



Ref.: Draft Report – Network Planning and Expansion – Reference EPR0015
TP/CP

13 August 2009

Australian Energy Market Commission
AEMC Submissions
PO Box A2449
Sydney South NSW 1235

61 Mary Street
Brisbane QLD 4000
PO Box 15107
City East QLD 4002
Phone 07 3228 8222
Fax 07 3228 8118
Website www.ergon.com.au

Dear Sir/Madam

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

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

The attached submission represents Ergon Energy's response to the AEMC's Draft Report.

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

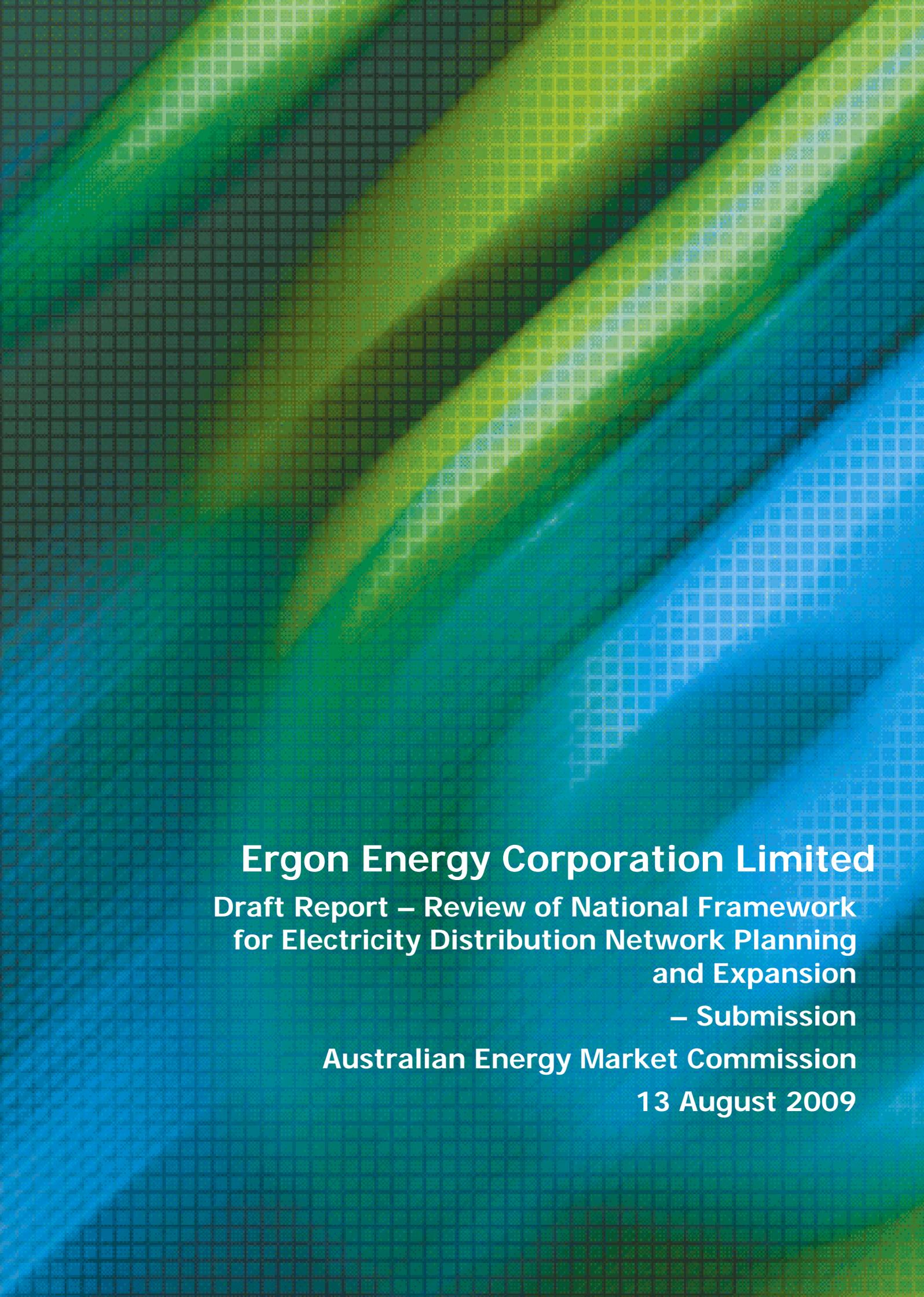
Yours sincerely

A handwritten signature in black ink, appearing to read 'Tony Pfeiffer', written over a horizontal line.

