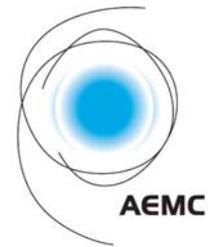


Review of National Framework for Electricity Distribution Network Planning and Expansion



Draft Report Public Form Agenda

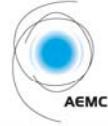
Wednesday, 5 August 2009

10:00 am – 12:20 pm (registration from 9:30 am)

Macedon Room South, Level 5

Hilton Melbourne International Airport Hotel

Time	Agenda item	Speaker
9:30 am – 10:00 am	<i>Registration</i>	
10:00 am – 10:15 am	Opening presentation	Steven Graham CEO, AEMC
10:15 am – 10:35 am	Annual planning and reporting draft recommendations	Anne Pearson Senior Director, AEMC
10:35 am - 10:50 am	Q&A on annual planning and reporting draft recommendations	All attendees
10:50 am – 11:10 am	<i>Morning Tea</i>	
11:10 am – 11:30 am	Regulatory Investment Test for Distribution and dispute resolution draft recommendations	Eamonn Corrigan Director, AEMC
11:30 am – 11:45 am	Q&A on the Regulatory Investment Test for Distribution and dispute resolution draft recommendations	All attendees
11:45 am – 11: 55 am	Joint planning draft recommendations	Anne Pearson Senior Director, AEMC
11:55 am – 12: 15 pm	General Q&A	All attendees
12:15 pm – 12:20 pm	Next steps for the Review	John Tamblyn Chairman, AEMC



Objectives and Context of the Review

Review of National Framework for Electricity Distribution Network Planning and Expansion

STEVEN GRAHAM
Chief Executive Officer, AEMC

MELBOURNE
5 AUGUST 2009

AEMC

INTRODUCTION

- Welcome
- Objectives for the Review
- Wider context for the Review
- AEMC's approach to the Review
- Structure for today's forum

OBJECTIVES OF THE REVIEW

- Current jurisdictional arrangements for electricity distribution network planning are to be transferred to the national framework
- MCE has asked the AEMC to review the current arrangements and propose recommendations for the national framework
- MCE has stated that under the national framework, DNSPs must:
 - undertake an annual planning process
 - produce and make publicly available an annual planning report with a 5 year horizon
 - undertake a case by case project assessment process when considering network expansions and augmentations
- The MCE also stated that national framework must include a dispute resolution process

OBJECTIVES OF THE REVIEW

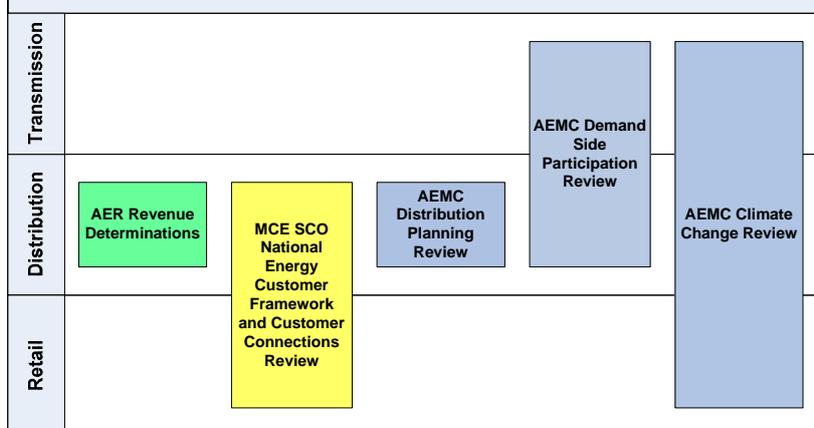
- MCE have specified that the national framework should achieve the following outcomes:
 - DNSPs have a clearly defined and efficient planning process
 - DNSPs develop the network efficiently and assess non-network alternatives in a neutral manner
 - Appropriate information transparency for network users, including connecting users, and non-network proponents
 - A level playing field for all regions in terms of investment attraction and promoting more efficient decisions
 - A reduced compliance burden for participants operating across multiple NEM regions

