20 August 2009

Dr John Tamblyn
Chairman
Australian Energy Markets Commission
PO Box A2449
Sydney South NSW 1235

Dear Dr Tamblyn

Review of National Framework for Electricity Distribution Network Planning and Expansion (EPR0015)

Integral Energy fully supports the Commission conducting a thorough and detailed review into the current electricity distribution network planning and expansion arrangements in the National Electricity Market. Please find attached Integral Energy's submission on matters raised in the AEMC's draft report of 7 July 2009.

A matter of significant concern to Integral Energy that is not fully discussed in the draft report is the assumption by the AEMC that the existing jurisdictional arrangements relating to the project assessment process and annual planning and reporting requirements will be rolled back once the national framework is in place. If this assumption proves not to be correct then the DNSPs will be subject to an increased regulatory burden as a result of the AEMC's proposed rules.

Prior to implementing the proposed rules, the AEMC and the jurisdictions must agree on what aspects of the jurisdictional requirements will be rolled back and replaced by the proposed rules and what changes must be made to the proposed rules to accommodate the jurisdictional requirements that will not be rolled back. If the AEMC does not adopt this approach then simply implementing the new rules will inappropriately increase the regulatory burden on the DNSPs.

There may also be some transitional issues associated with any roll back that would need to be incorporated into the new rule process for example the treatment of projects that are part way through the existing regulatory test assessment.

If you have any queries regarding this submission please do not hesitate to contact our Manager Regulatory & Pricing, Mr Mike Martinson on (02) 9853 4375.

Sincerely

Vince Graham

Chief Executive Officer

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AEMC REVIEW OF NATIONAL FRAMEWORK FOR DISTRIBUTIUON NETWORK PLANNING AND EXPANSION - DRAFT REPORT

Integral Energy Submission

13 August 2009

1. Regulatory Burden

Integral Energy is concerned with the assumption by the AEMC that the existing jurisdictional arrangements relating to the project assessment process and annual planning and reporting requirements will be rolled back once the national framework is in place. If this assumption proves not to be correct then the DNSPs will be subject to an increased regulatory burden as a result of the AEMC's proposed rules.

Prior to implementing the proposed rules, the AEMC and the jurisdictions must agree on what aspects of the jurisdictional requirements will be rolled back and relaced by the proposed rules and what changes must be made to the proposed rules to accommodate the jurisdictional requirements that will not be rolled back. If the AEMC does not adopt this approach then simply implementing the new rules will inappropriately increase the regulatory burden on the DNSPs.

There may also be some transitional issues associated with any roll back that would need to be incorporated into the new rule process for example the treatment of projects that are part way through the existing regulatory test assessment.

2. Annual Planning Process

2.1 Scope and requirements for the annual planning process

Integral Energy supports the AEMC's recommended approach of requiring each DNSP to carry out an annual planning process covering a minimum forward planning period of five years.

It will be critical to ensure that the process only impacts on those assets where a practical application of the Rules is possible. For assets below the zone substation level, Integral Energy believes that there is limited scope for the annual planning process to provide any information that would be of value to non network alternative providers. This is because of the diverse nature of these assets and the fact that most of the expansion and augmentation of these assets is driven by a large number of customer connections.

Integral Energy would not recommend imposing any requirements on DNSPs through the annual planning process which would prevent the connection of customers in a timely and efficient manner to meet their needs.

This connection activity is not easy to forecast but it is important to note that the annual planning process for zone substation assets and above would take the connection of customers at the lower voltage levels into account based on previous historic trends along with any known large load connections.

2.2 Demand Side Engagement Strategy

Integral Energy supports the establishment of a non-network strategy and agrees that the strategy would provide transparency and assist in the engagement between DNSPs and non-network proponents.

The AEMC seeks comments on whether the proposed content of the facilitation process document provides useful information and can be provided by DNSPs at reasonable cost.

Integral Energy has no concerns with the proposed content of the facilitation process document provided that the information is only required to be of a generic nature. The document cannot provide any details relating to specific projects, payments to particular non network providers or customers etc as these will be project specific and not be able to be applied generically and would in most cases be confidential.

