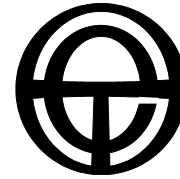


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**SUBMISSION**  
to

**AEMC**  
**Review of national framework for electricity**  
**distribution network planning and expansion**

Scoping and issues paper

**EPR0015**

April 2009

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# **AEMC Review of national framework for electricity distribution network planning and expansion Scoping and issues paper**

## **1. Introduction**

### **1.1 Planning for demand management**

Total Environment Centre (TEC) supports the initiation of a review by the Australian Energy Market Commission (AEMC) into distribution network planning as directed by the Ministerial Council on Energy (MCE). Our primary concern in this area is that adequate encouragement should be established for distribution network service providers (DNSPs) to maximise demand management<sup>1</sup> solutions as a primary step in their planning.

TEC appreciates the effort to include consideration of particular barriers to the uptake of non-network alternatives in the AEMC Scoping paper, but notes a lack of conviction attached to the potential for non-network solutions as well as neglect of the ability of DNSPs to undertake DM actions themselves. As is endemic in the National Electricity Market (NEM), the presentation in the Scoping paper about issues surrounding network planning founders on a faulty principle – that “approval of network expansion and augmentation” is the appropriate starting point for network planning and decision making. This is lined up beside the depiction by the MCE and the AEMC of the fact that networks undertake minimal non-network solutions as a “perceived failure” rather than as an actuality.

DM opportunities are being overlooked in the NEM – and there is extensive substantiation for this assertion – even though they can assist with a transition to a reduced carbon economy at no net cost. For instance, a report by McKinsey & Company suggested that<sup>2</sup>:

Significant quantities of ‘negative-cost’ opportunities are available. These opportunities would allow Australia to reduce emissions in 2020 by 20 percent below 1990 levels at no net cost to the economy. ... For 2030, an equivalent analysis suggests reductions of 35 percent are achievable at no net cost.

They noted that such reductions:

can be achieved using existing approaches and by deploying mature or rapidly developing technologies to improve the carbon efficiency of our economy. They require significant changes to the way we operate in key sectors, for example,

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<sup>1</sup> DM in this submission can be read to include ‘demand response’, ‘demand side management’, ‘demand side response’, ‘energy efficiency’ and ‘non-network solutions’. In general, DM can include both the management of peak loads and energy efficiency as a way of meeting capacity requirements most cost effectively. It includes a diverse array of activities that meet energy needs, including cogeneration, standby generation, fuel switching, interruptible customer contracts, and other load shifting mechanisms.

<sup>2</sup> McKinsey & Company (2008) *An Australian cost curve for greenhouse reduction*, McKinsey Australia Climate Change Initiative, p 15

changes in our power mix, but can be achieved without major impact on consumption patterns or quality of life.<sup>3</sup>

## 1.2 Scope of this submission

A report produced for TEC, *Win, Win, Win*<sup>4</sup>, which we have forwarded separately, was an investigation of the application of the D-factor in NSW and we consider the AEMC could find it helpful within this review. In addition, we have produced submissions on distribution network planning before during previous MCE investigations; the relevant parts of a joint submission to the MCE with the Alternative Technology Association (ATA) and the Ethnic Communities Council of NSW (ECC) are attached as an appendix at the end of this submission as they still apply in the context of this AEMC Review. That submission also referred to the NERA/ACG report for the MCE (*Network Planning and Connection Arrangements – National Frameworks for Distribution Networks*), as the Scoping paper does. The last section of the joint submission has been omitted since it referred to connection arrangements, being covered in a separate MCE process.

