



**AEMC Review of National Framework for Electricity
Distribution Network Planning and Expansion
Draft Report**

Submission to AEMC

13 August 2009



Summary

Aurora Energy Pty Ltd (Aurora) thanks the Australian Energy Market Commission (AEMC) for this opportunity to respond to the AEMC's Draft Report on its Review of the National Framework for Electricity Distribution Network Planning and Expansion (the Draft Report).

Aurora is a Tasmanian state-owned energy corporation, licensed under the *Electricity Supply Industry Act 1995 (Tas)* (ESI Act) as a provider of electricity distribution and retail services to over 260,000 customers across an area of 68,400 square kilometres on mainland Tasmania. Since May 2005, Aurora has participated in the National Energy Market (NEM) and is, accordingly, registered with the Australian Energy Market Operator (AEMO) as a Distribution Network Service Provider (DNSP), a Metering Provider (MP), a Local System Operator (LSO) and an electricity retailer (Retailer).

Aurora is broadly supportive of the framework proposed by the AEMC as part of its review but does however feel that some of the AEMC proposals warrant further examination. These principle areas are:

- the application of the RIT-T to all joint planning (TNSP/DNSP) developments when there is little impact or investment within the transmission network;
- the setting of the RIT-D threshold at \$2M creates an excessive regulatory burden and introduces inconsistency between the RIT-T and RIT-D tests;
- the implementation of the proposed Demand Side Engagement Strategy and the benefits that would flow from that implementation;
- the potential for duplication of the requirements under the Draft Report with those that currently exist within the Tasmanian jurisdiction;
- the complexity of the proposed RIT-D process and the impact this complexity has on Aurora's ability to deliver projects in a timely manner; and
- the application of the "most expensive" option test proposed under the RIT-D would capture a large number of small distribution projects.

Further detail on these matters and other issues are discussed in the following sections that address the Draft Framework Specifications.

Where the AEMC has specifically sought comment, the AEMC wording has been included in this submission in boxed format.



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1. Annual Planning Process and Reporting

1.1. Definitions

Aurora notes that the definitions of *primary distribution feeder* and *sub transmission asset* do not capture and define the assets adequately. Given the jurisdictional differences that exist in the classification of transmission and distribution assets Aurora proposes the following definitions would suffice for Tasmania:

primary distribution feeder

Distribution line with a voltage of 11kV or greater that is not a sub transmission asset.

sub transmission asset

Distribution line, substation or switching station connected with a primary voltage of 33kV or greater that is not a transmission asset.

1.2. Purpose

Aurora agrees with the purpose and objectives of the Annual Planning Process and Reporting as set out in the Draft Framework Specification.

1.3. Scope of the Annual Planning Process

Aurora agrees with the Scope of the Annual Planning Process as set out in the Draft Framework Specification.

Aurora agrees with the minimum forward planning period of 5 years for distribution and sub-transmission networks and 10 years for transmission networks and believe this is adequate timeframe due to the asset boundary situation in Tasmania.

We seek comments on whether the national framework should include a requirement for DNSP's to develop regional development plans.

Aurora does not believe the national framework should include a requirement for DNSP's to develop regional development plans.

1.4. Requirements of the Annual Planning Process

Aurora broadly agrees with the Requirements of the Annual Planning Process as set out in the Draft Framework Specification. Aurora, does however wish to provide further specific comment on clauses (a), (b) and (d) within the Requirements of the Annual Planning Process.

1.4.1. Clause (a) – Minimum Requirements

Aurora are concerned with the application of the RIT-T to all joint (DNSP/TNSP) projects. Aurora believes the effort required to assess market benefits may not be evident or have relevance where that investment has little or no effect on the transmission network, eg the provision or augmentation of an existing connection point (connection assets). There are also likely to be a number of situations where the project involves a significant distribution investment greater than \$5M and includes only a small transmission investment, less than \$1M. It is not appropriate that projects of this nature be subject to the RIT-T.

1.4.2. Clause (b) – Joint Planning

Aurora believes that the requirement for TNSPs and DNSPs to undertake joint planning is already contained within the NER obligation under clause 5.6.2(c) and can see no reason to include a further requirement for joint planning as part of Draft Framework Specification.