Tony Pfeiffer
General Manager Regulatory Affairs

c.c.: Carmel Price

Telephone: 3228 7711
Facsimile: 3228 8130
Email: tony.pfeiffer@ergon.com.au



Ergon Energy Corporation Limited
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for Electricity Distribution Network Planning
and Expansion**
– Submission
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This submission, which is available for publication, is made by:

Ergon Energy Corporation Limited
PO Box 15107
City East
BRISBANE QLD 4002

Enquiries or further communication should be directed to:

Tony Pfeiffer
Manager Regulation Networks
Ergon Energy Corporation Limited
Email: tony.pfeiffer@ergon.com.au
Ph: (07) 3228 7711
Mobile: 0417 734 664
Fax: (07) 3228 8255

Or

Carmel Price
Manager Regulatory Affairs – Network Regulation
Ergon Energy Corporation Limited
Email: carmel.price@ergon.com.au
Ph: (07) 4121 9545
Mobile: 0408 702 814
Fax: (07) 4123 1124



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Introduction

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

This submission is provided by Ergon Energy in its capacity as an electricity distribution network service provider (DNSP) 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 Draft Report.

Ergon Energy has structured this submission in three parts:

- Part A: Identifies key issues in the Draft Report and Draft Specification Frameworks;
- Part B: Provides detailed comments in relation to the AEMC's recommendations; and
- Part C: Provides detailed comments in relation to the Draft Framework Specification – Regulatory Investment Test for Distribution (Appendix B – Draft Report).

Ergon Energy would be pleased to discuss this submission with the AEMC and to provide further information should the AEMC require.

PART A: Key Issues

Annual Planning Process

Ergon Energy is generally supportive of the development of a national planning process that promotes transparency and facilitates increased involvement from non-network participants. However, Ergon Energy is concerned that the AEMC's recommendations rely too heavily on DNSPs providing increased information to achieve these objectives. In Australia, the number of potential participants is small and they are generally small businesses that may or may not have the financial capability to provide the services that a DNSP requires. Ergon Energy's experience in its demand management pilots has been that, it has taken active facilitation of the market to achieve viable non-network alternatives.

Ergon Energy considers that the Annual Planning Process should be principally concerned with identifying emerging network constraints. It is a forward looking document that provides information focussing on network development. Ergon Energy considers that the level of detail that the AEMC is proposing is highly technical and specific and is not be commensurate to the benefits envisaged by the AEMC. The proposed Distribution Annual Planning Report (DAPR) will be based on forecasts prepared at a specific time that are subject to change. In this context, Ergon Energy notes that distribution investments are significantly more sensitive to changes in demand from small groups of customers than is the case with transmission investments.

Given the nature of distribution network planning and investment, it is appropriate that the content provided in the DAPR should be provided at a high level. The provision of highly detailed information, which will be subject to change given changes to forecasts, has the potential to mislead participants and give an impression of certainty that may not exist. Ergon Energy maintains that more detailed and tailored information is more accurately and cost effectively provided to non-network proponents on individual application.

Ergon Energy is concerned with the potential duplication of reporting requirements between DNSPs current jurisdictional reporting requirements and the introduction of the national network planning and expansion framework. Ergon Energy strongly supports the AEMC's undertaking¹ to recommend to the Ministerial Council of Energy Standing Committee of Officials, that any duplication of reporting requirements should be removed. Ergon Energy considers that the AEMC should also recommend that individual jurisdictions commence consultation with stakeholders to ensure that all duplication is identified and removed and there is an orderly transition to the national framework.

¹ AEMC Draft Report Public Forum, 5 August 2009.

Demand Management Engagement Strategy

Ergon Energy is generally supportive of a framework that promotes increased interaction with non-network proponents but does not inhibit current informal channels of engagement. The Demand Side Engagement Strategy (DSES) will provide an avenue for non-network participants to understand a DNSP's obligations and requirements in a regulated framework and offer alternative credible non-network solutions. It is important to note that the DSES should not be overly prescriptive. The DSES should be sufficiently flexible to cater for the different requirements arising from individual projects and be tailored to the needs of individual DNSPs and non-network proponents.

Ergon Energy is concerned that the level of detail required in the current Demand Side Engagement Facilitation Process Document (the DSE Facilitation Process Document) is overly prescriptive and disregards internal business processes. For example, the requirement that a DNSP set out the process for procuring services from non-network proponents, should be guided by the DNSP's existing and established internal procuring policies and not some specific non-network solution process. Ergon Energy as a Queensland Government Owned Corporation needs to be cognisant of requirements under *the Government Owned Corporations Act 1993* and adhere to other Guidelines and Policies, such as State Purchasing Policies. Specific comments are made in relation to the minimum requirements to be included the DSE Facilitation Process Document in Part B.