Our main recommendations in this submission are:

- The Rules should refer to a distribution and transmission networks, with the NSW model to be adopted as a minimum (including the protocol for disclosure of information); networks to be obligated to *implement* non-network solutions where more cost effective than augmentation.
- In the interests of consistency, certainty, equity and transparency, best-practice minimum requirements must apply across the NEM for it to be a genuinely national system. It is critical that sophisticated jurisdictional mechanisms – such as the NSW Demand Management (DM) Code of Practice – are not lost in the transition.
- We support the principle of annual planning reports, but it is essential that DNSPs report on the details of their investigation and implementation of non-network solutions, as well as potential constraints.
- We support the concept of requests for proposals, but recommend that the AEMC investigate the idea of standard offers as well.
- The major failing of the Scoping paper is the lack of consideration of potential incentives or mechanisms to encourage DNSPs to undertake DM projects themselves. The requirements of DM providers and aggregators are discussed, but not the internal projects that DNSPs could establish – this oversight should be addressed.

We have addressed those issues that are of particular concern to us, rather than specifically answering the questions set out in the Scoping paper. The Appendix should

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<sup>3</sup> McKinsey & Company (2008) *An Australian cost curve for greenhouse reduction*, McKinsey Australia Climate Change Initiative, p 6

<sup>4</sup> Institute for Sustainable Futures & Regulatory Assistance Project (2008) *Win, Win, Win: Regulating electricity distribution networks for reliability, consumers and the environment – A review of the NSW D-Factor and alternative mechanisms to encourage demand management*. Produced for Total Environment Centre

be considered as part of this submission, since it covers many of the issues raised in the Scoping paper.

## **2. Jurisdictional mechanisms to promote DM**

### **2.1 Jurisdictional approaches**

Reference is made in the Scoping paper to mechanisms already in place in the jurisdictions to promote the adoption of non-network solutions by DNSPs, of which the NSW and South Australian approaches are outstanding examples. TEC is concerned that current proposals for action at a national level fall well below the standard being achieved at jurisdictional level, and there is a strong risk that what may be accepted at a national level could be based on the lowest common denominator.

The features of these mechanisms are not discussed at any length in the Scoping paper, which highlights a failing of the representation of DM in the paper. Clearly some thought was given to the difficulties faced by DM providers and aggregators, but the paper failed to properly recognise the opportunities for the implementation of DM that could be done by the networks themselves. The jurisdictional mechanisms on the contrary are focused on exactly that.

### **2.2 The AER approach**

The Australian Energy Regulator (AER) has been working on incentives for demand management as it gradually takes up responsibility for distribution determinations. They have made some progress here, but appear to be supporting a low-level approach (“modest”, in their words) in their recommendations to date for each jurisdiction in the sequence. They will be developing a national DM incentive scheme, but based on the results so far this will also be insufficient to produce a shift in the general attitudes of the DNSPs to investigating and implementing DM actions.

### **2.3 Innovating for the future**

We urge the AEMC to aim for the best-case scenario. The NSW mechanisms – such as the D-factor, the DM Code of Practice and licence conditions – are so far the most worked through and appear to be the most successful to date. The system is not perfect, however, and a report on the application of the D-factor in NSW makes recommendations for improvement. This report, produced for TEC by the Institute for Sustainable Futures (ISF), is titled, *Win, Win, Win: Regulating electricity distribution networks for reliability, consumers and the environment – A review of the NSW D-Factor and alternative mechanisms to encourage demand management*. Rather than reproducing the detail of the report here, we suggest the AEMC refer directly to it. (We have forwarded the report through separately to the AEMC for the purposes of this Review.)

We suggest the AEMC take at a minimum the best features of the jurisdictional approaches, plus the recommendations from the *Win, Win, Win* report, to put together an exceptional framework for maximisation of non-network solutions.

## **3. Annual planning reports**

TEC’s DM Rule change proposal, for which the AEMC has now produced a draft Rule determination, highlights the need for robust reporting on DM. We quote here from

Section 4.5 in the proposal document. The discussion was couched primarily in the context of transmission businesses, but also applies to DNSPs.

There is a lack of transparency in reporting on DM efforts including:

- efforts to identify and procure cost-effective DM;
- expenditure on DM;
- peak demand and energy consumption reductions;
- the value of electricity sales foregone;
- the value of capital and operating expenditure avoided or deferred.