The AEMC seeks comments on whether explicit protocols for the Demand Side Engagement Facilitation Process Document would be beneficial.

Integral Energy believes that including explicit protocols for the Demand Side Engagement Facilitation Process Document would be too restrictive and may introduce inefficiencies. If protocols are to be included they should be in general terms only to allow the DNSPs the flexibility to adopt cost effective solutions.

2.3 Publication of Distribution Annual Planning Report (DAPR)

The draft report proposes that the DAPR be certified by the Chief Executive Officer and a Director or Company Secretary. Integral Energy believes that this requirement will add costs and delays into the process for developing the DAPR particularly if the certification is such that an audit will be required prior to the signing of any certification.

A requirement to release the report under the signature of the Chief Executive Officer would be normal practice for this type of report and Integral Energy would suggest that this is all that is required in this instance. The report has to be prepared and released in accordance with the NER and there is an obligation on the company and the Chief Executive Officer to comply with the NER. Having another layer of certification above this is not necessary and does not add any value only increased costs.

The AEMC seeks comments on whether the publication date of 31 December is appropriate.

Integral Energy supports a 31 December publication date.

2.4 Joint Planning Between Transmission Network Service Providers and Distribution Network Service Providers

Integral Energy already engages in joint planning with TransGrid, the transmission network service provider for NSW, under an existing obligation in the NER (clause 5.6.2(c)). Duplicating this obligation in the proposed new rules is unnecessary and inappropriate.

2.5 Joint Planning Between Distribution Network Service Providers

Integral Energy believes that there would be little benefit in having an obligation to meet regularly to undertake joint planning with other DNSPs where there is a need to consider any augmentation or non-network alternative that affects more than one distribution network. These events occur very rarely and hence the DNSPs should only be required to meet when there is an identified need for a meeting to undertake joint planning. Having a requirement to meet regularly will only result in a meeting with no valid agenda simply to comply with the NER.

2.6 Regulatory Investment Test for Investments Identified Through Joint Planning

Integral Energy believes that the main driver of projects that require joint planning with TNSPs will be the augmentation of distribution assets and transmission connection assets. These types of projects will have little, if any, material market benefits.

As the main driver for the projects comes from the distribution side it would be more appropriate to apply the regulatory investment test for distribution to joint planning projects with TNSPs rather than the regulatory investment test for transmission as proposed by the AEMC.

2.7 Scope of the Reporting Requirements

The AEMC seeks comments on the definition of sub transmission assets and primary distribution feeders as to whether the proposed definitions would capture all the sub transmission assets owned and operated by DNSPs and relevant primary distribution feeders.

Integral Energy has a number of substations where the primary voltage is 33kV but the secondary voltage is 415V and believes the AEMC's definition of sub transmission assets would inappropriately capture these substations. Integral Energy suggests that a more appropriate definition of sub transmission assets would be, a sub transmission asset is:

- *a substation or switching station operating with secondary voltages 33kV or greater and is not a transmission asset.*

Integral Energy also believes that a more appropriate definition for a primary distribution feeder would be, a primary distribution feeder is:

- *the main back bone (without branches) of a distribution line operating at 11kV or 22 kV.*

The AEMC seeks comments on how significant investments in smart metering should be captured by the annual reporting requirements and specified in the Rules.

Smart metering is not the subject of the AEMC's review and should not be captured in the annual reporting requirements. Smart metering is part of a separate review that the MCE is currently undertaking. Any reporting arrangements should be dealt with as part of the MCE review.

2.8 Identifying System Limitations

2.8.1 Forecasting

Integral Energy already prepares and publishes information on the capacity and load constraints at the sub transmission and zone substation level for summer and winter. There are however a small number of issues that would arise if the draft recommendation were to be implemented.

As with any forecast, the information provided in an APR would be based on the best available information at the time the report was prepared. It should be recognised however, that the electricity distribution is dynamic and the forecast may not eventuate due to any number of factors. This will particularly impact on the timing of various identified system limitations and also on the potential load transfer capability between supply points.

