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17 April 2009

Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH, NSW 1235

Dear Sir / Madam

Review of National Framework for Electricity Distribution Network Planning and Expansion Scoping Paper

Country Energy appreciates the opportunity to provide input into the development of a national framework for electricity distribution network planning and expansion.

Attached to this covering letter is Country Energy's submission detailing our suggestions on the development of the framework.

Country Energy would be pleased to discuss this matter further. Should you require further information or clarification please feel free to contact Jason Cooke on 02 6338 3685.

Yours sincerely



Natalie Lindsay
General Manager Regulatory Affairs and Revenue Systems

Att. 1.

Review of National Framework for Electricity Distribution Network Planning and Expansion

17 April 2009

General Overview

Country Energy appreciates the opportunity to provide input to the AEMC (the Commission) for the development of a national framework for electricity network planning and expansion.

Country Energy currently prepares and publishes the Electricity System Development Review (ESDR) annually under the NSW DM Code of Practice. Market participants use this report for load trending data and identification of constraints on the subtransmission network. The ESDR contains a sufficient level of information to assist market participants in their endeavours, providing a broad view of the network.

An important aspect of the current process is that Country Energy works with proponents to allow more in-depth planning studies to be carried out. This is particularly important given that a considerable portion of Country Energy's network augmentation is directly driven by individual customer requirements over geographically sparse areas fed in the main by radial networks.

It is important that the framework developed identifies the market participants that will be accessing the Annual Planning Report (APR) and ensures the information is relevant for their needs. The framework will need to take into consideration information that is already available through other regulatory reporting processes to ensure any regulatory burden is minimised as much as possible.

Country Energy envisages the APR would include information at zone substation or subtransmission system level only. Country Energy is concerned that providing detailed market information beyond this, at distribution level, does not provide any value for the additional burden and complexity it adds to the reporting process. As such, Country Energy considers the APR should be limited to;

- providing the general network description/statistics/coverage,
- historical and forecast loads,
- identification of the load at which constraints occur, and
- timing of the constraints.

The objective of the regulatory framework is to provide transparency of decisions and to ensure efficient investment. Country Energy believes this can be achieved by adopting a more encompassing and flexible approach, rather than a prescribed obligation to undertake an RFP process. Non-network solutions need to be considered holistically to ensure optimum benefits are achieved. It is essential that the distributor works with proponents to provide more detailed network data and ensure that non-network solutions provide benefits to customers.

In assessing the alternatives, Country Energy favours a least cost option test which allows for differences in jurisdictional planning and reliability requirements.

Submission Responses

The following responses use the question numbers from the AEMC Scoping and Issues Paper, Review of National Framework for Electricity Distribution Network Planning and Expansion issued on 12 March 2009.

The Commission is seeking stakeholder views on:

- 1. The proposed scope for the Review;**
- 2. Its proposed approach and assessment criteria for the Review; and**
- 3. The interaction between transmission and distribution network planning.**

1.

Country Energy considers that the exclusions listed in the scoping paper are reasonable.

Country Energy supports the development of a national framework for electricity network planning and expansion aligned with the National Electricity Objective (NEO) in the National Electricity Law (NEL).

2.

Country Energy accepts the proposed decision making criteria identified by the Commission as a reasonable guide for the development direction of the framework.

In particular, we support developing a national framework that considers the variations in existing jurisdictions and minimises the regulatory compliance burden and mandatory standards for all market participants. In developing this framework it is important that an appropriate balance between the regulatory burden on DNSP's and the benefits to the broader market remains a guiding principle.

3.

Country Energy believes that there are two main areas of consideration regarding the interaction between transmission and distribution network planning. These areas are for constraints and project options at the interface between respective transmission and distribution networks, and for project options of similar nature.

Where constraints may be addressed by either a distribution or transmission option it is necessary to have similar reporting and assessment processes to assist the selection of the most cost effective outcome.

It should also be understood that distribution networks comprise a broad spectrum of assets which range from low voltage service connections, through medium voltage urban and rural mains to subtransmission assets up to 132kV. Subtransmission network constraints and investment project options have similar characteristics to those in transmission networks and should be treated similarly.