This makes it impossible for regulators, DM proponents and consumers to assess the degree to which networks are utilising an adequate level of DM.

All network businesses should be required to publish robust data on upcoming constraints that are relevant and useful to DM service providers. This would serve to inform the DM market of upcoming opportunities and enable it to respond to these in a timely manner. The NSW DM Code of Practice for Distributors and the South Australian Guideline 12 provide sound precedents for such information disclosure by distributors.

NSW has recognised the benefit of robust information provision in relation to distribution networks through the Demand Management Code of Practice for Electricity Distributors. As the Code of Practice notes:

*...to ensure competitive neutrality, third party proponents should have comparable access to the information required to develop alternative proposals. Third parties should also be able to have confidence that their proposals will be given due consideration in the evaluation of proposals.<sup>5</sup>*

Regulators and consumers must be able to ascertain if networks are utilising an adequate level of DM in order to determine whether or not networks are operating efficiently. Annual Planning Reports should include:

- detailed information about the current and future capacity of the transmission network; and
- current projected demand and possible options to address any emerging constraints.

Both distribution and transmission networks should be required to report annually on DM activities undertaken in relation to:

- expenditure;
- peak demand and energy consumption reductions;
- value of electricity sales foregone;
- value of capital and operating expenditure avoided or deferred; and
- efforts to identify and procure cost effective DM.

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<sup>5</sup> Department of Energy, Utilities and Sustainability, *Demand Management for Electricity Distributors – NSW Code of Practice*, September 2004, p 8.

To assist with this, the AER could issue a pro forma to ensure consistency in DM reporting. Such reports should be publicly available.

#### **4. Requests for proposals (RFPs)**

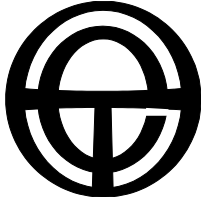
TEC, ATA and ECC presented suggestions for the RFP process in our submission (see Appendix below) in Section 1.8, and we have reproduced that here since the points are still relevant.

In addition, the [NERA/ACG] paper recommends that an RFP is only mandatory for works of \$2 million and over. Distribution constraints often operate on a small scale, but incrementally solutions can have significant impact. If each constraint is dealt with separately then resolution of each can lead to the continuation of network solutions being dominant overall. Below \$2 million, the networks should still be required to seek a non-network solution first and they should be encouraged to issue RFPs or standard offers.

In the case of small works, an RFP can place too great a cost burden on small businesses that are forced to develop a tender and a standard offer could be more appropriate, that is, the transaction costs may be too great in relation to the scale of the business, particularly in contrast to DNSPs which are essentially large, geographic monopolies. It would be appropriate for the AEMC to develop, via public consultation, examples of standard offers and mandate a calculation procedure. Standard offers may not be appropriate for more complex situations as they may limit the available range of approaches, but they can be useful for smaller projects.

There is an expanded discussion of the RFP process and the concept of a “reasonableness test” in the Appendix in our response to Recommendation 3 from the NERA/ACG paper; and a response concerning cost-benefit analyses, which we supported (that is, as opposed to a “least cost” approach). The responses to Recommendations 4 and 5 are also relevant in this context.

## APPENDIX



TOTAL ENVIRONMENT CENTRE



ALTERNATIVE TECHNOLOGY ASSOCIATION



ETHNIC COMMUNITIES' COUNCIL OF NSW

## SUBMISSION

### Ministerial Council on Energy

### Network Planning and Connection Arrangements – National Frameworks for Distribution Networks

**5 October 2007**

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# Network Planning and Connection Arrangements – National Frameworks for Distribution Networks

## 1. Introduction

### 1.1 Distribution Rules framework

Total Environment Centre (TEC), Alternative Technology Association (ATA) and the Ethnic Communities Council of NSW (ECC) welcome the opportunity for further input to the consultations on the design of a national framework for distribution networks. We refer also to our previous submission on this process to the Ministerial Council on Energy regarding the paper by NERA Economic Consulting titled *Network Incentives for Demand Side Response and Distributed Generation*. We also refer the MCE to a paper by the Climate Action Network of Australia (CANA), a coalition of organisations including TEC and the ATA, in response to the draft Code of Practice for Embedded Generation (COPEG<sup>6</sup>). We forwarded the CANA paper to the MCE with our last submission on network incentives.