1.4.3. Clause (d) – Demand Side Engagement Strategy

Aurora believes that the proposed DAPR requirements, along with the consultation requirements within the RIT-D provide adequate opportunity to engage with non-network proponents without a formal Demand Side Engagement Facilitation Process. This is further discussed in the following section.

1.5. Demand Side Engagement Strategy

The requirement for a DNSP to establish and maintain a public database of non-network proposals and/or case studies would be of limited benefit at a local level and would be of more use if undertaken at a national level. In addition, filtering of case studies to remove commercially sensitive material and gaining approval from non-network proponents to publish would limit volume and relevance of information that could be published.

Aurora does agree with the requirement to establish and maintain a Register of Interested Parties who wish to be advised of developments related to addressing network constraints. Aurora believes that for this register to be effective it should be at a national level and could most likely be administered by AEMO.

<p>We seek comments on whether the proposed content of the facilitation process document provides useful information and can be provided by DNSPs at reasonable cost.</p>

Aurora believes the content requirements are adequate.

Aurora is concerned with the application of the RIT-T to all joint (DNSP/TNSP) projects. Aurora believes the effort required to assess market benefits that may not be evident or have relevance, eg provision of the augmentation of an existing connection point (connection assets) that has no effect on the transmission network.

Aurora notes that there appears to be an anomaly with the application of the RIT-D and the RIT-T with respect to a joint investment project where the project requires transmission connection assets and distribution asset investment of less than \$2M. Under the criteria presented and the NER regarding the RIT-T, this project would then be exempt from both the RIT-T and the RIT-D. Considering this, in the instance of the distribution investment being between \$2M and \$5M, the project would be subject to the RIT-D even with substantial transmission investment.

Also in the situation where the project involves a significant distribution investment greater than \$5M and includes only a small transmission investment, less than \$1M, the project would then be subject to the RIT-T.

AURORA believes that the threshold for application across RIT-T and RIT-D should be made consistent, ie \$5M should apply both tests. Under this arrangement the transmission investment in a joint investment project should be greater than \$5M before the RIT-T is applied. For those projects that involve greater than \$5M distribution investment and less than \$5M of transmission investment, the RIT-D would be applicable.

1.6. Distribution Annual Planning Report

Aurora broadly agrees with the Requirements of the Distribution Annual Planning Report as set out in the Draft Framework Specification.

Aurora supports the requirement to publish the DAPR for the forward planning period starting 1 January by 31 December each year.

Aurora views the requirement to have the DAPR certified by the Chief Executive Officer and a Director or Company Secretary as being too prescriptive. Aurora believes that the document should be signed off in accordance with the appropriate delegated responsibility set within the business.

<p>We seek comments on how significant investments in smart metering should be captured by the annual reporting requirements and specified in the Rules.</p>
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The MCE review of Smart Metering is currently underway and Aurora is of the opinion that until the outcomes of this review should dictate any reporting requirements. As such, the reporting on smart metering should not be included in the DAPR.

1.7. Contents of the Distribution Annual Planning Report

Generally Aurora agrees with the information to be made available through the DAPR, however Aurora considers that the duplication of information from other jurisdictionally required published reports is not cost effective and could, due to timing differences, even be misconstrued. Aurora has the view that the DAPR should therefore guide the reader to the latest information through references to relevant jurisdictional documents.

2. Regulatory Investment Test for Distribution

2.1. Objectives of the Regulatory Investment Test for Distribution

Aurora acknowledges the objectives of the Regulatory Investment Test for Distribution (RIT-D) are sound and appropriate.

2.2. Scope of Projects subject to the Regulatory Investment Test for Distribution

Aurora has concern with specifying exemptions to the requirement to apply the RIT-D to new distribution investments; this has potential for ambiguity and a source for unwarranted dispute and delay. For clarity, Aurora strongly believes that this should be a list of types of distribution investments that shall be subject to the RIT-D.

2.2.1. Assessment threshold

Using “the most expensive investment option” in determining whether the RIT-D is to be applied would lead to a large number of projects that have realistic solutions below the cost threshold having to be assessed. This will have the potential to cause excessive delays in projects such as the connection of a large customer to the shared network.

Aurora believes the cost threshold should be applied to the “most likely investment option”.

Aurora also considers that, given the nature and volume of distribution investments that are undertaken, the threshold value of \$2 million is manifestly too low and out of alignment with the cost threshold of \$5 million that is applicable to the RIT-T.