CONTEXT OF THE REVIEW

- National framework will form part of the broader regulatory regime which influences distribution planning and investment
- Other ongoing work which will impact distribution planning includes:
 - MCE-SCO review on customer connections and access arrangements
 - AEMC reviews on demand side participation and the impact of climate change policies
- Suggest there is merit for further reviews regarding:
 - Process for setting jurisdictional distribution reliability standards
 - Monitoring and reporting of reliability performance
 - Asset management practices

CONTEXT OF THE REVIEW

Ongoing work impacting distribution planning and investment

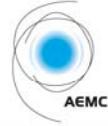


AEMC'S APPROACH TO THE REVIEW

- Extensive engagement with stakeholders through meetings and workshops
- A set of design principles were developed to assess options and develop recommendations
- Recommendations are also consistent with the National Electricity Objective
- Key considerations in developing recommendations:
 - Balance between regulatory costs on DNSPs and benefits to the market
 - Ensuring efficient network planning through project assessment process and identifying potential for non-network alternatives
 - Interaction between transmission and distribution network planning
 - Need for framework to reflect local conditions and the characteristics of distribution investments

STRUCTURE FOR PUBLIC FORUM

Time	Agenda item
10:15 am - 10:50am	Annual Planning and Reporting <ul style="list-style-type: none"> • Draft Recommendations • Q&A
10:50 am - 11:10 am	<i>Morning Tea</i>
11:10 am - 11:45 pm	RIT-D and Dispute Resolution <ul style="list-style-type: none"> • Draft Recommendations • Q&A
11:45 pm - 11:55 pm	Joint Planning <ul style="list-style-type: none"> • Draft Recommendations
11:55 pm - 12:15 pm	General Q&A
12:15 pm - 12:20 pm	Next Steps for the Review



Annual Planning Process & Reporting

Review of National Framework for Electricity Distribution Network Planning and Expansion

ANNE PEARSON
Senior Director, AEMC

MELBOURNE
5 August 2009

AEMC

OVERVIEW

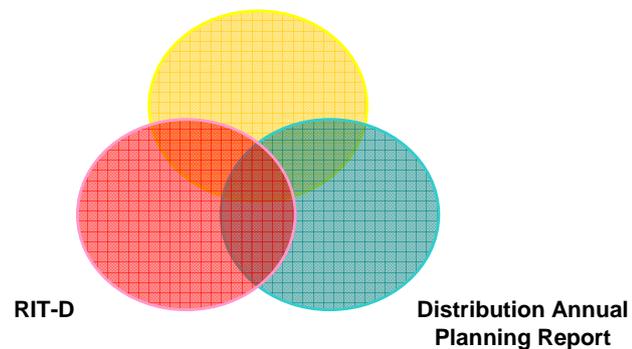
- Purpose of Annual Planning and Reporting
- Annual Planning Process
- Demand Side Engagement Strategy
- Distribution Annual Planning Report
- Distribution Annual Planning Report Content

ANNUAL PLANNING & REPORTING: Purpose

- Identifying issues
- Efficient network development
- Provide certainty
- Engagement of non-network proponents

ANNUAL PLANNING & REPORTING: Purpose

Demand Side Engagement Strategy





Annual Planning Process

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ANNUAL PLANNING PROCESS: Recommendations

Draft Recommendation: Each DNSP would carry out an annual planning process covering a minimum forward planning period of five years. The planning process would apply to all distribution network assets and activities undertaken that would be expected to have a material impact on the distribution network.

- Minimum forward planning period of five years
- Would apply to all distribution network assets and activities undertaken that would have a material impact on the network
- Forecasts of maximum demand
- System limitations and potential solutions

ANNUAL PLANNING PROCESS: Reasoning

Reasoning for Draft Recommendation

- Planning to be carried out over a reasonable period
- Planning process undertaken to be comprehensive to ensure efficient planning decisions
- The national framework should encompass augmentations and replacements, and direct control and negotiated services
- Minimum requirements; providing flexibility to recognise the differences in planning methodologies adopted by DNSPs by providing flexibility

DEMAND SIDE ENAGEMENT STRATEGY: Recommendations

Draft Recommendation: Each DNSP would be required to use reasonable endeavours to engage with non-network proponents and consider non-network alternatives. Each DNSP would be required to establish and implement a Demand Side Engagement Strategy.