Ergon Energy supports a system for the central registration of non-network proponents, with the Australian Energy Market Operator (AEMO) being responsible for the management of this register. Ergon Energy does not support a requirement whereby each DNSP must establish an individual register. This requirement undermines the development of a national 'market' and increases the burden on non-network proponents having to register separately with each DNSP. Ergon Energy supports a further requirement that non-network proponents be recognised as a category of Registered Participant under the NER with associated rights to access dispute resolution processes (refer section 2.4 below).

Ergon Energy strongly disagrees with the requirement that a separate public database of non-network proposals and/or case studies be maintained. Proposals provided by third parties are generally commercial-in-confidence and it is unlikely that a non-network proponent would agree to the publication of the proposal. Further, given the proposed Regulatory Investment Test – Distribution (RIT-D) process calls for Project Assessment Reports (which contain detailed information and assessments of non-network solutions) to be published, little benefit will be realised from publishing case studies.

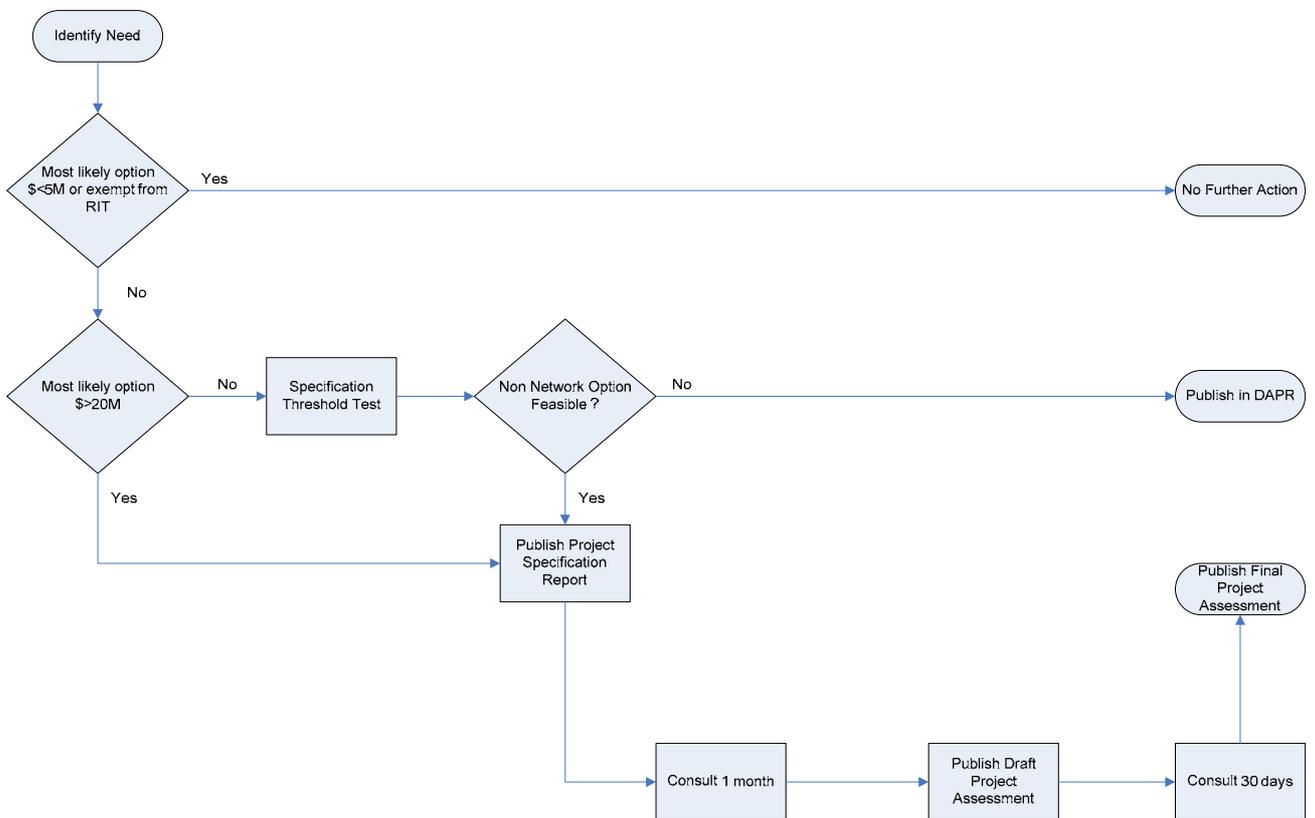
Regulatory Investment Test - Distribution

Ergon Energy strongly supports the development of a Regulatory Investment Test which is tailored to distribution network investment considerations, as opposed to adopting a single test for both transmission and distribution. The RIT-D should recognise the real differences between transmission and distribution functions, in particular:

- The more localised function of distribution networks;
- The larger volume of investments undertaken by DNSPs; and
- The sensitivity of distribution to decisions made by smaller groups of customers.

