

12 June 2009

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear John,

National Framework for Electricity Distribution Planning- Indicative Framework

The AEMC has commenced a review to recommend to the Ministerial Council on Energy (MCE) appropriate national arrangements for electricity distribution planning. SP AusNet recently attended workshops held on 27 May and 5 June 2009 as part of the AEMC's review. SP AusNet provides this supplementary submission in response to the Indicative Framework Specification ("the Specification") published by the AEMC as part of its Workshop Paper for discussion at the recent workshops.

SP AusNet believes that one of the key objectives of the Review is to establish efficient and practical distribution planning arrangements which strike the right balance between enhancing information to market participants and minimising regulatory burden and costs. The level of depth and detail required in annual planning reports needs to be commensurate to the likely benefit of such information to the market. Also, the scope of the Regulatory Test needs to be set appropriately to ensure full and thorough analysis is performed on projects of relevance to the network and market, rather than simply a greater number of projects.

SP AusNet trusts that this submission will assist the AEMC in developing a Draft Report and would be pleased to discuss the attached submission in further detail with you at your convenience.

Yours Sincerely,

Sgd Patrick Murphy

MANAGER ECONOMIC REGULATION

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1. Annual Planning and Reporting

1.1 Scope of activities and assets to be included in APR

SP AusNet is interested in facilitating non-network alternatives such as demand side response and embedded generation through the publication of targeted and useful information in its planning reports. At the same time, it is imperative that the regulatory burden imposed by planning requirements be proportionate to potential benefits that may result from the work involved. This means that planning and reporting arrangements should not require significant additional resources and effort where benefits would be limited. Consistent with this, SP AusNet considers an Annual Planning Report (APR) should be a summary of key information related to the annual network plan and not be required to comprehensively discuss every single detail of a project.

SP AusNet supports the idea of publishing a Non-Network Strategy periodically, and maintaining a register of non-network proponents to be contacted where appropriate. This would provide information on opportunities for non-network solutions and potentially encourage earlier engagement from non-network proponents. However, the addition of the Non-Network Strategy into the planning framework needs to be reflected in the overall design of the framework. That is, the annual planning report requirements should be less detailed and demanding than that proposed in the Specification given the inclusion of the Non-Network Strategy in the proposed framework.

The Specification proposes distribution network service providers (DNSPs) include asset management strategies in their APRs. SP AusNet does not support this. Asset management strategies and methodologies are highly detailed operational matters for each business which are already subject to scrutiny by the AER as part of the regulatory review process. SP AusNet questions the value in including this information in a network planning document such as an APR, and considers it would be inappropriate to create this planning and reporting requirement.

1.2 Joint planning

SP AusNet has recommended that any joint planning arrangements need to be workable and practical, and provide clear responsibilities.

SP AusNet believes that the national framework should achieve consistency across the jurisdictions in relation to joint planning as much as possible, so that practices are truly national. SP AusNet understands that for all National Electricity Market (NEM) jurisdictions excepting Victoria, the current provisions in the Rules around joint planning and investment are generally suitable. Projects are assessed from end to end, and cover transmission connection and shared transmission network augmentation where they are part of the overall project. The practice that has been adopted in most jurisdictions is that the outcomes of joint planning activities are documented in a co-branded Regulatory Test report and that each network service provider (NSP) then proceeds to construct the relevant parts of the preferred option within their own networks. This seems to work well, with one party leading the process but both parties agreeing to and taking responsibility for the results of the analysis.

However in the unique planning environment of Victoria this does not currently occur for a number of reasons. The issues involved are complex and relate to the way in which VENCORP has deemed all transmission connection augmentations as negotiated services. DNSPs consider this approach is contrary to the National Electricity Rules (“the Rules”).

On this basis, the Victorian DNSPs cannot proceed with these investments. SP AusNet is happy to discuss these issues with the AEMC in further detail but notes that this matter is currently the subject of a Chapter 8 dispute between VENCORP and Powercor.