We have restricted our comments to Recommendations 1 to 30 in the NERA/ACG paper *Network Planning and Connection Arrangements – National Frameworks for Distribution Networks* (referred to in this submission as “the paper”), dealt with in Section 2, and general comments on approaches to demand management (DM<sup>7</sup>) and distributed generation (DG) are contained in Section 1. We are presenting a submission on the NERA Case Studies document separately.

### 1.2 Definition

The term ‘demand side response (DSR)’ appears to be used in the paper to describe demand management activities. DSR is often used in other contexts within the NEM to refer to specific arrangements with large users to shift or curtail loads at particular times (usually when there are peak loads or other constraints). Thus NERA/ACG’s usage is confusing, and leads to the suspicion that, although they are purporting to be discussing non-network solutions in general, they may have misunderstood the full range of activity that goes under the term “demand management” (DM). We understand demand management to include ‘demand response’, ‘demand side management’, ‘demand side response’, ‘energy efficiency’ and ‘non-network solutions’. In general, DM can include both the management of peak loads and baseload as a way of meeting capacity requirements. It includes a diverse array of activities that meet energy needs, including cogeneration, standby generation, power factor correction, fuel switching, interruptible customer contracts, and other load shifting mechanisms.

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<sup>6</sup> PB Associates, *Draft – A National Code of Practice for Embedded Generators* (for Renewable and Distributed Generation Working Group), February 2006

<sup>7</sup> DM in this submission can be read to include ‘demand response’, ‘demand side management’, ‘demand side response’, ‘energy efficiency’ and ‘non-network solutions’. In general, DM can include both the management of peak loads and energy efficiency as a way of meeting capacity requirements most cost effectively. It includes a diverse array of activities that meet energy needs, including cogeneration, standby generation, fuel switching, interruptible customer contracts, and other load shifting mechanisms.



Although peak load and peak prices – that is, congestion and constraints – are regarded as the main drivers of investment, demand management solutions can be used to address reliability of supply and efficient usage in both baseload and peak situations. Reduction of baseload consumption is an issue that is seriously neglected across the NEM, and it needs to be incorporated in national approaches. Thus “DSR” is not just a problem of definition, but is founded on a false perception that it is only critical peaks that matter.

### **1.3 SCO Response to NERA recommendations regarding network incentive for DSR and DG.**

We have some comments regarding the SCO response to the previous NERA paper on network incentives. Here we will only address those responses of concern where the SCO indicated that the NERA recommendations would be dealt with in separate workstreams.

*Response 2.1* (on payments for network support to substitute for network augmentation) It is not clear to us exactly how the SCO is dealing with DM in the NEM overall. It has been a very piecemeal approach so far and there does not seem to have been a concerted effort to adequately provide for the promotion of DM solutions across the NEM. For instance, in this response about “grid support pass-throughs”, it is stated that the AEMC will assess this as part of its work on DSR. There is no further explanation, however, which begs the question – what exactly is the AEMC doing? We have no knowledge of a public AEMC process on this matter.

*Response 4* (form of price control) Similarly, this response indicates future work without being specific. It states that “the rules will include a new provision which will provide that the AER” will consider development of “incentives for DNSPs to undertake efficient non-network solutions”. What intention does the SCO have regarding these incentives? What is the timeline for their development, and will there be public consultation? The current NERA/ACG paper emphasises that there are insufficient incentives built into the national regime to encourage DNSPs to adequately promote DSR and DG. It is critical that incentives are built into the regulatory environment in some way. We (that is, TEC, ATA and the ECC) emphasised the need for incentives in our joint submission of 30 May, 2007, on NERA’s previous issues paper about network incentives. The issue of incentives has still not been adequately addressed, and is a major oversight in both papers (and see the section below on “Non-network solutions”).