Ergon Energy understands that the AEMC has identified transparency as a key issue in terms of facilitating involvement by non-network proponents and that this principle is driving a number of the AEMC's recommendations in respect of the consultation and reporting requirements associated with the RIT-D. However, this aim will not be achieved where there is no potential for non-network alternatives to resolve identified needs or willing and capable proponents to deliver them. It will simply result in an additional reporting and resource burden on DNSPs.

Similar to the ENA, Ergon Energy supports a simplified process. Ergon Energy considers the following process offers a more streamlined approach to undertaking the RIT-D than that proposed by the AEMC and provides a better balance between the benefits of transparency and the costs to DNSPs (and ultimately customers).



As illustrated above, Ergon Energy supports a process whereby:

- A DNSP identifies a need;
- If the most likely option for addressing the need is less than \$5 million no further consultation or reporting is required;
- If the most likely option for addressing the need is greater than \$5 million and less than \$20 million then the DNSP undertakes the Specification Threshold Test (STT);
- If the DNSP determines that the identified need satisfies the STT then no further separate reporting is required. The DNSP will provide a summary of all projects that met the requirements of the STT in the DAPR. This will be a high level summary including:
 - The identified need;
 - Why the need exists;
 - Details of why a non-network solution was not feasible; and
 - Details of the network solution.
- If the DNSP determines that the identified need does not meet the STT then the DNSP will publish a Project Specification Report;
- The DNSP will also be required to publish a Project Specification Report for all identified needs where the most likely option for addressing the need is greater than \$20 million;
- A one month consultation period applies prior to the DNSP publishing its Draft Project Assessment Report;
- If the DNSP is required to publish a Draft Project Assessment then a further consultation period of 30 business days applies prior to the DNSP publishing the Final Project Assessment;
- The Dispute Resolution Process applies only in respect of investments that have proceeded to the Final Project Assessment Report stage.

The costs thresholds proposed by Ergon Energy above reflect the nature of the project that is being undertaken and the likelihood of alternative solutions being implemented. In general, smaller sized investments will be very localised in nature and will require very specific solutions given set constraints, including geography, network design, planning & environmental considerations.

Ergon Energy's view is that a medium sized zone substation is the lowest sized / type of asset which is likely to have potential alternative solutions. This type of investment would approximately equate to a monetary threshold of \$20 million. In these cases, Ergon Energy supports a public consultation process as part of the RIT-D (subject to comments in Part C of this submission).

Ergon Energy recognises, however, that there may be circumstances where non-network solutions are possible for lower cost investments. For investments between \$5 million and \$20 million, Ergon Energy would support DNSPs undertaking a STT (subject to comments in Part C

of this submission) to determine whether non-network alternatives are feasible on a case by case basis. For all other investments, Ergon Energy considers that the DNSP should not be required to undertake a formal RIT-D process or report separately on the outcome of assessments. (Refer Ergon Energy's response to Recommendation 14 in Part B of this submission for discussion on \$5 million threshold.)

Further detailed comments on the AEMC's Draft Framework Specification – Regulatory Investment Test for Distribution are in Part C of this submission.

Dispute Resolution Process

Subject to Ergon Energy's comments on the appropriate thresholds for the RIT-D, Ergon Energy supports the application of the Dispute Resolution Process to all investments that have proceeded to the Final Project Assessment Report stage. Ergon Energy considers that the outcome of the STT, where the DNSP has assessed that non-network option is not feasible, should not be subject to the Dispute Resolution Process. Under Ergon Energy's proposed RIT-D process, the outcome of this assessment will be published in the DAPR and the identified need may have been resolved at the time of publication. This process will be subject to compliance monitoring by the AER as part of its Rules compliance and enforcement role.

Ergon Energy considers that the scope of the Dispute Resolution Process should extend only a review of a DNSP's compliance with the Rules and their application of the RIT-D. It should not extend to a merits review.

Ergon Energy is concerned with the AEMC's recommendation that 'interested parties' would be able to raise a dispute under the proposed process. The term 'interested parties' is often given a broad interpretation, which may result in a wide range of parties challenging the Final Project Assessment Report on grounds unrelated to the conduct of the RIT-D.

Ergon Energy supports a requirement for the AER to provide reasons when making a determination in the Dispute Resolution Process. A DNSP should be allowed the opportunity to review the reasons by the AER before amending the Final Project Assessment Report.

Regulatory Investment Test for Distribution Guidelines

Ergon Energy supports, in principle, the establishment of Regulatory Investment Test for Distribution Guidelines. The development of these Guidelines should be subject to a full consultation program.

