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17 April 2009

Australian Energy Market Commission
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Dear Sir/Madam

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

Ergon Energy Corporation Limited (Ergon Energy) appreciates the opportunity provided by the Australian Energy Market Commission (AEMC) to comment on the Scoping and Issues Paper – Review of National Framework for Electricity Distribution Network Planning and Expansion.

The attached submission represents Ergon Energy's response to the AEMC's Scoping and Issues Paper.

Ergon Energy looks forward to providing continued assistance to the AEMC in its review of the National Framework for Electricity Distribution Network Planning Expansion.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tony Pfeiffer', with a horizontal line extending to the right.

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**Ergon Energy Corporation
Limited**

**Review of National Framework for
Electricity Distribution Network
Planning and Expansion**

Scoping and Issues Paper

Submission

Australian Energy Market Commission

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Review of National Framework for Electricity Distribution Network Planning and Expansion – Submission

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Introduction

Ergon Energy Corporation Limited (Ergon Energy) welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) Scoping and Issues Paper on its Review of National Framework for Electricity Distribution Network Planning and Expansion (the Review).

This submission is provided by Ergon Energy in its capacity as an electricity distribution network service provider in Queensland.

Ergon Energy supports the development of a national framework in the key areas of network planning and development. This submission outlines Ergon Energy's response to the proposed scope and issues to be covered by the Review.

Ergon Energy has structured this submission in two parts:

Part 1: Summary of Ergon Energy's views regarding the proposed scope and issues to be addressed by the Review.

Part 2: Ergon Energy's detailed comments against each of the specific "questions" and "issues for comment" raised by the AEMC in its Scoping and Issues Paper.

Ergon Energy would be pleased to respond to or provide further information in respect of any of the issues raised in this submission.

Part 1 – Proposed scope and issues

Ergon Energy supports the following scope for the Review:

- Be consistent with the current scope of planning activities undertaken by Distribution Network Service Providers (DNSP) as required by the Rules;
- Set obligations on DNSPs in relation to publishing annual planning reports only and not extend to internal planning policies and processes;
- Establish a distribution specific cost-benefit test that recognises reliability as the key distribution investment consideration;
- Address issues arising from the interaction between transmission and distribution network planning;
- Not address reliability standards;
- Include developing a common dispute resolution process;
- Address barriers to DNSPs providing and owning non-network assets and solutions; and
- Address performance and liability issues arising from adoption of non-network solutions.

Ergon Energy considers that the following are key issues for the Review:

- Ensure that the level of information required in the annual planning report results in meaningful and accurate information being provided to the report's target audience and does not result in an unwarranted cost burden on DNSPs and consequently customers;
- Recognise the role for information provision by DNSPs on a one-on-one basis to market participants or other interested parties;
- Clearly delineate between the role of jurisdictions in setting and regulating network performance and reliability and the role of a forward looking annual planning report focussed on network development issues;
- That a scaleable cost benefit assessment be developed that recognises the nature of DNSP network development as being based on meeting security and reliability criteria and obligations and ranging vastly in size and planning requirements; and
- Ensure that the dispute resolution process is low cost and facilitates timely resolution of disputes between directly affected parties to ensure timely solutions to network issues.

Part 2 – Detailed response to questions

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.

Ergon Energy considers that the scope of the Review should:

- **Be consistent with the current scope of planning activities undertaken by DNSPs as required by the Rules.** Ergon Energy does not consider it helpful to assess the scope of the Review by reference to the services classification process undertaken by the AER pursuant to Chapter 6 of the Rules. This is because the AER's process relates to the 'economic' regulation (and funding) of services. Ergon Energy considers that planning activities should be considered in light of the impact of forecast loads on the operation of its network i.e. the system and 'technical' standards set out in Chapter 5 of the Rules. Ergon Energy believes the AEMC's review should primarily focus on issues that relate to access to the 'shared'¹ electricity system (Chapter 5) and to ensuring that DNSPs can be funded for its activities (Chapter 6);
- Include developing a common national **set of obligations on DNSPs in relation to publishing annual planning reports.** Ergon Energy does not support a review of internal network planning processes or planning criteria (a majority of which are based on jurisdictional requirements);
- Establish a **distribution specific cost-benefit test** that recognises **reliability** as the **key distribution investment consideration**;
- Consider the **interaction between transmission and distribution network planning** recognising the need for a **single process** (consultation and analysis) to be applied. The application of different consultation and analysis to a network solution which involves both distribution and transmission elements is likely to result in sub-optimal outcomes;
- **Not address reliability standards.** Ergon Energy considers that reliability standards should continue to be set at the jurisdictional level given the significant differences between network topographies across the jurisdictions. For example, Ergon Energy's network is predominantly radial and highly exposed to the elements due to its vast coverage²;
- Include developing a **common dispute resolution process**;

¹ The 'shared' electricity network does not include *connection assets* which are dedicated to particular network users.