### **1.4 Overall intent**

We support a number of goals that NERA/ACG profess. For instance, they note that one of their intentions was to increase, “the level of prescription and guidance in the Rules for distribution network planning ...” (p. 11) This is critical in the move from jurisdictional to national regulation. Equally, we support the concepts that the arrangements should be relative to the small scale of the projects (compared to transmission); that it should be a national regime with limited derogation to the states; and that there should be consistency with transmission regulations (though noting that variation may be necessary where the smaller scale warrants it).

### **1.5 Interaction with COPEG**

We note that there has been an effective attempt to align the connection and charging arrangements with those presented in the draft Code of Practice for Embedded Generation released in 2006. We refer the MCE to the submission by the Climate Action Network of Australia (CANAN) to that draft Code, and note that many of our responses to

the Recommendations below are based on the ideas contained in the CANA submission. We note also that CRA International in its response on submissions to the draft Code took account of CANA's comments.

### **1.6 AER statements of requirements**

In a number of recommendations in the paper (such as 2, 5, 28 and 29), NERA/ACG have suggested that the AER should develop 'statements of requirements' or 'guidelines'. As a general principle, it is better for important considerations to be embedded in the Rules to ensure adherence and consistency. If this kind of recommendation has been made to save time and speed up the current process, then a principle with a general description of the required statement should be put in the Rules for the AEMC – not the AER, since the AEMC is the rule-design body – to develop final versions within a given timeframe, via public consultation. When the statement is finalised it should be inserted in the Rules. This would provide greater certainty and clarity for all stakeholders.

### **1.7 Provision of information**

There is a distinct asymmetry between existing DNSPs and alternative proponents in terms of the scale of the business and consequently available resources. Therefore it is essential that sufficient information is provided – whether it be on constraints or possible solutions – by DNSPs. As noted in the paper, the aim is to, "impose low transaction costs on DSR/DG proponents" (p. 10), otherwise there is the risk that these proponents will be excluded from the market even if their solution would be a more efficient alternative to a network option. This information must be in a form that does not require interpretation by expert advisers.

### **1.8 Non-network solutions**

*Primary assessment of non-network solutions.* NERA/ACG present various examples of DM and other non-network solutions that companies investigate as a standard part of their decision-making processes. What is not emphasised is the contribution that the regulatory environment makes to these business activities, for instance NSW and South Australia both have some kind of demand management code in place. While the businesses may have developed these processes independent of regulations in any case, what is certain is that the regulatory environment has promoted a culture of such investigation. While the NERA/ACG recommendations have included aspects of the codes/guidelines from those states, not all of their features have been incorporated.

As a result, the most glaring omission from the recommendations is the promotion of the assessment of non-network solutions as a primary option. As stated in the paper, "Both New South Wales and South Australia require a case-by-case assessment of all proposed augmentations to evaluate the possibility of non-network solutions. In each case this requires an initial 'reasonableness' test to filter situations where non-network options have a greater likelihood of being economic ..." (p. 16). Under the NSW *Electricity Supply Act 1995* DNSPs must investigate – and publish information about their investigations – the cost effectiveness of implementing demand management strategies to avoid or postpone augmentation of a network. In Victoria, the Distribution System Planning Report requires an assessment of, "the availability of any contribution from each distributor available to embedded generators or customers to reduce demand and avoid/defer augmentation ..." (p. 108) As a sample, Appendix H.2.1 describes Energy Australia's screening process for developing solutions to load constraints (amongst other details),

which assesses the viability of DM and DG as solutions to that constraint. It is also noted that ETSA Utilities, for instance, now has a demand management unit.