In light of the above issues, it is important that the Rules explicitly articulate the planning role and responsibilities for DNSPs. SP AusNet firmly believes that it should be the DNSP which is responsible for conducting the Regulatory Test analysis and making investment decisions for its distribution network as it is ultimately responsible to its customers for its network service. As such, where there is a lack of successful joint planning, DNSPs should be able to have carriage of all Regulatory Test assessments related to addressing a distribution network need. It is also crucial that distribution projects be assessed holistically, and not separate out transmission connection and shared transmission network components. SP AusNet considers this would establish a sound basis for planning and assist in resolving issues around responsibility for assessing and funding augmentations in Victoria.

However, for these arrangements to work properly and allow DNSPs in Victoria to carry out their investments, corresponding changes need to be made to Victoria's planning arrangements. This is because DNSPs require VENCORP's agreement to obtain a use of system (or connection) agreement and this cannot be obtained where parties disagree about the classification of transmission connection assets as negotiated services. This issue needs to be addressed by amending the Victorian derogation to reflect the arrangements established in the National Rules.

Perhaps in response to issues in Victoria, the AEMC's Specification proposes that for joint network investments, the NSPs must determine one NSP to be responsible for:

- planning the investment;
- undertaking the Regulatory Investment Test; and
- construction of the preferred option.

In relation to the idea of one NSP taking responsibility for planning the project and undertaking the Regulatory Test, SP AusNet would support this as a principle but considers it should only apply in situations where the businesses cannot conduct joint planning successfully. In particular, SP AusNet considers that where the project is driven by a distribution system need and has been initiated by the DNSP, the Regulatory Test process and the Regulatory Test assessment should be the responsibility of the DNSP as the DNSP is accountable to its customers for that investment. However, SP AusNet believes the requirement for one NSP to take responsibility for the construction of the preferred option is unnecessary and inconsistent with current practice in which each NSP would construct their respective parts of the project.

The Specification also proposes that where agreement cannot be reached between NSPs then the AER is to nominate a NSP to undertake these roles. SP AusNet does not consider this would be necessary if the Rules make it clear that as the DNSP would be responsible for providing the service to meet a distribution need, the DNSP is responsible for the investment.

The Specification proposes that the Transmission Regulatory Test (RIT-T) apply to all joint investments. SP AusNet does not support this approach. SP AusNet agrees that only one test should apply to a project from end-to-end, even where it features both transmission

and distribution components. However, the decision as to which test (the RIT-T or RIT-D) should apply should depend upon the components of the project and whether it is distribution-driven or transmission-driven. Currently, the RIT-T covers all transmission works, and in Victoria VENCORP applies it to any transmission component of a project, regardless of the significance of the transmission component. SP AusNet would expect that where a project arises from a distribution need, the RIT-D should apply to the feasible options from end-to-end, including any transmission connection assets and shared transmission network assets, as it is more appropriate to the project.

2. Regulatory Test for Distribution

2.1 Scope of projects subject to the RIT-D

The Specification proposes that the RIT-D should cover all categories of distribution projects over the cost threshold except for urgent and unforeseen projects and non-standard control services. This approach inappropriately includes replacement projects and support services such as IT and communications in the scope of the RIT-D.

SP AusNet opposes this approach. Extending the scope of the Regulatory Test to replacement assets goes beyond the scope of the MCE's Terms of Reference which require the following outcomes from the review:

- ensuring DNSPs have a clearly defined and efficient planning process which provides certainty in relation to approval of network expansion and augmentation;
- ensuring DNSPs develop the network efficiently. This includes addressing a perceived failure by DNSPs to look at non-network alternatives in a neutral manner when making distribution augmentation assessments; and
- appropriate information transparency to allow efficient planning by parties that may offer alternative, more cost-effective solutions to network augmentations to address emerging constraints.