² 35% of Ergon Energy's customers are supplied radially from the transmission connection point. Ergon Energy's "area" extends across 97% of Queensland, over one million square kilometres.

- Address the **barriers to Distribution Network Service Providers (DNSPs) providing and owning non-network assets and solutions**. Ergon Energy considers that DNSPs, as experienced, long-term, industry participants are extremely well placed to provide non-network solutions. Where a DNSP can demonstrate that an internally developed alternative solution is economically justified then there should be no barriers to implementation; and
- Address performance and **liability issues arising from the adoption of non-network solutions**. Ergon Energy considers that the uncertainty surrounding performance and liability is an impediment to non-network solutions.

Ergon Energy broadly agrees with the AEMC’s proposed assessment criteria for the Review with the exception of the following:

- Access to and timeliness of the dispute resolution process. Ergon Energy considers that, that “universal access” to a dispute resolution process is not consistent with the National Electricity Objective of promoting efficient investment in electricity services for the long term interests of consumers. The criteria should be qualified to “appropriate access”; and
- An appropriate balance between the regulatory burden on DNSPs and the benefits to the broader market. This criteria needs to capture two elements. There is an efficiency element which means that the cost burden imposed on the DNSPs (and ultimately customers) should not outweigh any identifiable benefits. A second consideration is that information requirements placed on DNSPs are “meaningful” and the information can be provided with reasonable accuracy and is not likely to mislead or be misinterpreted. Moreover, the information requirements should not expose the DNSP to liability from persons seeking to rely on the information.

Ergon Energy considers that the current joint planning process in the National Electricity Rules (the Rules) is appropriate to identify and resolve constraints that cross transmission and distribution boundaries.

With the development of separate cost-benefits tests to apply to new transmission and distribution assets it is critical that the Rules provide that a single consultation process and cost-benefit analysis applies for joint projects. The application of different tests to a joint project is likely to result in perverse outcomes. For example, the least cost solution from applying one test on one network may raise costs for the other network. This would result in sub-optimal outcomes for both Network Service Providers and customers.

Ergon Energy notes that the vast majority, if not all, joint planning projects address reliability issues. As such the application of a market benefits test would not be appropriate.

Annual Planning Requirements

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?**

Ergon Energy considers that the annual planning report should:

- **Be limited to the sub-transmission level.** Below the sub-transmission level there is a high volume of projects which are very specific in both technical requirements and location. Ergon Energy undertakes approximately 130 such projects per annum. The planning for these assets is undertaken on a relatively short-term basis. Given this, the projects do not lend themselves to being included in a 5 year horizon planning report with any degree of certainty or detail. Moreover, the volume of information that would be required to be provided to include these projects in the annual planning report would outweigh any perceived benefits. It should also be noted, depending on the final design of the “RIT-D”, any significant projects at this level would be subject to public consultation process;
- **Not include a framework for determining load forecasts.** Ergon Energy does not support “standardisation” of load forecasting methods given the different information available to DNSPs. Further, Ergon Energy considers that individual DNSPs are best placed to determine the appropriate load forecasting methodology to adopt for their network;
- **Not include proposed solutions for likely network constraints.** Ergon Energy considers that the information on proposed solutions for network constraints is a matter for the RIT-D. Given the 5 year horizon of the annual planning report, it is not possible to definitively describe all constraints, determine whether they will persist, and provide “concrete” solutions. This information is more appropriately provided at the time of conducting the cost-benefit analysis, where there is a greater degree of certainty regarding the nature of the constraint, and the DNSP has determined that a solution is required;
- **Include, at an appropriate level, planning for “high stress events”.** Ergon Energy considers this should be limited to providing information at the “program level” (i.e. activities to manage “events”) similar to that required under clause 2.2 of the Queensland Electricity Industry Code. Ergon Energy would not support a requirement to provide a higher level of detail, for example, providing “contingency plans” for each connection point;
- **Include, at an appropriate level, information about demand management activities.** Ergon Energy considers this should be limited to the describing demand management programs. Ergon Energy notes that the Regulatory Test currently provides for the detailed consideration of these activities in relation to specific constraints;
- **Include planning for augmentations of the shared network.** Ergon Energy does not support inclusion of planning for replacements that are of a “like for like” basis. That said, Ergon Energy would support inclusion of replacements where it includes a significant augmentation component;
- **Not include information about managing implications from intermittent distributed generation.** It is not clear why this information should be included in the annual planning report. DNSPs are equally required to manage implications arising from other generation as well as from loads, including intermittent loads;
- **Not include impact of negotiated distribution services on planning activities.** As noted above, Ergon Energy does not consider it helpful to assess the scope of the Review by reference to the services classification; and