Included in the current forecasts are details of known large load connections and approximate timing. It is not possible for Integral Energy to accurately forecast customer connections down to a year and month as proposed by the AEMC. Integral Energy does provide a forecast of customer connections down to a probable year and season, that is, winter or summer. Integral Energy would recommend that the wording of the draft recommendation be amended to only require estimated timing of connections to be year and season.

The requirement to provide a forecast of future connection points should be amended to require reporting of forecasts of future **committed** connection points.

The reporting of primary distribution feeders that have exceeded 100 per cent of the cyclic rating is problematic. In NSW the licence conditions impose a supply security standard that requires the feeders to be loaded at no more than 80% of their cyclic capacity and by 2019 to be loaded at no more than 75% of their cyclic capacity. Integral Energy would therefore not be forecasting any feeders to be non compliant with the licence conditions and hence the annual planning report would contain no information against this proposed requirement. The performance of distribution feeders against the standard is reported after the event in the annual Electricity Network Performance Report and to have to replicate this report in the APR would be unnecessary and an additional regulatory burden that is not appropriate.

2.8.2 Reporting on system limitations

The AEMC seeks comments on whether the national framework should include a requirement for DNSPs to develop regional development plans.

As identified in the AEMC's draft report the development of regional plans is a jurisdictional requirement which means it will be specific to certain DNSPs but not to all DNSPs. As it is a business specific issue and given that it would be difficult, if not impossible, to agree on the definition of a "region" Integral Energy believes that there should not be a requirement to develop regional development plans in the national framework.

2.9 Other reporting

Integral Energy believes that this is an area where duplicate reporting requirements and increased regulatory burden could occur unless the AEMC, the AER and jurisdictions agree on the roll back of any AER or jurisdictional requirements. This is particularly the case in the reporting of performance standards and compliance. The AER and most jurisdictions, if not all, require compliance and performance reporting of some kind on an annual basis. These reports are usually publicly available and to have to provide the same information in the APR is unnecessary and inappropriate.

Other matters such as the DNSPs asset management methodology are included and published as part of the regulatory proposals submitted to the AER at the time of the AER's regulatory reset. The appropriateness of the methodology and the expenditures that arise from the application of the methodology are assessed by the AER and its consultants as part of the regulatory reset process. It would be a duplication and an increased regulatory burden to have to incorporate details of the methodology in the APR.

3. Regulatory Investment Test for Distribution (RIT-D)

3.1 Purpose of the RIT-D

Integral Energy notes that the AEMC acknowledges that investments required to meet deterministic reliability standards may have a negative net present value. The licence conditions in NSW impose supply security standards and in some instances investment required to satisfy these standards could also result in a negative net present value.

Integral recommends that the AEMC also acknowledge that where a proposed investment is required to meet a deterministic jurisdictional supply security standard, the preferred option may have a negative net present value.

3.2 RIT-D cost threshold

Integral Energy is concerned with the proposed cost threshold of $2 million for determining those projects which would be subject to the RIT-D. If the threshold were to remain at $2 million Integral Energy estimates that approximately 18 projects would be subject to the RIT-D annually. Integral Energy considers that the $2 million threshold is too low and will result in an unnecessary and disproportionate regulatory burden on DNSPs and the number of projects subject to RIT-D will be inordinately high and this may impact on the ability to deliver these projects in a timely manner.

Integral Energy would restate its support for aligning the thresholds for RIT-D and RIT-T. That is, establishing the RIT-D threshold at $5 million. If this threshold were adopted then Integral Energy estimates that approximately 14 projects would be subject to RIT-D annually. While this is still a large number of projects, Integral Energy considers that this number of projects is manageable without impacting on delivery.

Aligning the thresholds for RIT-D and RIT-T will also mean that RIT-D would be more appropriate for joint planning projects and would overcome the problem of having to deal with the different thresholds for the joint investments as highlighted in Section 2.5.2 of the draft report.

3.3 Exemptions from the RIT-D

Integral Energy would strongly support the exclusion of the investments contained in the draft recommendation from the RIT-D with the exception of investments where the need for the proposed investment has been identified through a joint planning process between a DNSP and TNSP. As stated earlier, Integral Energy believes that joint planning investments should be subject to RIT-D not RIT-T.