Ergon Energy supports the inclusion of the following in the Regulatory Investment Test for Distribution Guidelines:

- Examples should be provided on the preferred method for application of a net present values (net economic cost) analysis – including how to ensure options are equivalent at the end of the analysis period;
- Examples of possible Project Specification Reports;
- Examples of possible Draft Project Assessments; and
- Examples of possible Final Project Assessment.

Part B: Comments on AEMC’s Recommendations

This Table provides Ergon Energy’s detailed comments on the AEMC’s recommendations and responds to the AEMC’s questions.

| Annual Planning Process | | |
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| Section | Recommendation and AEMC questions | Ergon Energy Comments |
| 1. | <i>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.</i> | Ergon Energy agrees with the AEMC’s recommendation that the DAPR should cover a forward planning period of 5 years. Refer comments on Recommendation 7 regarding scope of DAPR. |
| 2. | <i>Each DNSP would be required to use reasonable endeavours to engage with non-network proponents and consider non-network alternatives.</i> | Ergon Energy understands that a DNSP would discharge its obligation to use reasonable endeavours to engage with non-network proponents and consider non-network alternatives if it substantially followed the processes and procedures outlined in its DSES. |
| 3. | <i>Each DNSP would be required to establish and implement a Demand Side Engagement Strategy.</i> <i>A Demand Side Engagement Strategy would encompass three components:</i> <ul style="list-style-type: none"> ○ <i>Demand Side Engagement Facilitation Process Document;</i> ○ <i>Public database of proposals/case studies; and</i> ○ <i>Register of Interested Parties</i> | Ergon Energy agrees in principle to having a DSES, however the contents of the DSES should be flexible to accommodate existing internal practices. Ergon Energy does not agree that the DSES should include a public database of proposals/case studies. This is because proposals by third parties are generally provided on a commercial in confidence basis. Ergon Energy supports a central register administered by AEMO. This would support the creation of a national market and remove the requirement for multiple registrations by non-network proponents. Ergon Energy is concerned with the broad meaning of ‘interested parties’ and refers to its comments on this in the Dispute Resolution Process below. |



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| | We seek comments on whether the proposed content of the facilitation process document provides useful information and can be provided by DNSPs at reasonable cost. | In relation to the Draft Specification Framework – Annual Planning Process and Reporting, Ergon Energy submits: <ul style="list-style-type: none"> ○ Section 4(b)(ii) & (iii) – DNSPs should follow their normal processes for the procurement of services from 3rd parties. ○ Section 4(b)(vi) & (vii) – A DNSP should not be forced to publish any information relating to price or payment for services provided by non-network proponents. The details of each proposal will vary significantly and therefore the information will offer little value. ○ Section 4(b)(viii) – A DNSP should not be required to be across all available information. This is a matter for the non-network proponent. |
| | We seek comments on whether explicit protocols for the Demand Side Engagement Facilitation Process Document would be beneficial. | Ergon Energy supports development of explicit protocols given that the AEMC is recommending that the Dispute Resolution Process extends to the RIT-D. The protocols should accommodate differences that are unique to some DNSPs such as, operating environment and network conditions. |
| 4 | <p><i>Each DNSP would be required to publish a Distribution Annual Planning Report by 31 December each year for the forward planning period beginning 1 January the following year.</i></p> <p><i>The DAPR must be certified by the Chief Executive Officer and a Director or Company Secretary that:</i></p> <ul style="list-style-type: none"> ○ <i>the DAPR meets the DNSP’s obligations under the Rules and any other applicable regulatory instruments; and</i> ○ <i>the DAPR accurately represents the relevant policies of the DNSP.</i> <p><i>Each DNSP would conduct a public forum within 2 months of</i></p> | <p>Ergon Energy does not support a requirement for the DAPR, which is essentially an operational document, to be certified by the Chief Executive Officer and a Director or Company Secretary. Ergon Energy considers that the approving position should not be prescribed. It should be a matter for individual businesses to determine appropriate sign-off consistent with existing processes and practices.</p> <p>Ergon Energy submits that a DNSP should be only required to conduct a public forum if requested. Ergon Energy considers that the cost associated with complying with this recommendation is potentially high and there may be limited interest from participants/non-network proponents. Ergon Energy maintains that more detailed information is more accurately and cost effectively provided to non-network proponents</p> |

