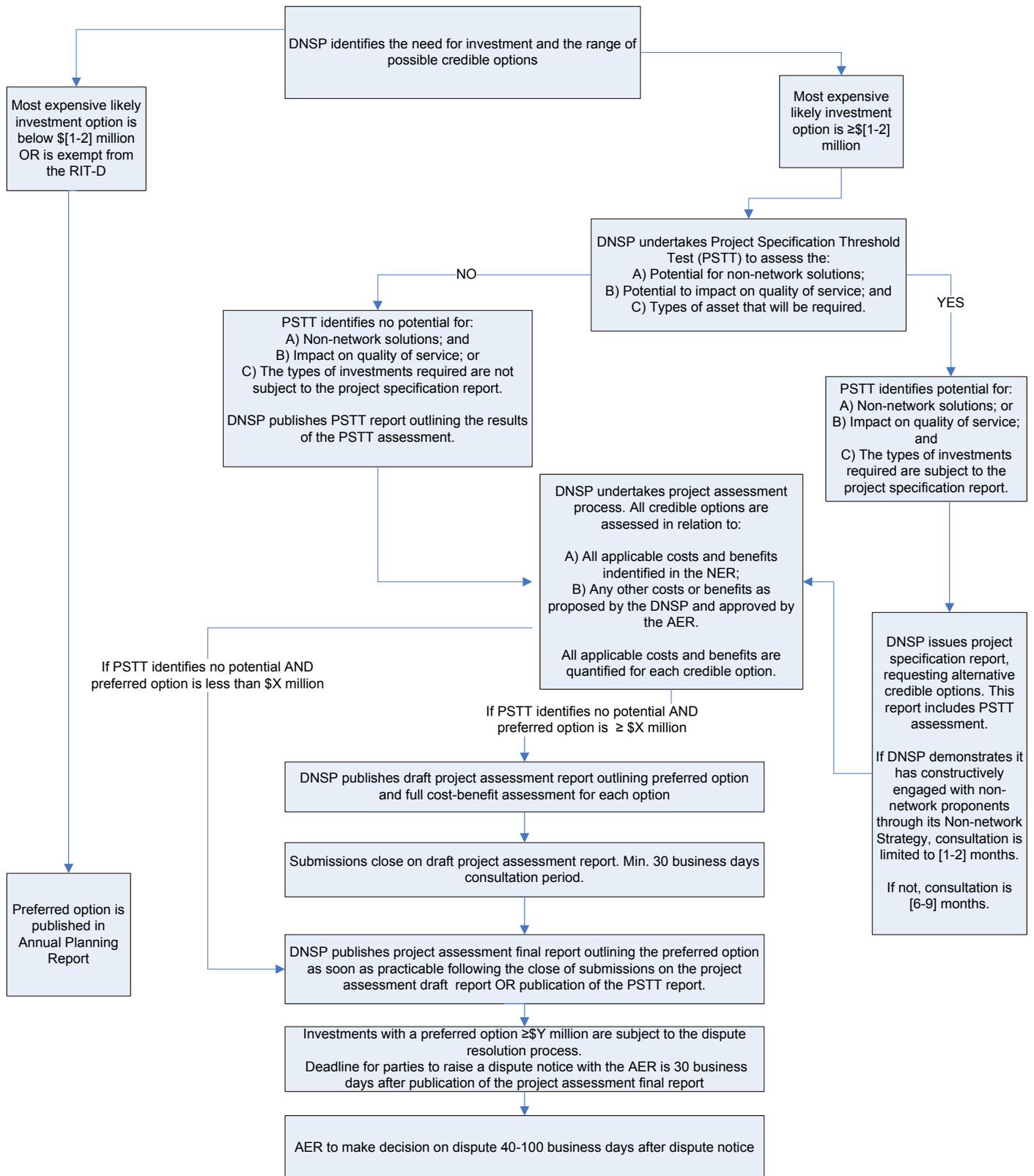
## 12. Regulatory Investment Test for Distribution Guidelines

- a. At the same time as the AER publishes a proposed *Regulatory Investment Test for Distribution* under the *distribution consultation procedure*, the AER must also publish guidelines for the operation and application of the *Regulatory Investment Test for Distribution* ('*the Regulatory Investment Test for Distribution Application Guidelines*') in accordance with the requirements of this clause.
- b. The *Regulatory Investment Test for Distribution Application Guidelines* must give effect to and be consistent with this clause and provide guidance on the operation and application of the *Regulatory Investment Test for Distribution*.
- c. The *Regulatory Investment Test for Distribution Application Guidelines* shall include at a minimum:
  - i. guidance on the acceptable methodologies for valuing costs of an option,
  - ii. guidance on suitable modelling periods and scenarios development;
  - iii. guidance on the acceptable methodologies for valuing market benefits of an option,
  - iv. explanation and guidance on what constitutes a credible option;
  - v. guidance on appropriate sensitivity analysis;
  - vi. explanation on the appropriate discount rate(s) to apply to project assessment.
- d. The *Regulatory Investment Test for Distribution Application Guidelines* shall also include worked examples to support the guidance and explanation.
- e. The AER must develop and publish the revised *Regulatory Investment Test for Distribution* and *Regulatory Investment Test for Distribution Application Guidelines* by [date]<sup>50</sup> and there must be a *Regulatory Investment Test for Distribution* and *Regulatory Investment Test for Distribution Application Guidelines* in force at all times after that date.
- f. The AER may, from time to time and in accordance with the *distribution consultation procedure*, amend or replace the *Regulatory Investment Test for Distribution* and *Regulatory Investment Test for Distribution Application Guidelines* developed and published under this clause, provided that such amendments must be published at the same time.