In relation to the exclusion of connection assets the exclusion proposed by the AEMC may need to be further expanded or clarified. Customers connecting to Integral Energy's network must provide the customer connection assets in accordance with the IPART/AER capital contributions determination and these assets are then usually gifted to Integral Energy and become part of the shared network. For the exemption to work and hence allow customers to connect without an unacceptable delay caused by RIT-D the provision of these assets would need to be exempt even though they eventually become part of the shared network.

The AEMC seeks comment on the proposal to exclude primary distribution feeders from the RIT-D and the wording of the proposed exemption in section 2(a)(vii) of the framework specification.

Integral Energy strongly supports the exclusion of primary distribution feeders from the RIT-D. Integral Energy has a substantial number of primary distribution feeders (in excess of 1,100) and generally work to augment or expand these feeders is driven by customer connection requirements. Customer connections must be provided in a timely manner, usually with very short lead times, to meet the customer's needs and to have to subject augmentation of a distribution feeder project to RIT-D would delay such projects and unacceptably delay the customer's connection to the network.

3.4 Specification Threshold Test

The AEMC seeks comment on the practical application of the STT and whether the STT provides an appropriate degree of discretion to DNSPs.

The proposed specification threshold test is similar to the screening test that Integral Energy undertakes under the NSW Demand Management Code and as such Integral Energy believes that there would be little difficulty with the practical application of the test and believes that it provides an appropriate degree of discretion recognising that the whole of the RIT-D process could be subject to a dispute on compliance with the rules.

The term "material potential" may be open to a number of different interpretations and it may assist in demonstrating compliance if the term were to be more fully defined or if there were some discussion in the final report that explained what is meant by this term.

3.5 Project Specification Stage

The information proposed for the project specification report would appear to be reasonable with the exception of the requirement to provide a description of all investment options to meet the identified need. Integral Energy believes that the project specification report should only provide information on identified network investment options. The intent of the project specification report is to seek information on any alternative non network options to meeting the need as it comes

after it has been decided through the specification threshold test that a non network solution is feasible. For DNSPs to try and second guess the non network options would seem to negate the need for preparing the project specification report in the first instance.

It is also not clear to Integral Energy what other preliminary or supplementary information would be available to be published that hadn't already been considered as part of the process of preparing the project specification report and would be published as with the project specification report. This requirement would seem to be unnecessary.

3.6 Accelerated consultation on project specification report

The AEMC is interested in stakeholder comments as to whether prescription is required in the Rules regarding the actions that DNSPs must have undertaken to qualify for accelerated consultation on their project specification reports. An alternative to greater prescription in the Rules would be to provide the AER with greater discretion in its development of the RIT-D Application Guidelines to determine the appropriate actions DNSPs must undertake to comply with the Rules to qualify for accelerated consultation.

Integral Energy supports the inclusion of an accelerated consultation process and would also support greater specification in the rules regarding the actions that DNSPs must have undertaken to comply with the Rules and to qualify for accelerated consultation. The greater specification should detail what has to be done to demonstrate that the DNSP has "constructively engaged" with non network proponents prior to undertaking the specification threshold test.

Integral Energy does not support giving the AER greater discretion in its development of the RIT-D Application Guidelines to determine the appropriate actions DNSPs must undertake.

3.7 Project Assessment Process – Consideration of Market Benefits and Costs

The AEMC is interested in stakeholder comments regarding the list of market benefits and costs that the DNSPs should consider under the RIT-D and whether it would be appropriate to require DNSPs to consider any market benefits and costs in addition to those currently proposed.

Integral Energy believes that the list of market benefits and costs proposed in the draft report captures the full range of possible distribution benefits and costs.

4. Dispute resolution process

4.1 Scope of the Dispute Resolution Process

The AEMC seeks comments on the proposed scope of the dispute resolution process.

Integral Energy strongly supports the scope of the dispute resolution process as proposed in the draft report which limits the dispute resolution process to a compliance review and not a merits review.