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| | <i>publishing its DAPR.</i> | on individual application. |
| | We seek comments on whether the publication date of 31 December is appropriate. | Ergon Energy does not agree with the proposed publication date of 31 December. The 31 August is the current timeframe for jurisdictional reporting in Queensland which aligns with internal planning processes that are conducted on post summer basis. Queensland is a summer peaking State and consequently Ergon Energy undertakes planning on a post summer basis as the summer period is when most constraints occur on the network. A requirement to publish on 31 December would also mean that there is a time lag with the forecasting information provided. |
| Joint Planning Requirements | | |
| 5 | <i>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.</i> | Ergon Energy considers that the current provisions in Chapter 5 of the Rules adequately allow for joint planning. |
| 6 | <i>The Regulatory Investment Test for Transmission would apply to investments identified through the joint planning process.</i> | Ergon Energy supports that application of a single investment test for joint investments. If the RIT-T is adopted as proposed, there needs to be explicit recognition that joint planning projects under the transmission threshold of \$5 million are exempt from the regulatory investment test process and that no components of the RIT-D process will be applied to any investments identified through the joint planning process. Ergon Energy expects that there would be very few (if any) joint planning projects that would cost less than the RIT-T threshold of \$5 million. |
| | <i>DNSPs would be required to meet regularly to undertake joint planning with other DNSPs where there is a need to consider augmentation or non-network alternative that affect more than one distribution network.</i> | Ergon Energy's experience is that joint planning with other DNSPs already takes place as part of good network practice. Ergon Energy does not see further value in prescribing when joint planning between DNSPs should occur and how often. |

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| 7 | <p><i>The scope of the DAPR would relate to the power system, direct control services and sub transmission assets or zone substations or, on an exception basis, primary distribution feeders.</i></p> | <p>Ergon Energy considers that the definition of ‘power system’ should only include primary distribution system assets (not secondary systems, communications or metering systems, information technology systems or non system assets).</p> <p>Ergon Energy supports the scope of the DAPR covering system limitations and investments relating to:</p> <ul style="list-style-type: none"> ○ Direct control services only (i.e. excluding any customer connection services); ○ Sub-transmission assets or zone substations; and ○ Augmentation of network assets (i.e. exclusion of replacement and refurbishment assets). <p>Ergon Energy does not support the inclusion of primary distribution feeders in the DAPR. There are a large number of primary distribution feeders (approximately 12,000 in Ergon Energy’s area) and reporting on these feeders would impose a significant cost on DNSPs. Ergon Energy considers that any information provided on primary distribution feeders is likely to provide little or no value to a non-network proponent.</p> |
| | <p>We seek comments on the definition of sub transmission assets and primary distribution feeders as to whether the proposed definitions would capture all the sub transmission assets owned and operated by DNSPs and relevant primary distribution feeders.</p> | <p>The proposed definition for sub transmission assets does not capture line assets. Ergon Energy proposes that the definition should be:</p> <p><i>Substation or switching station connected with a primary voltage 33kV or greater and a secondary voltage of 11kV or greater as well as the lines supplying these substation and is not a transmission asset.</i></p> <p>Ergon Energy does not consider there is a need to define primary distribution feeder on the basis that we do not consider that these feeders should be included as part of the DAPR. In the event that the AEMC considers a definition is required, Ergon Energy proposes that the definition should be:</p> <p><i>A distribution line 11kV or greater that connects to the secondary</i></p> |

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| | | <i>of a sub transmission substation.</i> |
| | We seek comments on how significant investments in smart metering should be captured by the annual reporting requirements and specified in the Rules. | The intent of DAPR is to highlight system limitations on the network, not to provide detail about all investments on the network. Ergon Energy's view is that smart meters are not related to a system limitation and therefore should not be captured. Reporting on metering investments is beyond the scope of the DAPR and is not necessary to support the AEMC's stated principles in relation to the DAPR. Ergon Energy notes that the roll-out of smart meters will be subject to specific regulatory oversight. |
| 8 | <i>The DAPR would include forecasting information. This would include capacity and load forecasts at a system, sub transmission and zone substation level, and the identification of any overloaded primary distribution feeders.</i> | Ergon Energy believes that the cost to provide information to this level is not proportionate to the benefits that the AEMC envisages. Ergon Energy does not currently monitor every primary distribution feeder and therefore it would be very costly to comply with the requirement to identify any overloaded primary distribution feeder. It would involve monitoring and reporting on approximately 12,000 distribution feeders and necessitate expensive system changes. |
| 9 | <i>The DAPR must inform on system limitations. System limitations should relate to any requirement for distribution investments, which would cover more than network constraints.</i> | The list of system limitations as proposed is acceptable. However the last point should simply be stated as ' <i>any other regulatory obligations relating to network performance</i> '. SAIDI and SAIFI reliability indices are covered under the third category of ' <i>reliability improvement</i> '. |
| 10 | <i>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 reported on.</i> | Ergon Energy currently identifies the year (and season) in which there will be a limitation at the sub-transmission level; month by month forecasts are not undertaken. Ergon Energy considers that providing the required level of detail 5 years in advance is unhelpful and potentially misleading. It would also involve considerable cost to DNSPs in compiling this level of information for each system limitation. Ergon Energy does not consider that the significant costs arising from this regulatory requirement would be proportionate to |