- The Demand Side Engagement Strategy encompasses three components that each DNSP would establish:
 - i. Demand Side Engagement Facilitation Document
 - ii. Public database of proposals/case studies
 - iii. Register of interested parties

DEMAND SIDE ENGAGEMENT STRATEGY: Reasoning

Reasoning for Draft Recommendation

- National framework to promote efficient investment in distribution networks. DNSPs to consider all feasible options for network development
- Importance of the proactive engagement of DNSPs and non-network proponents in developing solutions
- Industry best practice and provides transparency and clarity around the processes adopted by DNSPs
- Opportunities for positive engagement and interaction between DNSPs and non-network proponents
- Flexibility by allowing DNSPs to develop bespoke processes

Reporting Requirements – Distribution Annual Planning Report



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DISTRIBUTION ANNUAL PLANNING REPORT: Recommendations

Draft Recommendation: Each DNSP would be required to publish a Distribution Annual Planning Report by 31 December, which must be certified by the Chief Executive Officer and a Director or Company Secretary, and conduct a public forum.

- Publish the Distribution Annual Planning Report (DAPR) by 31 December for the forward planning period starting 1 January the following year
- The DAPR must be certified by the CEO and a Director or Company Secretary
- Public forum within two months of publishing their DAPR

DISTRIBUTION ANNUAL PLANNING REPORT: Reasoning

Reasoning for Draft Recommendation

- Consideration to time required for the DNSPs to prepare forecast information
- Provides for TNSPs' planning outcomes to be taken into account in the DAPR
- Certification that the reports meet the necessary regulatory requirements and accurately represent the policies of the DNSPs
- Transparency and accessibility of the information contained in the DAPR
- Provide opportunities for DNSPs to interact directly with stakeholders
- **Comments are sought on the publication date**

DISTRIBUTION ANNUAL PLANNING REPORT CONTENT: Recommendations

Draft Recommendation: The scope of the DAPR would relate to the power system and direct control services.

Draft Recommendation: The DAPR would include forecasting information. This would include capacity and load forecasts at a system, sub transmission, zone substation level, and the identification of any overloaded primary distribution feeders.

- Scope of the DAPR would include system limitations and investments that:
 - are for services that would be provided as direct control services;
 - relate to the power system; and
 - are zone substations, sub-transmission lines or, on an exception basis, primary distribution feeders
- Forecasting information including capacity and load forecasts for the asset classes defined and at the system level

DISTRIBUTION ANNUAL PLANNING REPORT CONTENT: Recommendations

Draft Recommendation: The DAPR must inform on system limitations, which should relate to any requirement for distribution investments.

Draft Recommendation: Information would be reported on system limitations including the location and timing, analysis of potential load transfer capability, impact on the transmission connection points, and potential solutions that may address each limitation. An explanation of the DNSP's planning methodology would also be required

- System limitations for zone substations and sub-transmission lines would be any situation where there is a limitation on the network caused by a specified list of factors
- Provide details on the system limitation
- Summary explanation of the planning methodologies adopted including any assumptions applied

DISTRIBUTION ANNUAL PLANNING REPORT CONTENT: Recommendations

Draft Recommendation: Information would be reported on investments that have been assessed under the RIT-D (or will be assessed) and projects with a capital cost of \$2 million or greater that were urgent and unforeseen investments or refurbishments or replacement projects.

Draft Recommendation: Other reporting would be required on: a description of the network, outcomes of the joint planning undertaken with TNSPs and other DNSPs performance standards and compliance against those standards, and a summary of the DNSP's asset management methodology.