- **Not include information on how connections might affect the transfer capability of the shared network.** Ergon Energy does not support the inclusion of this information as the impacts are not static and subject to change with changes to load flow over the network. Ergon Energy considers that this information if more appropriately, and accurately, provided upon application to the DNSP.

Ergon Energy supports the following information being included in the planning report:

- Forecast loads;
- Forecast of constraints. Ergon Energy supports the inclusion of constraints in a tabular format with a categorisation of the type of constraints. Ergon Energy would not support a requirement to state the cost or size of the constraint;
- Forecast of zone substation capacity; and
- Description of proposed distribution network assets (above the consultation threshold) including:
 - Project name;
 - Constraint/reliability issue being addressed;
 - Proposed solution;
 - Total cost of proposed solution; and
 - Other network and non-network options considered.

Ergon Energy **does not** support the following information being included in the planning report:

- Analysis/description of distribution network assets (falling below the consultation threshold) or "replacement assets" given the large volume of assets that would fall in this category and the limited value this information has for stakeholders including proponents of non-network solutions; and
- Providing forecasts of transfer capability given it is fluid and would impose a considerable cost on DNSPs. It should be noted that transfer capability is only one factor in a generators/loads' decision to locate and the benefit of providing this information would not outweigh the cost. This type of information is more appropriately provided as part of the connection process or upon application to the DNSP on a fee for service basis.

Ergon Energy considers that the planning and reporting process should be implemented by:

- Including an obligation in the Rules for DNSPs to publish an annual planning report;
- Introducing minimum content requirements for the annual planning report (rather than an exhaustive list) into the Rules;
- Ensuring consistency between national and jurisdictional planning reporting requirements to avoid additional costs being incurred on DNSPs, and ultimately customers, from complying with separate reporting requirements;
- Allowing a transition period to the new national arrangements to ensure DNSPs are able to provide information required. The length of the transition will depend upon the nature of the information required; and
- Ensuring additional expenditure, incurred by DNSPs as a consequence of information requirements, is recognised and recoverable.

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 including reporting on work carried out by DNSPs including reporting of actual network performance information and historical data?

Ergon Energy considers that the inclusion of emerging constraints on the network is the single, most relevant network issue that should be included in the annual planning report. Ergon Energy does not believe that there are any other distribution “problems” that are relevant for inclusion.

Ergon Energy supports the current joint planning processes outlined in the Rules. Ergon Energy believes consideration should be given to requiring a single party to be responsible for reporting outcomes of joint planning to avoid inconsistency and duplication in reporting across transmission network service providers (TNSPs) and DNSPs.

Ergon Energy does not support the annual planning report including reporting on network performance or historical data. The annual planning report is a forward looking document focussing on network development. Ergon Energy considers reliability and performance issues are a matter for the jurisdictions. DNSPs currently provide network performance data to jurisdictional regulators and do not support duplication of these reporting requirements.

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?

In considering the level of detail of the information to be provided in the annual planning report, regard should be had to:

- The dynamic nature of network planning, particularly at the distribution level, given load flows can vary significantly over a short of period of time. For example the connection or disconnection of a large load, which can occur with very short lead times, will significantly impact on network capacity;
- The limitations in providing information on a five year horizon given the above; and
- The costs on DNSPs of providing detailed information, such as transfer capacity and marginal loss factors, across the entire network, noting these are subject to change and therefore likely to be of limited value to stakeholders.

Ergon Energy supports the ENA’s recommendation that the AEMC, working in collaboration with DNSPs, develop a single national requirement for information.

Similarly, Ergon Energy would support the AEMC working with DNSPs to develop a “standard” classification of, and reporting framework for, constraints. Ergon Energy also agrees with the ENA that this outcome will depend upon the objectives of and target audience for the annual planning report.

A clear distinction should be made between general public information and detailed information to be provided to individual parties seeking connection to the DNSPs network. The factors noted above support only high level information being provided in the annual planning reports. Ergon Energy considers that detailed information, which can only be provided with accuracy at a point in time and generally at significant cost to the DNSP, should only be provided upon application, and where appropriate, on a fee for service 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 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)?

