

17 April 2009

Australian Energy Market Commission
PO Box A2449
Sydney South
NSW 1235

Via email: submissions@aemc.gov.au

Dear Sir,

EPR0015 – Submission on the Scoping and Issues Paper, Review of National Framework for Electricity Distribution Network Planning and Expansion

Energy Response provides demand side response services to electricity supply companies in Australia and New Zealand. Our submission is made with the view of improving and encouraging the implementation of demand side initiatives by the distribution network service providers in the National Electricity Market.

Our comments are as follows:

0. General perspective

The consideration of non-network solutions should be treated by DNSPs as an integrated part of their planning process, rather than as an extra-cost, non-core activity carried out to appease regulators.

This requires changes not only to the processes within DNSPs, but also to their culture. Such changes cannot be forced upon DNSPs, but they must be encouraged.

Hence the analysis, reporting and consultation requirements which are under discussion should not be seen as an additional burden on DNSPs, but simply as a clarification of what should already be part of their usual business processes.

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

From our perspective, the purpose of the planning reports is to reduce the information asymmetry between a DNSP and proponents of non-network solutions. As such, the

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planning report should disclose as much as possible about the problems the DNSP expects to have to address in the next 3-5 years, in a structured, standardised manner.

There are no competitive issues here – the DNSP is a regulated monopoly. Hence it should be able to disclose a great deal of information.

As well as emerging constraints, the planning reports should also include problems which will limit the network's extensibility. For example, if fault levels in parts of the network are close to the maximum allowed level, this will prevent distributed generators from being connected.

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

Yes.

In particular, it should follow up on the constraints and other problems raised in previous planning reports, showing what actions have been taken, and how reality compares to the previous predictions.

Since planning decisions are made on the basis of forecasts and assumptions about load growth, load profiles, reliability, project cost, and implementation timeframes, there must be some discipline to encourage accurate forecasting – otherwise incorrect decisions will be made. A requirement to publish the forecasting errors is one way to encourage the development of a feedback loop.

The report should also highlight any problems which have arisen which were not anticipated in earlier planning reports, and any constraints or other problems which have arisen but not been addressed, e.g. due to project delays.

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?

As a practicing demand side response proponent, we find the existing planning reports to be of little practical use. We support the inclusion and separation of detailed information which would be relevant to providers of non-network solutions. Specifically, information is required on:

- Geographical location such as maps, towns and postcodes. Current reports primarily provide details on the electrical assets only.
- Season, time and durations of support needed
- Trigger conditions, i.e. under what conditions is the support required
- Value placed on non-network solutions, and the method for determining this value. Our experience has been that different DNSPs place significantly different economic value to non-network solutions for very similar capital works. It is essential that standards are developed to value non-network solutions to discourage bias.

We note that the AEMC have proposed such additional reporting for the TNSPs.

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

We support a central web facility to access the planning reports. It is important that such a facility makes available all reports (current and past), and that it has a comprehensive search facility.

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

Performing a project assessment – whether a cost benefit assessment or a full RFP – should not be an onerous or costly task – if it is, the DNSP is doing it wrong. Hence we would advocate including all projects apart from routine maintenance and like-for-like replacement..

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

Some relatively small projects are particularly suited for non-network solutions. For example, some distribution augmentations in rural areas, where peak growth rates may be relatively low, can be deferred by many years through the use of DSR or embedded generation. Hence it is important to keep the thresholds low.

Rather than having a high threshold to limit the work involved, the processes should be simplified. In particular, at the moment it often seems that DNSPs are reinventing the wheel with each public consultation or RFP. A standard model for cost benefit analysis could help considerably here.

The \$500,000 threshold recommended by NERA/ACG for a cost benefit assessment seems sensible.

For public consultation and RFPs, we would advocate a threshold of \$1 million.

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?

We have found that a significant number of projects are already late – i.e. the constraint is already in place, but the network augmentation is far in the future. Clearly, non-network solutions which partially satisfy the requirements should still be considered credible options.

Currently, many NSPs (both TNSPs and DNSPs) demand that the need be completely satisfied before embarking on a non-network project, even though the alternative is not to have any solution in place – neither network nor non-network.

Since many NSPs have successfully opted to do nothing while waiting for the network augmentation to be completed, one must question the credibility of the requirements as originally defined.

– how long should the consultation take place?

Currently, the NSPs release RFPs, or consultations on non-network options after a network solution has been fully developed. This generally leaves very little time to respond to, and develop any alternative solutions, as the project schedule is now driven by the build imperatives.

Our preference would be for the NSPs to develop both the network and non-network solutions in parallel so that a true comparison of the different methods for tackling the underlying problem can be performed in a timely manner.

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

We believe that a wide range of costs and benefits should be considered, to make the cost benefit assessment as holistic as possible.

We will not attempt to provide a complete list, but we believe that the following should be included as benefits:

- Improved reliability, above the mandated minimum level
- Improved extensibility – e.g. alleviation of fault level problems

We do not think it appropriate for the list to be ossified in the NER.

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

Demand side solutions generally use existing customer infrastructure as an alternative to building new network elements. Hence, such solutions are environmentally superior. These environmental benefits are currently not measured nor allocated. We recommend that the AEMC explore strategies to incorporate such environmental benefits in project evaluation process.

19. How should a net benefit test be designed for distribution investments 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?

We favour the use of a unified cost benefit assessment for all projects. Having two limbs introduces the possibility of misclassification, so it should be avoided.

We would suggest that there should be regulatory oversight of the design and application of the net benefits test – i.e. there should be the provision for some level of review by the regulator even when a dispute has not been raised.

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?

It should apply to both.

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

Demand Management Incentive Schemes benefit the DNSPs in the NEM. Proponents for non-network solutions, and customers, are key stakeholders in demand management initiatives, but currently have no voice as these parties are generally not market participants. A place needs to be made for such stakeholders in any dispute resolution process. The nature of disputes will evolve as the demand management industry matures.

24. What process should be followed to resolve disputes and what should be the timing for this process?

We find it hard to believe that the dispute resolution process will be of use to proponents of non-network solutions. Unlike DNSPs, proponents do not have dedicated regulatory departments, so such a process would be an expensive distraction. Furthermore, DNSPs are their potential customers, so disputing their decisions is unlikely to be a sensible strategy. Nevertheless, any dispute resolution process should:

- Recognise the information and manpower asymmetry between DNSPs and disputing parties.
- Be quick, as there's no benefit in reversing a decision if the change is made too late for a successful non-network solution to be implemented.

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)?

What matters is the *outcome*.

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

Non-network solutions are particularly relevant in urgent situations (see response to question 15 above). It is important that the design of any exemptions should ensure that non-network solutions are incorporated.

Yours faithfully,



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Energy Response Pty Ltd