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| | | <p>the benefits. Ergon Energy believes that this level of detail should, if required, be provided as information in the RIT-D process, not as part of the DAPR.</p> <p>Ergon Energy also notes that when it identifies constraints in the network, load transfers are taken into account. There would be no value in reporting on these separately as by definition there is no load transfer capacity to relieve it.</p> |
| | We seek comments on whether the national framework should include a requirement for DNSPs to develop regional development plans. | The AEMC has provided limited detail on the nature of its proposed regional development plan or the rationale for developing them. However, in principle, Ergon Energy does not agree that as part of a national framework there should be a requirement on DNSPs to develop regional development plans. |
| 11 | <i>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 \$2million or greater that were urgent unforeseen investments or refurbishment or replacement projects.</i> | <p>Ergon Energy supports the inclusion of the following information only relating to investments that have been assessed under the RIT-D and projects with a capital cost of \$5 million or greater that were urgent, unforeseen investments or refurbishment or replacement projects:</p> <ul style="list-style-type: none"> ○ A list of projects; ○ The status of those projects, i.e. complete, in progress, or ongoing; and ○ Where a RIT-D has been published, a link to the Final Project Assessment Report. |
| 12 | <i>Other reporting would be required on – a description of the network, outcomes from 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.</i> | <p>Ergon Energy generally accepts this recommendation. However Ergon Energy considers that the reporting obligations should be a high level summary only.</p> <p>Any outcomes from joint planning undertaken with TNSPs should rest with the TNSP. To remove any duplication of reporting, DAPRs should be able to refer the reader to the TNSP document.</p> |

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| | | <p>In respect of the Draft Specification Framework – Annual Planning Process and Reporting, Ergon Energy makes specific comments to the following:</p> <ul style="list-style-type: none"> ○ Section 6(j)(iii) – Ergon Energy notes that the results obtained should not be used for any comparison with other DNSPs given that each DNSP would have its own unique characteristics. ○ Section 6(j)(iv) – Ergon Energy can only provide a high qualitative assessment level of reliability performance against the standards and a high level summary of reliability improvement strategies. <p>Ergon Energy does not agree that a DNSP should report on their asset management methodology as this is an internal process document. Ergon Energy would support a requirement, consistent with the existing obligation under the Queensland <i>Electricity Industry Code</i>, to provide ‘a statement of the distribution entity’s asset management policy (including current key programs) and a qualitative of its compliance with that policy’.</p> |
| Regulatory Investment Test | | |
| 13 | <p><i>The purpose of the RIT-D would be to identify the preferred option for network investment which maximises the present value of net economic benefits. Where a proposed investment is required to meet deterministic reliability standards, the preferred option may have a negative net present value.</i></p> | <p>Ergon Energy agrees with the AEMC’s recommendation that the purpose of the RIT-D is to identify the preferred option for the network investment which maximises the present value of net economic benefits (minimises net economic costs). The AEMC’s acknowledgement that investments undertaken which are required to meet deterministic reliability standards, may have a negative net present value, should also extend to investments that are required to meet deterministic jurisdictional supply security standards.</p> |
| 14 | <p><i>The RIT-D would be undertaken by DNSPs when a distribution system limitation exists and the most expensive option which is technically and economically feasible is expected to cost \$2 million or more.</i></p> | <p>Ergon Energy does not support the test of ‘most expensive option which is technically and economically feasible’. Ergon Energy considers that the ‘most likely option’ is a more appropriate test. The proposed test has the potential to capture almost all distribution projects, including the smallest of investments, or become subject to dispute for not having considered more expensive options.</p> |