The Australian Energy Market Operator’s website is an appropriate central location for publishing DNSPs annual planning reports.

Ergon Energy considers that the appropriate timeframe for the publication of the annual planning report is 31 August, or later, to allow for the normal planning cycle to proceed after the post summer forecasts.

Project Assessment and Consultation Process

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?**

Ergon Energy considers that the scope of the projects subject to the RIT-D process should:

- Include augmentations to the network;
- Not include replacement assets that are substantially like-for-like; and
- Apply only to projects above a certain “expenditure” level.

Of the projects subject to the RIT-D process, Ergon Energy considers that similar to the current process, an “expenditure threshold” should apply above which consultation is required. Ergon Energy supports consideration of whether among these projects certain projects should be subject to a limited consultation process and others a full public consultation.

Ergon Energy considers that the thresholds should be indexed and subject to periodic review.

Ergon Energy supports the application of a least-cost assessment based on meeting security and reliability criteria and obligations, noting that these will be determined differently in different jurisdictions.

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?**

Refer response above.

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?**

Ergon Energy does not support a fully prescriptive RFP process. Ergon Energy considers that the Rules should only set high level criteria as this would enable enough flexibility to cover the wide range of circumstances faced by DNSPs in undertaking consultation. These circumstances include project specifications, availability of particular resources required to undertake the works, weather conditions, geographic locations and accessibility issues affecting different parts of the network.

Ergon Energy considers that it is critical that all timeframes for consultation are determined by the DNSP as the licensed entity responsible for the reliability and security of the network.

Ergon Energy considers it appropriate that a DNSP be assured, to its reasonable satisfaction, that non-network options can provide acceptable performance. In the absence of this, there is a real prospect that the benefits will not be realised and a network option may subsequently be required, which would not result in the least cost to DNSPs and consumers.

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?**

Ergon Energy does not support the inclusion of a list of costs and benefits in the Rules. In this context, Ergon Energy notes it supports a cost-benefit assessment based on meeting security and reliability criteria.

Ergon Energy considers that it is appropriate to include the cost of network losses in project comparisons.

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?

Ergon Energy considers that the project assessment needs to be scaleable and its application capable of being “proportionately” applied to the scale of project involved.

Ergon Energy does not support a high level of prescription in terms of the criterion to be applied in conducting the assessment and does not consider there is need for more specific decision-making criterion compared to the existing Regulatory Test.

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?

Ergon Energy considers that a dispute resolution regime should exist in relation to the conduct of a cost-benefit assessment. The regime should:

- Apply to cost-benefit analysis conducted in respect of distribution network assets that require full public consultation (refer response to “Project Assessment and Consultation Process” on page 10);
- Be limited to parties who are directly affected by the particular cost-benefit analysis;
- Limit the timeframe for raising a dispute to allow timely resolution of network constraints;
- Incorporate a low-cost dispute resolution process with the AER acting as the final arbiter of disputes; and

- Allow the AER to reject disputes immediately if the grounds for dispute are invalid, misconceived or lacking in substance.

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

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)?

Ergon Energy submits that the scope of matters to be heard should be directly relevant to the conduct of the cost-benefit analysis and should be limited to issue of process. The dispute resolution process should not involve a merits review of the DNSPs project assessment, recognising that the DNSP is best placed to make a decision on the merits of a cost-benefit assessment in relation to its network. The AER, as 'arbiter', should not be involved in other project details such as acquisition of land or substation site selection.

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?

Ergon Energy considers the Rules should:

- Incorporate an obligation in the National Electricity Rules for DNSPs to publish an annual planning report;
- Introduce minimum content requirements for the annual planning report (rather than an exhaustive list) into the National Electricity Rules; and
- Incorporate the high level obligations to undertake a cost-benefit analysis and consultation in prescribed circumstances.

Ergon Energy does not support reliance on guidelines to specify key parameters for network planning. Ergon Energy believes that it is appropriate to include key obligations in the Rules and, provided the Rules are not overly prescriptive, can still accommodate the particular circumstances of individual participants and jurisdictions.

Ergon Energy supports the exemption of “urgent” investments from complying with those aspects of the national framework which involve considerable timeframes, including public consultation and dispute resolution. Ergon Energy submits that the definition of “urgent” could incorporate:

- Investments necessitated by a natural disaster;
- A constraint emerging in less than a 12 month period; and
- Investments required to resolve a network failure.

Ergon Energy strongly supports a review by jurisdictions of existing network planning requirements to ensure there is no duplication of, or costly inconsistency between, reporting requirements.