Annual Planning Requirements

3.4 Issues for comment

In this Scoping and Issues Paper, the commission is seeking stakeholder comment on the following aspects of the planning report requirements;

- **Which network assets and activities should be included in the planning requirements for the national framework?**
- **What should be the type and level of detail of information to be provided in the planning report?**
- **How should the planning and reporting process be implemented?**

Country Energy considers it is undesirable to treat investment projects differently between transmission and distribution where the augmentation parameters are generally similar in scope, size, costs and benefits. The thresholds should remain consistent and apply the same consultation and reporting processes for the solution to a constraint, regardless of whether the solution is distribution or transmission.

Given the need for consideration of non-network alternatives it is also appropriate that codified planning requirements consider growth related augmentations only.

Further detail regarding Country Energy's various project types and sizes is provided in response to question 7.

The Commission is seeking comments on the scope of the planning and reporting process. In particular:

4. In addition to emerging constraints, what other types of potential problems of the distribution network should be included in annual planning reports?

5. How could the interaction between transmission and distribution planning be reflected in the annual planning and reporting process?

6. Should the annual planning report include reporting on work carried out by DNSPs including reporting of actual network performance information and historical data?

4.

At this early stage, it is difficult to fully consider the inclusions and exclusions of the APR and the annual planning process until the Commission has determined the scope and objectives of the APR.

Whilst full consideration cannot be given without knowing the APR objectives, Country Energy envisages the APR should be limited to emerging constraints and the detail required to identify non-network alternatives for growth related projects only. Projects should be limited to those that occur on the subtransmission network and have sufficient lead times and project duration for it to be reasonable to include in the APR.

Country Energy will provide further input into the APR as the framework development progresses, and more detail regarding the APR target audience and objectives are known.

5.

The same approach should be reflected in the annual planning and reporting process for transmission and distribution planning.

The APR should apply the same thresholds for distribution as for transmission, and include all network options, including transmission, distribution and non-network options to ensure an equitable comparison of solutions for the same network constraint.

6.

Country Energy believes the inclusion of actual network performance and historical data would create unnecessary duplication of current reporting obligations and result in significant additional costs and compliance burdens on DNSPs. Historical data and performance information is already publicly available through the annual regulatory reporting requirements.

In addition the intent of the APR is to ensure effective future network development. Therefore, it should include information relevant to identifying significant current and future network constraints, potential non-network opportunities and preferred network planning augmentation projects to assist the assessment of the best overall options. The inclusion of historical data does not enhance the ability of the APR to deliver these outcomes.

The Commission is seeking comments on the appropriate content of the annual planning report, and especially on:

7. What factors need to be considered to ensure the level of detail of the information provided is useful and appropriate to stakeholders?

8. For the areas that are to be reported on, what specific factors should be considered? For example for emerging constraints, how should emerging constraints be classified and how could they be consistently set out?

9. Should a distinction be made between general information that is publicly available and more detailed information for embedded generators and demand side response proponents?

7.

Country Energy's distribution projects can be categorised as;

- Category 1.** Projects addressing zone substation or subtransmission system capacity issues,
- Category 2.** Projects addressing capacity issues in the distribution system, and
- Category 3.** Projects addressing distribution substation capacity.

Country Energy believes the level of detail to be provided in the APR should be limited to Category 1 projects.

Projects in categories 2 and 3 are generally driven by individual customer requirements and have relatively short time frames. Projects tend to be localised to a small area and are generally lower cost. They represent thousands of small augmentations each year and the detail included in individual planning reports for these distribution projects can cover many pages per distribution point, making it prohibitive to include this level of detail into an APR.

Country Energy believes it would be unrealistic for an APR to cover distribution projects and it should be limited to zone substation and subtransmission system planning. We envisage the APR would include the following information for category 1 projects:

- general network description/statistics/coverage,
- historical and forecast loads,
- identification of the load at which the constraint occurs, and
- timing of the constraint.

It is envisaged that given the limited audience for much of the information required for network planning, the distributors would be able to provide additional detail specific to particular network constraints on an individual basis in response to a direct approach to the distributor by market participants, or vice versa.

8.

Country Energy is still assessing the factors to be considered with full requirements dependent on the scope and objectives of the APR that are yet to be determined by the Commission.

Country Energy will provide further input as the framework development progresses and more detail regarding the APR target audience and objectives are known.

9.

Country Energy believes there should be a distinction between general information that is publicly available within an APR, and more detailed information to be provided to embedded generation and demand side response proponents. The APR is a high level document and as such, more detailed information should be provided upon an approach by proponents.

Information for embedded generation and demand side response is heavily targeted to a single particular network constraint that it is only relevant to a few interested proponents. There is no value in publishing additional detail separately, unless a direct approach has been made by proponents to distributors on an individual basis.