This primary assessment by a DNSP of alternative solutions has been omitted as an option from the paper's recommendations. Neglect of demand management is a pervasive problem throughout the National Electricity Rules, despite professed intentions that demand side options should be given "due and reasonable consideration". Consideration of DM, in all its forms including DG, must be embedded in the Rules as a valid approach to increasing efficiency by avoiding unnecessary generation and network investments. In the interests of efficiency, DNSPs should be required to investigate non-network solutions before proceeding with supply-side solutions. We reiterate that this refers to both baseload and peak consumption.

Demand-side opportunities include load shifting, load curtailment and fuel switching and these can represent a low-cost alternative to new generation and transmission investments. As is recognised in the NERA/ACG paper (discussion on p. 9), DM provides the potential for networks to operate more efficiently by avoiding unnecessary or premature network augmentations, and thereby create savings for consumers. DM therefore meets the efficiency criteria of the NEM Objective, and by relieving constraints it can also bring reliability benefits in the long-term interests of consumers.

Furthermore, if the national system is to be a replacement for that of the jurisdictions, then the very useful approaches developed so far may well be lost. It is not clear why NERA/ACG have fallen short of grappling with DM sufficiently, given the proactive environment already in place in so much of the NEM. A great deal of expertise has been developed in DM approaches and this could be wasted if the national system does not promote DM as a significant solution in its own right. Obviously the businesses may not move away from existing approaches, but it is important that they are encouraged to continue and that other companies are led in the same direction. It is therefore essential that DM is addressed properly on a national level.

The AER could assist with mitigating the cultural bias and risk aversion attitude of DNSPs by annual reviews; publication of case studies (as a starting point, a proper assessment of existing applications and failures); and assistance with methods of assessment of solutions.

*Requests for Proposals.* In addition, the paper recommends that an RFP is only mandatory for works of \$2 million and over. Distribution constraints often operate on a small scale, but incrementally solutions can have significant impact. If each constraint is dealt with separately then resolution of each can lead to the continuation of network solutions being dominant overall. Below \$2 million, the networks should still be required to seek a non-network solution first and they should be encouraged to issue RFPs or standard offers.

In the case of small works, an RFP can place too great a cost burden on small businesses that are forced to develop a tender and a standard offer could be more appropriate, that is, the transaction costs may be too great in relation to the scale of the business, particularly in contrast to DNSPs which are essentially large, geographic monopolies. It would be appropriate for the AEMC to develop, via public consultation, examples of standard offers and mandate a calculation procedure. Standard offers may not be

appropriate for more complex situations as they may limit the available range of approaches, but they can be useful for smaller projects.

In summary, there must be a mechanism to encourage DNSPs to seek non-network solutions for under \$2m capital expenditure as well as above this threshold. It is the incremental nature of network development that is of concern here.

## **2. Response to Recommendations**

### **Recommendation 1**

*The Rules should require DNSPs to undertake an annual planning process and publish an annual planning report that sets out the outcomes of that planning process.*

We support all parts of this recommendation and consider it appropriate that DNSPs should undertake “an annual planning process” in the interests of economic efficiency and “publish an annual planning report” in the interests of transparency of decision making. However, we perceive a number of omissions from this recommendation.

Performance against the plan needs to be assessed so each planning report should also include reporting against the previous year’s plan. This is to ensure it is a genuine planning document, not just a theoretical exercise. This assessment should refer to more than just the regulatory test, but rather report on all actions and, in particular (if the MCE is serious about promoting DM and DG), it should report on the extent of non-network solutions that have been taken up (for instance, as for the requirements contained in the NSW DM Code of Practice).