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<sup>50</sup> The *Regulatory Investment Test for Distribution* and the *Regulatory Investment Test for Distribution Application Guidelines* could be published 12 months after the commencement of Rule as Made. As there is a large degree of overlap between the proposed *Regulatory Investment Test for Transmission* and the *Regulatory Investment Test for Distribution*, there is the potential for the AER to develop a single *Regulatory Investment Test and Regulatory Investment Test Application Guidelines*.

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



## **B Issues for Stakeholder Comment**

Appendix A.1 and A.2 set out the respective Indicative Framework Specifications for the Annual Planning Process and Reporting Requirements and the Regulatory Investment Test for Distribution and Dispute Resolution Process.

In the footnote section of these appendices, we have highlighted a number of issues for stakeholder comment. These issues are outlined below and include both policy issues and terms which require definition.

### **Issues for Comment: Annual Planning Process and Reporting Requirements**

#### **Issues for Comment**

##### **Scope of the Annual Planning Process**

- The classification of sub-transmission assets for inclusion in the annual planning process will need to be clarified. It may be more appropriately included with the annual planning process for transmission (see clause 2b), Appendix A.1).

##### **Requirements of the Annual Planning Process**

- The establishment of a Distribution Network Advisory Committee is an idea raised for further consideration and discussion. The potential advantage of an Advisory Committee is to provide a forum to share information and facilitate the further development of efficient planning practices (see clause 3d), Appendix A.1).
- The appointment and tenure of members for the proposed Distribution Network Advisory Committee requires consideration (see clause 3dii), Appendix A.1).

##### **Non-network Strategy**

- Should the Distribution Network Advisory Committee be established, the Advisory Committee could be charged with setting the criteria of the database of non-network case studies and/or maintaining the database (see clause 4f), Appendix A.1).

##### **Joint Planning Process**

- Should the joint planning process determine a single network service provider which will be responsible for both undertaking the Regulatory Test for the identified need and the construction or provision of the investment? (see clause 5b), Appendix A.1).

- Which Regulatory Investment Test should apply to joint network investments? Our initial consideration is that the Regulatory Test for Transmission is preferable because it permits competition benefits and dispatch savings market benefits to be quantified (see clause 5c), Appendix A.1).
- Which regulatory investment test should apply if the distribution network service provider and the transmission network service provider can not agree who will be the responsible party for addressing the need for a joint network investment? Which network service provider should be responsible for undertaking this 'default' regulatory investment test? (see clause 5e), Appendix A.1)

### **Distribution Annual Planning Report**

- It is noted that DNSPs currently publish planning reports within different timeframes. The timing requirements for the Annual Planning Report in the national framework will need further consideration (see clause 6a), Appendix A.1).

### **Contents of the Annual Planning Report**

- The type of assets to be included in the Annual Planning Report require consideration (see clause 7a, Appendix A.1).
- It is noted that the reporting requirements for the performance of the network may duplicate reporting requirements under other regulatory obligations. The potential benefits of including the information in the planning report is to provide transparency, clarity and context for the system limitation and investment requirements. If the information is reported elsewhere, it could potentially be replicated here at limited additional cost. However, it is noted that different timing requirements for reporting may impact the replication of information (see clause 7b), Appendix A.1).
- The requirements of the Asset Management section of the Annual Planning Report requires consideration. The asset management strategy to be provided may include a description of the strategies for asset inspection and condition assessment and asset age profiling and refurbishment/replacement strategy (see clause 7c), Appendix A.1).
- The “types of input information” used to identify potential system limitations could include whether the load forecasts were based on 10%, 50% or 90% PoE forecasts (see clause 7e), Appendix A.1).
- It is noted that there may be changes to the provisions in the Rules governing TNSP planning requirements. These provisions relating to joint planning with TNSPs will need to be reviewed and reconciled for consistency (see clause 7i), Appendix A.1).