The Commission is seeking comments on the implementation of the planning and reporting process. In particular:

10. Would the Australian Energy Market Operator's (AEMO's) website be the appropriate central location for the planning reports to be stored and published?

11. What would be the appropriate timeframe for the publication of the DNSP annual planning report (noting the relationship between the timeframe for the publication of the TNSP annual planning report and the DNSP/TNSP joint planning requirements)?

10.

Country Energy considers a central location for the publication of planning reports would be acceptable. Alternatively, storage of planning reports on each distributor's website with a link from a central location, such as AEMO's website, may be more efficient and would align with the current process for transmission.

11.

Country Energy considers it appropriate to bring the timing for publication of distribution APRs to be due on the 30 June each year in line with the transmission APR publication date.

Project Assessment and Consultation Process

4.3 Issues for comment

In this Scoping and Issues Paper, the commission is seeking comments on the following elements to the project assessment framework;

- **What should be the scope of projects subject to the RIT-D process?**
- **What are the requirements for identifying and consulting upon the range of options?**
- **What costs and benefits should be recognised and quantified in the assessment?**
- **What should be the decision-making criteria used to determine which option passes the test?**

The Commission is seeking comments on the design of the project assessment process. In particular:

12. What types of investments should be subject to the project assessment process?

13. What are the appropriate thresholds to trigger the project assessment process?

14. Should the thresholds be indexed in accordance with the CPI or subject to a periodic review?

4.3 and 12

Country Energy believes the RIT-D should be limited to a least-cost assessment which is capable of accommodating different jurisdictional approaches to planning and reliability. It is important that the RIT-D provides a basis for allowing deterministic and probabilistic planning approaches.

13.

It is reasonable to expect the approach and thresholds between transmission and distribution are consistent where distribution assets have the same characteristics as transmission. For large distribution / subtransmission projects this is generally the case.

Consideration needs to be given to situations where augmentation also addresses reliability compliance conditions or other market benefits.

14.

Thresholds should be both indexed and subject to periodic review every 3 years in the same way this applies to transmission.

The Commission is seeking stakeholder comments on the RFP process. In particular:

15. What factors should be considered in a RFP process and how should this be specified in the Rules compared to AER guidelines? Including:

- what defines a credible option?
- what information is needed to enable market participants to raise alternatives?
- how long should the consultation take place?
- should an RFP process include elements to deal with the potential issue of DNSPs seeking assurance from non-network proponents for the performance of a non-network option?

Country Energy is concerned that the Commission may be limiting the range of options available for pursuing non-network solutions by mandating a formal RFP process to investigate these.

The objective of the regulatory framework is to provide transparency of decisions and to ensure efficient investment. Distributors are encouraged to ensure efficient investment is undertaken through the NEL through the regulatory framework. Country Energy believes adopting a more encompassing and flexible approach, rather than a prescribed obligation to undertake the RFP process, along with current regulatory incentives are sufficient to support this objective.

Non-network or alternative solutions need to be considered holistically to ensure optimum benefits are achieved. Country Energy favours a process that provides a framework that encourages DNSP's to work with proponents to develop options that deliver the greatest benefits to customers at the least cost.

It is also important to note that a considerable portion of Country Energy's network augmentation is directly driven by individual customer requirements over geographically sparse areas fed in the main by radial networks. This combination of conditions can limit the non-network alternatives available, and requires a high level of flexibility and innovation to ensure targeted non-network solutions can be identified and encouraged. Ensuring the investigation process does not mandate any one form of investigation would allow distributors the flexibility to more effectively select the most appropriate research tools for each given situation.

The Commission is seeking stakeholder comments on the application of the project assessment process. In particular:

16. What is the appropriate list of costs and benefits associated with distribution projects, and should that list be mandated in the NER?

17. How should the range of benefits to be quantified under the project assessment process be determined?

18. How can the project assessment process ensure that environmental benefits are appropriately treated and quantified?

16 and 17.

Country Energy believes that mandating a list of costs and benefits that can be associated with projects is not appropriate for inclusion in the NER. These costs and benefits vary considerably from project to project. To ensure efficient and prudent assessment, costs and benefits should be determined during the assessment process for each project.

18.

Environmental benefits can be very subjective, complex and often unquantifiable in nature. Although consideration of environmental benefits is important it should be noted that it is not the distributor's role to set environmental policy.