### **Recommendation 2**

*The AER should be required to produce a statement of specific requirements that is given effect by the Rules that sets out the standard format and required contents of the annual planning report. The Rules should set out the matters the AER’s statement of specific requirements is permitted to address.*

This is a sensible recommendation as a first step and we support the parts suggested. However, the requirements should be set out in the Rules to assist certainty and consistency and to make it more binding on the businesses. There is no good reason presented in the paper as to why the AER should be the final arbiter of the contents of these planning reports. If this subject is being left to the AER because of current time constraints, then there should be a direction inserted in the Rules at this stage directing the AEMC to develop details for a standard format and required contents – via public consultation – by a specific time. The final requirements should then be inserted in the Rules.

In addition, the standard format should be developed in reference to necessary contents, not just for applications of the regulatory test. The paper seems to consistently link recommendations to the regulatory test, but this is an uncertain factor. The test is currently under revision; it has rarely – if ever – been applied to DNSPs; and it does not cover all parts of DNSPs’ considerations for decision making. In particular, as has been highlighted in other submissions to the MCE, it is very unclear how the test can be usefully applied to assess DM and DG benefits.

### Recommendation 3

*For any project to alleviate a network constraint for which the network solution would require an estimated capitalised expenditure of \$2m or more, DNSPs should be required to perform an economic cost-benefit assessment of that project (see recommendation 6). As part of this assessment, the DNSP should be required to consult publicly and be required to issue an RFP from potential providers of non-network solutions to the network constraint. The DNSP should be required to report publicly the results of its assessment immediately after its assessment has been completed, and also to summarise the outcomes of the assessment in its annual planning report (see Recommendation 1).*

In principle we support this recommendation but consider it fails to address the barriers and lack of incentives faced by DM and DG proponents. Firstly, “an economic cost-benefit assessment” is not an appropriate process. In the paper it is noted that a cost-benefit assessment should take society’s interests into account: “The application of a cost-benefit test means that the DNSP is required to stand aside from what may be in its (private) commercial interest, and instead to assess the costs and benefits of particular options from society’s point of view.” (p. 31) An “economic” CBA does not do that – there are many ways of approaching a CBA and to describe such an assessment as an economic one leaves open the possibility that the full benefits of DM and DG will be omitted or undervalued. The terminology of “economic CBA” in this recommendation (and others through the paper) is far too vague, despite the paper’s assertion that there must be, “robust economic assessment of alternatives” (p. 5) and “strong information transparency about the analysis performed and decision taken.” (p. 5)

Secondly, an initial screening process could be productive. This is used already in some jurisdictions, and by some businesses, as is described in the Appendices. It is not clear why such a process has been omitted from these recommendations since there is clearly wide experience across the NEM of applying it. In essence, the first step is roughly a “Reasonableness Test” for non-network solutions after which the DNSP then goes on to consultation with potential proponents, the issuing of Requests for Proposal and a full cost-benefit analysis including all the options. The screening test is thus not just a cost-benefit analysis but involves active investigation of the potential for DM/DG strategies. A model screening procedure should be developed, with existing jurisdictional codes used as the starting points, and involving full public consultation. The requirement to undertake such a process should then be inserted in the Rules, with the additional requirements for reporting on such assessments as well as the processes of decision making. As an example, in the paper Energy Australia’s screening process is described thus:

The screening test is designed to identify the drivers behind the emerging constraint, the nature of the demand that is driving load growth and the potential of demand management as an option to alleviate it. It is then decided whether it is reasonable to expect DM to be a cost effective option to defer or avoid a supply side investment and whether further investigations should be conducted. This is done as early in the project as possible to allow sufficient time for investigation and development of an identified option and the outcome of the screening test published. (p. 151)

Finally, the NSW DM Code of Practice provides for the level of detail to be relative to the urgency of the constraint, that is, the more likely the constraint is to occur in the near future, the greater the level of detail required for reporting on both the constraint and the

potential solutions. This is a useful technique for easing the reporting burden on the DNSPs as well as assisting with the provision of information for potential non-network proponents.