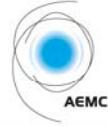
DISTRIBUTION ANNUAL PLANNING REPORT CONTENT: Reasoning

Reasoning for Draft Recommendation

- Reporting needs to achieve an appropriate balance between the regulatory requirements and benefits to the broader market
- Sufficient information for non-network proponents
- Reporting to take into account the number of potential projects and to identify projects that would be of interest
- Forecast data increases transparency. Also useful to regulators such as the AER

DISTRIBUTION ANNUAL PLANNING REPORT CONTENT: Reasoning

- Providing a summary of the investments in an easily accessible format
- Replacement projects should be included in the reporting (where the project is \$2 million or greater)
- Context for the information on forecasts and system limitations
- Reporting limited to the power system, however, capturing information to reflect the increasing importance of real time metering needs to be further considered
- **Comments are sought on how significant investments in smart metering should be captured**



RIT-D and Dispute Resolution

Review of National Framework for Electricity Distribution Network Planning and Expansion

EAMONN CORRIGAN
Director, AEMC

MELBOURNE
5 AUGUST 2009

AEMC

OVERVIEW

- Purpose of the Regulatory Investment Test for Distribution (RIT-D)
- Key Design Considerations
- Summary of RIT-D Recommendations
- Examples of RIT-D Application
- Dispute Resolution Process: Purpose and recommendations



Regulatory Investment Test for Distribution (RIT-D)

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RIT-D: Purpose

- MCE requested that the national framework include an economic case by case project assessment process where appropriately triggered
- The objective of the RIT-D is to provide a mechanism for DNSPs to assess and publicly consult on investment options to meet an identified need to determine the most economic option
- The RIT-D would lead to:
 - increased efficiency in the development of distribution networks and improved supply reliability, as investment options are selected from a NEM wide perspective
 - provision of formal opportunities for non-network proponents to raise alternative options, which will prevent inefficient investments and ensure investments are technology neutral
 - Improved transparency regarding DNSPs' decision making, which will assist the AER's assessment of DNSPs' regulatory proposals

RIT-D: Design Considerations

- Trade off between costs (including time) and benefits
- High volume of (smaller scale) projects
- Nature of distribution projects varies significantly
- Request for proposals can “occur too late in the process” or “not provide sufficient information to respond”
- Cost thresholds can be too simplistic and don’t relate to the potential for non-network alternatives
- Balance between the Annual Planning Report/ Demand Side Engagement Strategy/ RIT-D consultation documents
- Balance between role of dispute resolution and discretion given to DNSPs

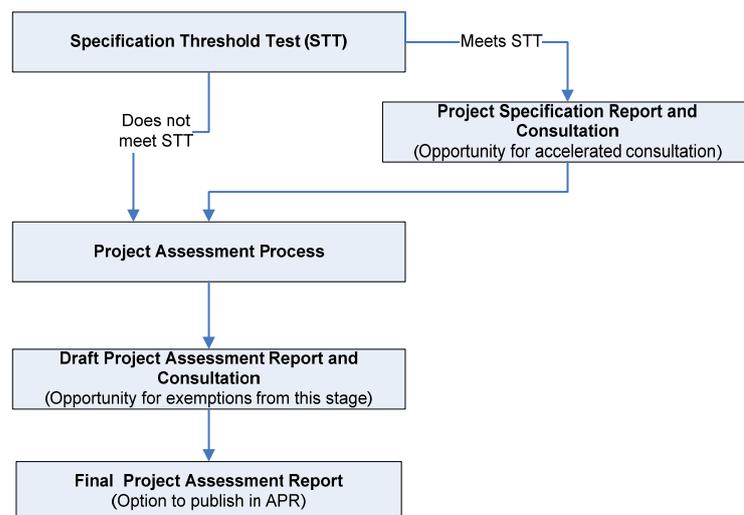
RIT-D: Design Overview

- Purpose of the RIT-D is to identify the preferred option for network investment which maximises the present value of net economic benefits
- The preferred option may have a negative net present value if it is required to meet deterministic reliability standards
- The RIT-D would be undertaken when a distribution system limitation exists and the most expensive investment option which is technically and economically feasible costs \$2m or more
- Classes of projects are exempt from the RIT-D (e.g., customer connections, urgent and unforeseen)
- Replacement projects also exempt
- **Option for consultation - Exclusion of primary distribution feeders**

RIT-D: Design Overview

- The RIT-D has the following stages:
 - An initial screening test, the Specification Threshold Test, which determines whether additional consultation and reporting is required before project assessment
 - A project specification stage, where DNSPs would be required to request alternative proposals to meet the identified need
 - The project assessment stage, where DNSPs would consider the applicable market benefits and costs of each credible option to determine the preferred option

RIT-D: Process Diagram



RIT-D STT: Recommendations

Draft Recommendations

- Under the STT, DNSPs would assess:
 - Material potential for the use of non-network options to defer or remove the need for investment
 - Material potential for the identified need to adversely impact on end users quality of service
- For investments which don't meet the STT:
 - DNSPs would publish their assessment
 - DNSPs would not be subject to additional reporting and consultation in the project specification stage
 - Investments which are below \$10m would also not be subject to the draft project assessment stage.