It is unclear how extending the scope of the RIT-D to replacement and support services is relevant to achieving any of the desired outcomes. The first outcome is focussed on network expansion and augmentation. The second and third are concerned with providing sufficient opportunity for non-network solutions to be considered and assessed in developing network augmentations. These points clearly contemplate a planning framework for network augmentations. Given this, SP AusNet considers that the test should only focus on network augmentations and should not be extended to examine support services or the replacement of existing assets. Where a project is a combination of augmentation and replacement, the augmentation component should be the relevant component with respect to Regulatory Test thresholds.

It appears that there may be an intention to use the Regulatory Test as a form of discipline on replacement expenditure. SP AusNet's view is that there would be little benefit in applying a Regulatory Test to network replacement expenditure as these projects are necessitated by asset condition rather than demand growth and provide very little scope for alternatives to defer or remove the need to replacement these assets. Further, there is no clear need for the Regulatory Test to be used in this capacity given that replacement projects are justified on the basis of efficiency and prudence within a regulatory review process.

2.2 Regulatory Test Threshold

The Specification proposes to subject all projects valued over \$1-2 million to the RIT-D. SP AusNet believes this threshold would inappropriately result in an excessive number of projects requiring a Regulatory Test assessment and create a huge regulatory burden on DNSPs. It would also undermine the effectiveness of the RIT-D process by requiring valuable resources which could be better spent undertaking more comprehensive analysis and consultation on major projects.

Given the differences in the scale of investment programs across the NEM, SP AusNet considers that a threshold of \$5 million would be appropriate for requiring businesses to conduct the Regulatory Test and \$10 million for requiring a full consultation process. This would allow for a reasonable number of DNSP projects to benefit from a Regulatory Test assessment and limit public consultation to significant projects. SP AusNet considers that these thresholds balance the regulatory burden of conducting a Regulatory Test assessment with the transparency and market information benefits of such a process. Further, the suggested thresholds maintain the current public consultation threshold (\$10 million) and simply update the minimum threshold to \$5 million in light of the volume of projects which now cost more than \$1 million. These thresholds should be reviewed periodically to take inflation and input cost changes into account.

SP AusNet notes that these would be minimum thresholds, and businesses should be able to choose to conduct consultation on projects which do not meet the threshold if they wish.

Further, information about projects valued at less than \$5 million will be included in the APR.

2.3 Specification of the test

SP AusNet is comfortable with the set of costs and benefits proposed in the Specification. SP AusNet notes that the concept of “optional value” is highly subjective and would be difficult to quantify. SP AusNet questions whether this concept should be included in the RIT-D principles in the Rules, and suggests it could be included where the NSP considers it necessary as “any other benefits which are determined to be relevant.”

2.4 Regulatory Test consultation process

The Specification proposes to lower the project threshold for conducting a Regulatory Test consultation process from \$10 million to \$1 or 2 million. This significantly extends the scope of the test and captures many more projects in the consultation process.

While a full consultation process may be warranted for significant major projects (for example, those valued greater than \$10 million), it would not deliver much benefit in relation to smaller projects (those less than \$10 million). Whilst the AEMC has proposed a means for certain projects to proceed through a truncated form of the RIT-D consultation process, DNSPs will still be required to publish a final Regulatory Test report for every project regardless of its significance and potential for non-network solutions. This is in contrast to current arrangements where publication of a report is only required for investments over \$10 million.

SP AusNet considers that the proposed RIT-D consultation process is overly complex and could better reflect the overall design of the framework. That is, the three elements of the

framework, the Non-Network Strategy, the APR and the RIT-D should be allowed to work in conjunction with one another and cannot be designed in isolation. Under the proposed framework, the Non-Network Strategy and APR will already provide useful information for non-network proponents before any Regulatory Test process commences. Therefore the Regulatory Test process can afford to be more streamlined and efficient. As such, SP AusNet considers that the RIT-D consultation process proposed in the Specification could be simplified given the inclusion of the Non-Network Strategy in the framework.