4.2 Scope of Projects Subject to a Dispute Resolution Process

Integral Energy would support the proposal that projects subject to the RIT-D would be able to be subject to a dispute provided the threshold for projects to be included in RIT-D was increased to $5 million as recommended earlier.

If the threshold is kept at $2 million there will be a large number of small projects captured in the RIT-D process and hence subject to dispute. This will unduly delay these small projects and require a DNSP to devote a large amount of resources to a process which will provide little if any benefit to customers.

4.3 Process for Raising a Dispute

The AEMC's draft recommendation is that registered participants, the AEMC, connection applicants, intending participants and interested parties should be able to raise a dispute under the proposed dispute resolution process.

This has substantially broadened the range of parties able to raise a dispute from that which currently exists under the existing framework. Given the broader range of parties able to raise a dispute, Integral Energy is concerned to ensure that it is not possible for vexatious disputes to be made as this will unduly delay project investments. Integral Energy believes that the AEMC should consider limiting the parties able to raise a dispute to registered participants and non network proponents only.

5. Observations on the Framework for Distribution Planning

The AEMC seeks comments on the following issues:

- *The process for determination of jurisdiction reliability standards;*
- *The relevance and application of Schedule 5.1 of the Rules to distribution;*
- *Reporting and target setting of reliability performance;*
- *Asset management.*

5.1 The process for determination of jurisdiction reliability standards

Integral Energy's understanding is that the jurisdictions have retained for themselves the right and ability to set the jurisdictional reliability standards. In some instances this may mean allowing the AER to determine the standards and in other instances it may mean that the jurisdiction itself will impose the standards.

Integral Energy would support the ENA's position on this issue and disagrees with AEMC's proposition that harmonising the existing jurisdictional standards could deliver improvements in reliability and security performance. The performance of networks is directly attributable to the resources which are invested in them and any changes to the standards that drive network investment towards a common standard will result in some increases and some decreases in performance. An overall improvement will only result from an increase in the level of resources allocated to the provision of reliable network services.

5.2 Reporting and target setting of reliability performance

Integral Energy is also concerned with uniform reliability reporting particularly given that in NSW, the Government has set the planning security and reliability standards and has developed a reporting regime which is different to that imposed by the AER under its Service Target Performance Incentive Scheme. This will mean that Integral Energy will have to report its reliability outcomes twice and the reported numbers will differ depending upon the extent of definitional differences in the reporting requirements. Integral Energy believes that this increased regulatory and reporting burden is not justified and provides no additional benefits to customers and may in fact lead to confusion.

5.3 Asset management

Integral Energy agrees with the ENA's position on this issue that whilst the principles of sound asset management need to be applied by all DNSPs their application and outcomes will vary very significantly, depending on the particular circumstances and environment of the DNSP.

The establishment of minimum "best practice" criteria would enforce a lowest common denominator approach on DNSPs. Moreover, it should not be a matter for the Rules to prescribe such criteria given that the incentive-based regulatory regime is intended to provide DNSPs with incentives, as well as flexibility to manage their assets efficiently within the framework defined by the STPIS and the price control. In particular:

- DNSPs are held accountable for the service performance of their networks under the STPIS; and
- the capital and operating expenditure criteria specified in the Rules are intended to ensure that each DNSPs' expenditure allowances reflect the efficient costs (and therefore, efficient asset management) that a prudent operator in the circumstances of the relevant DNSP would require.

6. Transitional arrangements

There will be a number of transitional issues with the commencement of any new rules particularly in relation to those projects that are part way through the existing regulatory test process. Integral Energy believes that the AEMC must ensure a smooth transition between existing rules obligations and any new rules obligations so that the ongoing development of the network is not adversely impacted.

Integral Energy would expect that if, under the existing regulatory test process, consultation has already commenced for a project that the process should be allowed to continue under the existing obligations and not have new obligations superimposed on top.

Assuming that the AEMC and the jurisdictions can agree on the roll back of jurisdictional requirements, Integral Energy also believes that there should be a clear cut over date for managing projects under existing jurisdictional requirements, for example the NSW Demand Management Code, such that projects already commenced can continue under the existing jurisdictional framework and new projects commenced after the cut over date can be processed under the new rules.