RIT-D STT: Reasoning

Reasoning for draft recommendations

- Objective of the STT is to tailor the consultation and reporting requirements of the RIT-D to each identified need, to ensure requirements are fit for purpose and proportionate
- STT would work in conjunction with RIT-D scope and cost threshold to determine appropriate process for each investment
- The STT would ensure that investments with non-network potential or which have a potential to adversely affect end users' quality of service will be subject to consultation and reporting
- **Comments are sought on the practical application of the STT and whether the STT provides the appropriate degree of discretion to DNSPs**

RIT-D PROJECT SPECIFICATION: Recommendation

Draft Recommendations

- Only investments which meet the STT will be subject to project specification consultation stage
- Key information will be contained in Project specification report
- DNSPs would consult on project specification reports for a minimum of 6 months. Consultation may be reduced to 1 month if the DNSP has:
 - Constructively engaged with non-network proponents through its Demand Side Engagement Strategy prior to the STT; and
 - Sought to identify scope for, and develop, alternative non-network options either internally or via consultation.

RIT-D PROJECT SPECIFICATION: Reasoning

Reasoning for draft recommendations

- This stage:
 - provides a formal opportunity for non-network proponents to put forward alternative proposals. This will ensure the most efficient option is identified and adopted and promotes a technology neutral approach
 - allows end users whose quality may be affected to comment on proposed investments and provides transparency to DNSPs' decision making
- Opportunity for accelerated consultation:
 - encourages ongoing engagement between DNSPs and non-network proponents
 - promotes consideration of non-network options on a day to day basis by DNSPs
 - works with APRs and Demand Side Engagement Strategy
- **Stakeholder comments sought on whether increased prescription is required in the Rules regarding the requirements for accelerated consultation**

RIT-D PROJECT ASSESSMENT: Recommendations

Draft Recommendations

- A single project assessment process that applies to all investments
- DNSPs required to consider all applicable market benefits and costs outlined in the Rules against each credible option
- DNSPs required to quantify all applicable costs, but would have discretion to quantify applicable market benefits if they are likely to be material or may alter the preferred solution
- DNSPs able to consider any other market benefits and costs which are considered relevant
- DNSPs would outline their assessment in draft and final project assessment reports
- Possible exemptions from draft report stage and final reports may be included in APRs if the preferred option is \leq \$20m

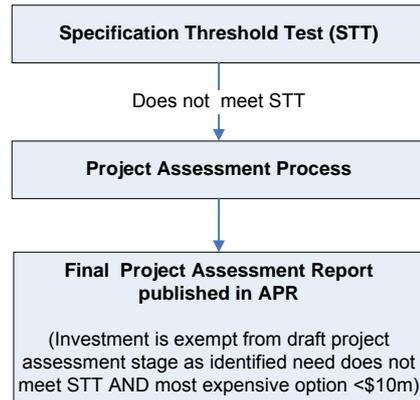
RIT-D PROJECT ASSESSMENT: Reasoning

Reasoning for draft recommendations

- Where DNSPs do not quantify market benefits, assessment effectively becomes a “least cost” test, similar to reliability limb of current Regulatory Test. Preferred solution would minimise net economic costs
- Option to quantify market benefits reflects characteristics of distribution investments- limited market benefits, with limited value. This ensures assessment process is proportionate and fit for purpose
- Improves on current arrangements where consideration of market benefits is not permitted
- Discretion provided to DNSPs is balanced by potential for disputes and public consultation and reporting requirements