#### **Recommendation 4**

*For any network constraints for which the network solution would require an estimated capitalised expenditure of \$0.5-2m, DNSPs should be required to undertake an economic cost-benefit assessment of the project and publish the results in the annual planning report, without being required to issue an RFP or consult on the options. We observe that for network constraints for which the network solution would require an estimated capitalised expenditure of less than \$0.5m, there would be no formal ex post reporting requirement: DNSPs would not be required to undertake an economic cost-benefit assessment of the project, to issue an RFP or to consult on the options. The ex ante requirement to identify emerging constraints in the annual planning report would, however, apply to projects of this magnitude.*

As discussed in Recommendation 3, an “economic cost-benefit assessment” does not in itself necessarily adequately address the potential for DSR/DG; the assessment of non-network options must be mandatory. A screening process would be appropriate for smaller projects as well, as a first step. At the very least, any requirement in the Rules should be worded so that these solutions are considered in the cost-benefit assessment.

In addition, there is no scope here for RFPs or standard offers. The DNSPs should at least be directed to consider the possibility of developing these (such as “where reasonable”, a standard direction in the Rules). As discussed in our introductory comments, standard offers for small projects can alleviate the burden on both the DNSP and alternative proponents in developing proposals. We are concerned that small network projects added together can have a large cumulative result. There has been insufficient exploration of options which can be applied to smaller schemes which, when multiplied, can have incremental impact.

#### **Recommendation 5**

*The Rules should require the AER to issue a statement of specific requirements that sets out the contents of a Request for Proposals for non-network solutions to address an emerging network constraint and that sets out the process to be followed in issuing such requests.*

Our response here is similar to that for Recommendation 2, that is, the AEMC should develop such a statement to be refined via public consultation and the final version included in the Rules. There are models existing already for the contents of RFPs which could be used to develop a draft. A similar provision could be made for standard offers.

There is one curious detail in the description of RFPs: that non-network solutions, “need to better in order to be selected” (our emphasis). There could be circumstances where matching the details – or even costing more on a pure dollar basis – may bring other benefits to the system overall. This description is too specific, and is also counter to the terminology currently in use in the jurisdictions (as described in the Appendices to the paper).

Also in current usage is the practice of sending RFPs to parties known to be potentially interested. This too could be suggested in the final version. It could be helpful for the AER (or possibly NEMMCO) to keep a register of potential non-network proponents.

### **Recommendation 6**

*DNSPs should be required to apply the standard regulatory test (rule 5.6.5A) when undertaking a cost-benefit assessment of alternative projects (requiring amendment to clause 5.6.2(g)) so long as it continues to provide the flexibility for the test to be applied in a manner that is proportionate to the size and scale of the project.*

We support this recommendation on the basis that the regulatory test is being revised (and see our comments for Recommendation 2). In principle it should be applied to DNSPs as it is – potentially – to transmission businesses. It should be noted that the revision of the Regulatory Test needs to address the question of whether the contents apply appropriately to DNSPs, that is, it may need further revision as it is currently being considered only in relation to TNSPs. It is also unclear what the actual process for revising it will be – there was some coverage of the test in discussions about the establishment of a National Transmission Planner in a recent issues paper, but the situation is far from settled.

### **Recommendation 7**

*The DNSP's obligations to undertake the annual planning and reporting activities, and to undertake project evaluations, should be Rules obligations and able to be enforced through standard Rules-enforcement processes.*

We support this recommendation, as it is consistent with the intent of other recommendations.

### **Recommendation 8**

*A dispute resolution regime based on rules 5.6.6(j)-(n) should exist in relation to the DNSP's conduct of a cost-benefit assessment (and associated RFP for non-network options) for particular distribution projects.*

We support the concept of a dispute resolution process consistent with what is already provided for in Rules. However, it should be developed bearing in mind the assertion in the paper that alternative proponents, "are likely to be less informed or able ... to dispute an evaluation of a distribution project than would be the parties who may dispute a transmission project." (p. 7) It is important therefore that any dispute resolution process be accessible for small proponents.