

9 March 2012



Mr John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
SYDNEY SOUTH NSW 1235

Email: [submissions@aemc.gov.au](mailto:submissions@aemc.gov.au)

Dear Mr Pierce

**National Electricity Amendment (Distribution Network Planning and Expansion Framework) Rule 2011 – *Supplementary Submission***

ENERGEX Limited (ENERGEX) thanks the AEMC for the opportunity to provide additional comments on the Distribution Network Planning and Expansion Framework Rule Change Consultation Paper through the meetings held on 23 February 2012. This supplementary submission is provided in response to specific questions raised by the AEMC during the course of those meetings.

Joint planning and RIT-D

Under the proposed Rules, where a need for augmentation is identified via joint planning, the TNSP and DNSP are to agree on a lead party to be responsible for carrying out the RIT-T for the identified need (clause 5.6.2AA(h)(4)). Where the requirement for investment relates primarily to a limitation on the distribution network and augmentation by the DNSP, the lead party will generally be the DNSP. Therefore, in some circumstances, the DNSP will be required to undertake a RIT-T in conformance with the AER RIT-T Guidelines.

ENERGEX does not support the requirement for a DNSP to undertake a RIT-T because it would create uncertainty and inefficiency in the distribution planning process for the following reasons:

1. The RIT-D is likely to be different to the RIT-T. Some of the differences between RIT-T and the (proposed) RIT-D include:
  - o There is no Specification Threshold Test (STT) in the RIT-T;
  - o The scope of market benefits and costs differ between the tests. For example, RIT-T expressly requires competition benefits to be considered and also requires AER agreement before considering other classes of market benefits;

**Enquiries**  
Kevin Kehl  
**Telephone**  
(07) 3664 4006  
**Facsimile**  
(07) 3664 9818  
**Email**  
kevinkehl  
@energex.com.au

**Corporate Office**  
26 Reddacliff Street  
Newstead Qld 4006  
GPO Box 1461  
Brisbane Qld 4001  
Telephone (07) 3664 4000  
Facsimile (07) 3025 8301  
[www.energex.com.au](http://www.energex.com.au)

**ENERGEX Limited**  
ABN 40 078 849 055

- The requirements for the project specification report are more onerous under RIT-T than RIT-D. For example, under RIT-T immaterial classes of market benefits must be identified, the construction timetable is required and indicative costs are required regardless of practicality; and
- Those differences created via the current review of the RIT-D. ENERGEX notes that many important and valid concerns have been raised by stakeholders during the current RIT-D Rule Change consultation process.

ENERGEX questions the efficiency and appropriateness of requiring the DNSP to implement and maintain both a RIT-D and RIT-T process to account for the differences in the two assessment frameworks. ENERGEX considers that it is not prudent for a DNSP to develop the required critical competencies, systems and models to undertake the requirements of a RIT-T. ENERGEX also notes some of the concerns raised with the proposed RIT-D may be equally applicable to the current RIT-T. The proposed framework would therefore result in the DNSP being required to undertake an investment test (RIT-T) that may be sub-optimal compared to the RIT-D in a number of respects.

2. The DNSP would be uncertain as to how to address some of the RIT-T requirements. ENERGEX notes that the RIT-T and AER RIT-T Guidelines have been developed for TNSPs. For example, ENERGEX would be uncertain as to how to address the following RIT-T requirements:
  - The requirement to consider changes in fuel consumption arising through different patterns of generation dispatch;
  - The impact of the option on participant bidding behaviour; and
  - The requirement to undertake market dispatch modelling.

ENERGEX believes that the uncertainties which are likely to arise from requiring a DNSP to undertake a RIT-T are sufficient to reconsider the proposed joint planning requirements.

In addition, ENERGEX queries the benefits, from a policy perspective, of undertaking a RIT-T in circumstances where the purpose of the joint planning is to address a distribution network limitation. The RIT-D will be an investment test which is specifically designed for distribution networks. For example, there is a requirement for a STT to add additional rigour to consideration of non-network alternatives. This is not required by the RIT-T and so this additional rigour would not be a part of distribution limitations assessed in a joint planning environment. Further, under the RIT-T, the threshold for preparing a draft project assessment report is \$35 million, as opposed to \$10 million for the (proposed) RIT-D, which would result in additional limitations moving directly from project specification to a final report.

For the reasons outlined above, ENERGEX strongly believes that where the requirement for investment relates primarily to a limitation on the distribution network, the lead party will generally be the DNSP and the assessment should be conducted under the RIT-D process. This would be an efficient market approach.

ENERGEX suggests the AEMC should consider amendments to proposed clauses 5.6.2AA(h)(ii) and (iii). For example, the following drafting could address ENERGEX's concerns:

*(ii)...carry out the regulatory investment test for transmission for the identified need, except in circumstances where the dominant purpose of the investment is to address a limitation on the distribution network, in which case the regulatory investment test for distribution must be carried out.*

*(iii)...agree on a lead party to be responsible for carrying out the regulatory investment test for transmission or distribution (as the case may be). In this case, the other parties will be deemed to have discharged their obligations to undertake the regulatory test for transmission or distribution (as the case may be) in response to the identified need for investment.*

#### Re-application of the RIT-D

The AEMC has requested that ENERGEX provide a supplementary submission on the issue relating to re-application of the RIT-D.

ENERGEX believes that the issue of re-application of the RIT-D is primarily driven by uncertainty around the relationship between conducting a RIT-D and then building<sup>1</sup> an option to address the identified limitation.

ENERGEX suggests that the AEMC should clarify that the RIT-D:

1. requires the DNSP to identify the preferred option *at the time the RIT-D is undertaken*, and
2. does *not* require the DNSP to necessarily build the preferred option identified by RIT-D.

Provision should be made in the Rules to clearly address re-application of the RIT-D, because circumstances may change between RIT-D assessment and commencement of construction.

ENERGEX suggests that it is important for the AEMC to clarify this issue because re-application of the RIT-D assessment would inevitably result in:

- Significant planning delays, particularly as re-application is likely to result in further rounds of consultation. It is noted that the proposed RIT-D process would take considerably more time than the current Regulatory Test process;
- The risk that an option may not be implemented to meet the identified need in time;
- An incentive for the DNSP to incorporate a contingency provision into the RIT-D cost estimates, so that if actual costs change after the RIT-D is finalised, the change would hopefully be covered by the contingency provision;
- Increased compliance costs involved with undertaking additional assessments; and

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<sup>1</sup> The terms 'building', 'build' and 'construction' are used, but it is recognised that some non-network options may not involve construction.

- Potential for non-recovery of sunk costs, including procurement of materials required to build a preferred option, if that option is subject to change at a later date.

ENERGEX suggests that an appropriate clause that could be added to the Rules is as follows:

5.6.5CA(f)

*The Distribution Network Service Provider will not be required to undertake multiple RIT-D assessments in relation to the same network limitation.*

Transitioning Regulatory Test projects to the RIT-D

ENERGEX supports the position set out in the Energy Networks Association's supplementary submission. ENERGEX looks forward to progressing the development of the RIT-D with the AEMC and AER and considers that the establishment of an industry working group may be beneficial in this regard.

Should you have any enquiries please contact Louise Dwyer Group Manager Regulatory Affairs on (07) 3664 4047.

Yours sincerely



Kevin Kehl  
Executive General Manager - Strategy and Regulation