## **Terms requiring definition**

- The definition of “system limitation” requires consideration. This term should cover off a broader spectrum of potential problems than “constraints” (see clause 3aiv, Appendix A.1).
- The definition of “asset management” requires consideration (see clause 3aiv, Appendix A.1).
- The definition of “high stress events” requires consideration (see clause 3aiv, Appendix A.1).
- The definition and scope of “joint network investment” requires consideration (see clause 3bii, Appendix 1; clause 5a), Appendix A.1).
- The definition of “major load centre connections” requires consideration (see clause 7aiv), Appendix 1; clause 7dii), Appendix A.1).
- The scope and definition of “major investment” requires consideration (see clause 7dv), Appendix A.1).
- The current definition of “new distribution network investment” in the Rules may need to be reviewed (see clause 7f), Appendix A.1).

## **Issues for Comment: Regulatory Investment Test for Distribution and Dispute Resolution Process**

### **Issues for Comment**

#### **Principles of the RIT-D**

- It is proposed that any business which is subject to deterministic reliability standards should have the option of basing its project assessments on the Value of Unserved Energy if it wishes to do so. The practical application of this requires consideration (see clause 1e), Appendix A.2).
- It is proposed that DNSPs should be able to consider a program of an integrated set of related investments in a single project assessment. However, this needs to be within reason, and an appropriate framework for this requires consideration (see clause 1f), Appendix A.2)

#### **Scope of projects subject to the RIT-D**

- The appropriate threshold for the Regulatory Investment Test for Distribution needs to be defined (see clause 2aiv), Appendix A.2)
- The types of services which are exempt from the Regulatory Investment Test for Distribution require consideration. Currently negotiated distribution services,

alternative control services and unclassified distribution services are exempt. (see clause 2av), Appendix A.2)

### **Application of the RIT- D – Quantification of Market Benefits and Costs**

- The classes of market benefits which are included in the Regulatory Investment Test for Distribution requires consideration. (see clause 4a), Appendix A.2)
- The classes of costs which are included in the Regulatory Investment Test for Distribution require consideration, especially whether environmental costs are properly incorporated (see clause 4b), Appendix A.2).

### **Reviews of Cost thresholds**

- The timing of the AER's cost threshold reviews requires consideration. Option for the AER to conduct this review at the same time as its cost threshold reviews for the Regulatory Investment Test for Transmission (see clause 5a), Appendix A.2).

### **RIT-D Process- Project Specification Threshold Test stage**

- Along with the material potential for non-network options, the material potential impact on the quality of service experienced by end users, and the type of assets required, should DNSPs be required to assess any other factors when undertaking the Project Specification Threshold Test? (see clause 6b), Appendix A.2)
- The types of assets which are exempt from the project specification stage and the definition of these assets needs to be considered. Currently it is proposed that investments related to the refurbishment or replacement of existing assets, which are not intended to augment the network, are exempt from the project specification stage (see clause 6c), Appendix A.2).
- The type and level of information to be included in Annual Planning Reports on the Project Specification Threshold Test assessments undertaken by DNSPs each year needs to be considered (see clause 6e), Appendix A.2).

### **RIT-D Process- Project Specification Report**

- Should DNSPs be required to identify all credible options in the project specification report? Is this level of information appropriate for the project specification stage, as this information will also be required under the project assessment draft report. (see clause 7cv), Appendix A.2)
- Should DNSPs be required to provide cost, timing and technical information on all credible options in the project specification report? Is this level of information appropriate for the project specification stage, as this information will also be required under the project assessment draft report. (see clause 7cvi), Appendix A.2)

- The length of the consultation period on the project specification report requires consideration. (see clause 7g), Appendix A.2)
- What actions should DNSPs have undertaken to consult with non-network proponents and develop alternative credible non-network options, in order to benefit from an accelerated consultation period on their project specification reports? (see clause 7g), Appendix A.2)

### **RIT-D Process – Project Assessment Draft Report**

- Investments above a defined threshold that did not pass the Project Specification Threshold Test will be subject to the project assessment draft report stage. The appropriate threshold for these investments requires consideration. (see clause 9a(ii), Appendix A.2)

### **Dispute Resolution**

- Should the dispute resolution process be limited to projects above a defined threshold? Threshold requires consideration (see clause 11a), Appendix A.2).

### **Regulatory Investment Test for Distribution Guidelines**

- The Regulatory Investment Test for Distribution and the Regulatory Investment Test for Distribution Application Guidelines could be published 12 months after the commencement of Rule as Made. As there is a large degree of overlap between the proposed Regulatory Investment Test for Transmission and the Regulatory Investment Test for Distribution, there is the potential for the AER to develop a single Regulatory Investment Test and Regulatory Investment Test Application Guidelines (see 12e), Appendix A.2).

### **Terms requiring definition**

- The definition of “urgent and unforeseen” investments. Note, as negotiated services are exempt from the Regulatory Test for Distribution, augmentations caused by new large customers would not be defined as an “urgent and unforeseen” investment (see clause 2c), Appendix A.2).
- The definition of “joint network investments” needs consideration (see clause 2a(iv), Appendix A.2; and 3b(ii), Appendix A.1).
- The definition of “system limitation” requires consideration (see clause 6e(i), Appendix A.2; and 3a(ii), Appendix A.1).