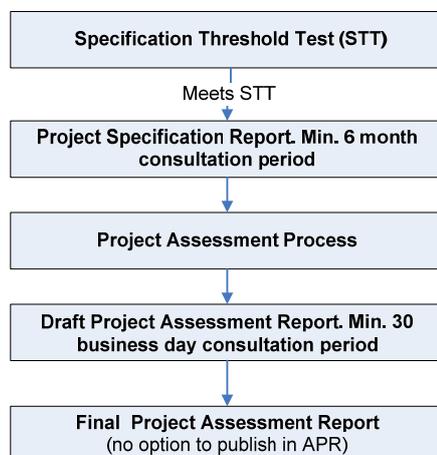
RIT-D APPLICATION: Example 1

Example 1: Proposed investment has no non-network potential or impact on end users' quality of service and the most expensive feasible option equals \$5m.



RIT-D APPLICATION: Example 2

Example 2: Proposed investment has non-network potential and the preferred option equals \$30m. DNSP has not undertaken prior non-network consultation.



RIT-D: Implementation

- Rules set out principles
- As today, AER will be required to publish the RIT-D in accordance with the Rules
- AER also required to publish supporting guidelines
- If there is significant overlap with the RIT-T, might be sensible for AER to publish one set of documents
- 12 month transition period from commencement of the Rule before RIT-D applies

Dispute Resolution



AEMC

DISPUTE RESOLUTION: Recommendations

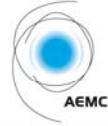
Draft Recommendations

- The process would apply to all investments subject to the RIT-D (DAPRs not subject to dispute)
- Process would assess DNSP's application of the RIT-D against the Rules requirements
- All stages and decisions made by DNSPs would be subject to dispute
- The deadline for raising a dispute with the AER would be 30 business days after the publication of the final project assessment report
- AER would have power to reject invalid/misconceived disputes immediately
- AER to assess and make determinations on disputes within 40-60 days, depending on the complexity of the dispute
- AER may direct a DNSP to amend its final project assessment report and would specify the timeframe for this to occur

DISPUTE RESOLUTION: Reasoning

Reasoning for draft recommendations

- Process has been based on process developed for RIT-T, ensures consistency with transmission arrangements
- Process applies to all investments subject to the RIT-D to balance the discretion provided to DNSPs during the RIT-D process. Also ensures DNSPs apply the RIT-D consistently across all investments
- Process has defined timeframes, this provides DNSPs with certainty and ensures it does not unduly delay investments



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Joint Planning Process

Review of National Framework for Electricity Distribution Network Planning and Expansion

ANNE PEARSON
Senior Director, AEMC

MELBOURNE
5 August 2009

JOINT PLANNING PROCESS: Recommendations

Draft Recommendation: DNSPs and TNSPs that operate in the same jurisdiction would be required to meet on a regular basis and undertake joint planning where there are issues affecting both networks.

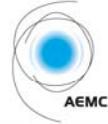
Draft Recommendation: The Regulatory Investment Test for Transmission (RIT-T) would apply to investments identified through the joint planning process.

- TNSPs and DNSPs would be required to use best endeavours to work together to achieve efficient planning outcomes and investments
- Identify any system limitations that would affect both the transmission and distribution networks or would require action by both the TNSP and the DNSP
- Parties would jointly determine plans and carry out the RIT-T

JOINT PLANNING PROCESS: Reasoning

Reasoning for Draft Recommendation

- Recognises the current provisions for joint planning appear to be working effectively
- Parties should meet regularly to work towards identifying the most economic solution
- One regulatory investment test would ensure the optimal overall solution be identified
- RIT-T requires that a broader range of market benefits must be considered.
- Should no market benefits apply, the RIT-T would allow a least-cost assessment to be carried out



Next Steps for the Review

Review of National Framework for Electricity Distribution Network Planning and Expansion

JOHN TAMBLYN
Chairman, AEMC

MELBOURNE
5 AUGUST 2009

AEMC

NEXT STEPS FOR THE REVIEW

- Submissions close on the Draft Report on **Thursday, 13 August 2009**
- Final Report to be published and submitted to MCE by 30 September 2009
- Final Report shall include draft Rules
- MCE will consider the Commission's recommendations and determine the appropriate design for the national framework