2.2.2. Exemption of primary distribution feeder

Aurora considers that the exclusion of primary distribution feeders, in the proposed wording, from the RIT-D is essential to allow the RIT-D to be applied in a practicable manner. The main reasons for this are the large volume of assets this would be applicable to, the large volume of projects requiring excessive process justification undertaken for no addition benefit, and the short lead times involved in connecting customers to these shared network assets.

2.2.3. Refurbishment or replacement expenditure

Aurora agrees with the inclusion of asset refurbishment or replacement as an exclusion from the RIT-D. Where the refurbishment or replacement would result in augmentation to the network, Aurora agrees that the value of the augmentation component be aligned with the cost threshold.

2.2.4. Urgent and Unforeseen

Aurora agrees with the inclusion of urgent and unforeseen investments as an exemption. Aurora does however believe the definition of urgent and unforeseen needs to be addressed.

Aurora believes that the 6 month period proposed in section (c)(i) is too short and that a period of 12 months would be more appropriate. A 6 month window would create delays in addressing urgent load constraints due to the long lead-time associated with equipment procurement, design and construction timeframes.

2.3. Application of the Regulatory Investment Test for Distribution – Identification of credible options

Aurora is of the view that the documented framework for the identification of credible options is appropriate.

2.4. Application of the Regulatory Investment Test for Distribution – Consideration of Market Benefits and Costs

Aurora supports the inclusion of a limited list of market benefits and costs, and given the limited opportunity to identify market benefits related to distribution projects, the inclusion of the discretion to quantify any applicable market benefits.

2.5. Review of Costs Thresholds

Aurora supports the review of cost thresholds every three years by the AER. To ensure consistency remains between the RIT-T and RIT-D both thresholds should be reviewed at the same time.

2.6. Regulatory Investment Test for Distribution Process – Specification Threshold Test Stage

Aurora broadly supports the intent of the Specification Threshold Test Stage.

Aurora is however concerned with clarity around some of the terms used, such as “material potential” and “adverse impact”. Without further clarification, interpretation and application of these terms could lead to the process being both unduly disputed and delayed.

2.7. Regulatory Investment Test for Distribution Process – Project Specification Stage

Aurora agrees with the purpose of the project specification stage.

Aurora does however have concern that the requirement may be overly prescriptive on options to address the need in the project specification report. The focus of this report should be to provide an opportunity to broaden the depth of options to address the need.

2.7.1. Consultation period

Aurora is of the view that the minimum consultation period of six months unless the DNSP has undertaken ‘prior engagement’ is not warranted. Subjectivity around what constitutes ‘prior engagement’ and whether that engagement is effective, calls to question the benefit of extended consultation periods and a fast track process.

Aurora considers that the requirement to provide information to interested parties through the DAPR, public forum, the STT report and the project specification report is adequate for non-network solution proponents to respond within a one month period. Consideration needs to be given to the requirement that the DNSP would be required to further engage with a non-network proponent that put forward a credible alternative proposal to address the need and this is addressed in the draft project assessment report.

Aurora is of the view that simplifying the consultation to a one month period would streamline the process.

2.8. Regulatory Investment Test for Distribution Process – Draft project assessment report

Aurora considers the framework for the draft project assessment report as adequate.

2.9. Regulatory Investment Test for Distribution Process – Exemption from the draft project assessment report

With the exception of the wording “most expensive investment option” in clause (a)(ii), Aurora considers the framework for the exemption from publishing a draft project assessment report as adequate.

Aurora considers a cost threshold that is based upon the most expensive investment option will capture a large number of projects that should be exempt from the RIT-D. Aurora believes this should instead read “most likely investment option”.

2.10. Regulatory Investment Test for Distribution Process – Final project assessment report

Aurora considers the matters required to be considered in the report to be adequate.

Aurora also considers there should be an option whether to publish the report separately and reference it in the DAPR, or include in the DAPR.

Aurora also believes the requirement to publish separately if the cost is greater than \$20 million should be dropped. This would give the DNSP flexibility to determine which was more efficient and cost effective.

2.11. Dispute resolution process

Aurora supports the requirement that the dispute resolution process be limited to the application of the rules.

<p>We seek stakeholder comments on the proposed scope of the dispute resolution process.</p>
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Aurora does recognise that further work needs to be undertaken to clarify some of the terms in the proposed RIT-D framework to reduce the risk of unwarranted disputes.