Country Energy believes environmental benefits should be considered when and as mandated by legislation.

The Commission is seeking stakeholder comments on the application of the project assessment process. In particular:

19. How should a net benefit test be designed for distribution investment assessments? What are appropriate circumstances where a least cost assessment should be applied, and if so, should the two limbs of the regulatory test be maintained?

20. Is there a need for a more specific decision making criterion compared to the existing regulatory test?

19

As identified previously in response to question 12, Country Energy believes the RIT-D should be limited to a least-cost assessment which also is capable of accommodating different jurisdictional approaches. It is important that the RIT-D provides a basis for allowing deterministic and probabilistic planning approaches.

20:

Country Energy believes there is substantial added complexity and risk involved in adding specific decision making criterion to the existing RIT-D in an attempt to quantify market benefits that may not ultimately materialise. Country Energy supports limiting the RIT-D to the mandated thresholds and only including criterion that assesses project benefits required by legislation.

Dispute Resolution Process

5.4 Issues for comment

In this Scoping and Issues Paper, the commission is seeking stakeholder feedback on the following aspects of the proposed dispute resolution process;

- What should be the scope of issues subject to dispute resolution?
- How should the dispute resolution process operate?
- What should be the outcome of the process?

The Commission is seeking stakeholder comment on the appropriate scope of the dispute resolution process. In particular:

21. Should the dispute resolution process only apply to project assessments undertaken by DNSPs under the regulatory test or should the dispute resolution process also apply to matters arising from DNSPs' annual planning processes?

22. What is the appropriate scale of distribution projects that should be subject to the dispute resolution process? Should the threshold for the dispute resolution process be aligned with the threshold for the project assessment process?

The Commission is seeking stakeholder comment on how the dispute resolution process should operate. In particular:

23. Who should be able to initiate the dispute resolution process?

24. What process should be followed to resolve disputes and what should be the timing for this process? Should parties be required to undertake a formal mediation process before the dispute is referred for a binding determination? What aspects of the proposed process for transmission should apply to distribution?

25. Who should make binding determinations to resolve disputes? Is the AER the most appropriate body? If a mediation process is used, who should be the mediator for disputes?

26. Should the appointed arbiter have the ability to reject disputes immediately if the grounds for the dispute are invalid, misconceived or lacking in substance?

27. Should the dispute resolution process be restricted to reviewing the DNSP's compliance with the NER and requiring the DNSP to amend its analysis in its project assessments or annual planning report if it is found that it has not fully complied (i.e. compliance review)? Or, should the dispute resolution process provide for a review of the outcomes of the DNSP's project assessments or annual planning report and if it is found that the DNSP has not reached the best outcomes, direct the DNSP to implement the most suitable outcomes (i.e. merits review)?

5.4 and 21 to 27.

The distributors have effectively worked within the current dispute resolution processes for an extended period of time. These processes provide a sound resolution mechanism and Country Energy would support the continuation of the existing dispute resolution process. The scope should be limited to the process allowed for under the Rules.

Country Energy believes compliance would be simplified by aligning the dispute resolution process for distribution to the dispute resolution process that has already been established for the transmission regulatory investment test.

The dispute resolution process should not apply to the annual planning processes given it is intended purely for information purposes for identifying future probable constraints and augmentation options which are subject to change as conditions change.

The Commission is seeking stakeholder comment on:

28. The appropriate balance of specification in the national framework between the Rules and supporting guidelines.

29. Should “urgent” investments be exempt from aspects of the national framework? If so, how should “urgent” be defined?

30. What consequential amendments should be made to other arrangements to reflect the implementation of the national framework?

28.

Country Energy agrees that to promote certainty and stability in the market it is important that the NER should address matters that have an industry wide application. The NER should be of a principle and outcome nature and it should then be up to the distributors to demonstrate compliance with these principles. Rather than mandating the standard format and the required contents in prescriptive guidelines it would be desirable that only those issues that are seen as essential should be mandated in the NER along with the general required outcomes.

29.

Country Energy conducts projects that require very short deadlines. Investment projects can range from subtransmission to distribution with each having a significant difference in project timing, value and urgency. Country Energy is considering an appropriate method to define “urgent” investments and will provide further input as the framework development progresses.

30.

It is likely that the introduction of a national framework for electricity network planning and expansion will impact on existing national and jurisdictional frameworks and it will be necessary as part of this framework to recommend amendments as required.