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| | | <p>Ergon Energy considers that the cost threshold of \$2 million is exceedingly low, and submits that a threshold of \$5 million is more appropriate. Setting the lower threshold at \$2 million would impose a substantial cost burden on DNSPs. For example, for 2008/09 period, Ergon Energy had 20 projects over \$2 million. Over a period of 3 years the number of projects greater than \$2 million was 3 times the number of projects greater than \$5 million.</p> <p>Refer to section 2.3 of Part A of this submission for further comment on cost thresholds.</p> |
| | <i>The AER would review the cost thresholds for the RIT-D every three years.</i> | Ergon Energy agrees with the AEMC's recommendation. |
| | <i>15. The RIT-D would not apply to urgent and unforeseen investments, negotiated services, replacements, connection services, or where the proposed investment has been identified through joint planning processes between DNSPs and TNSPs.</i> | Ergon Energy agrees with the AEMC's recommendation but submits that non-system assets (eg. Buildings, IT, Fleet) and secondary system assets (communications and protection systems) should be explicitly excluded. |
| | We seek stakeholder comments on the proposal to exclude primary distribution feeders from the RIT-D and the wording of the proposed exemption in section 2(a)(vii) of the framework specification in Appendix B. | Ergon Energy considers that the appropriate monetary threshold is \$5 million (refer discussion in section 2.3, Part A and recommendation 14, Part B of this submission). Ergon Energy would only support undertaking a RIT-D on distribution feeders where the capital costs of the project exceed the proposed thresholds. |
| | <i>16. The RIT-D would provide for a flexible assessment process, allowing for DNSPs' reporting and consultation requirements to be tailored to the characteristics of each proposed investment.</i> | Refer section 2.3 of Part A of this submission. |
| | <i>17. The RIT-D would involve:</i> <ul style="list-style-type: none"> o <i>An initial screening test, the Specification Threshold Test</i> | Refer section 2.3 of Part A of this submission. |

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| | <p>(STT), to determine whether additional consultation and reporting would be required before the project assessment process;</p> <ul style="list-style-type: none"> ○ A project specification stage, where DNSPs would be required to consult to request alternative proposals to meet the identified need; ○ An opportunity for DNSPs to consult under an accelerated consultation period on their project specification reports, if DNSPs have undertaken prior engagement with non-network proponents; and ○ Consideration of applicable market benefits and costs for each credible option, to determine the preferred option. DNSPs would be required to quantify all applicable costs, but would have the discretion to quantify any applicable market benefits. | |
| | <p>We seek stakeholder comments on the practical application of the STT and whether the STT provides an appropriate degree of discretion to DNSPs.</p> | <p>Subject to the comments in Part C of this submission, Ergon Energy believes that the STT can be applied in practice.</p> <p>Ergon Energy does not support the requirement to prepare or publish a STT Report or for the STT process to be subject to the Dispute Resolution Process where an investment does not proceed to Final Project Assessment stage. Ergon Energy understands that this STT process will be subject to compliance monitoring by the AER as part of its Rules compliance and enforcement role.</p> |
| | <p>We are interested in stakeholder comments as to whether prescription is required in the Rules regarding the actions that DNSPs must have undertaken to qualify for accelerated consultation on their project specification reports. An alternative to greater prescription in the Rules would be to provide the AER with greater discretion in its development of the RIT-D Application Guidelines to determine the appropriate actions DNSPs must undertake to comply with the Rules requirements for</p> | <p>If the AEMC continues to support its proposed framework for 'accelerated consultation', Ergon Energy agrees that prescription is required in the Rules to define the actions that a DNSP must have performed to qualify for 'accelerated consultation'.</p> |

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| | accelerated consultation. | |
| | We are interested in stakeholder comments regarding the list of market benefits and costs that DNSPs should consider under the RIT-D and whether it would be appropriate to require DNSPs to consider any market benefits and costs in addition to those currently proposed. | The list of benefits is appropriate. Ergon Energy submits that the application of value to any particular market benefit should be at the discretion of the DNSP and should not be subject to the Dispute Resolution Process. |
| | <i>The AER would be required to take into consideration DNSPs' application of the RIT-D and final project assessment reports when considering regulatory proposals under Chapter 6 of the Rules.</i> | Ergon Energy does not object to this recommendation. |
| | <i>At the same time as the AER publishes a proposed RIT-D, the AER would also publish guidelines on the operation and application of the RIT-D and how disputes in relation to the application of the RIT-D would be addressed and resolved by the AER.</i> | Ergon Energy agrees with the AEMC's recommendation. Refer to comments in section 2.5 of Part A of this submission regarding the content of AER Guidelines. |
| Dispute Resolution | | |
| 18 | <i>The dispute resolution process would apply to all investments which are subject to the RIT-D</i> | Ergon Energy supports the application of the Dispute Resolution Process to all investments that have proceeded to a Final Project Assessment Report subject to Ergon Energy's comments about the appropriate thresholds for the RIT-D and comments in respect to recommendation 19 below. |
| | We seek stakeholder comment on the proposed scope of the dispute resolution process. | Ergon Energy considers that the scope for disputes should be limited to a DNSP's compliance with the Rules and their application of the RIT-D. It should not extend to a merits review. |
| 19 | <i>The process would only apply to DNSPs' application of the RIT- D against the requirements in the Rules (i.e. compliance review) and cover all stages and decisions made by DNSPs when applying the RIT-D.</i> | Ergon Energy considers that the outcome of the STT, where the DNSP has assessed that non-network option is not feasible, should not be subject to the Dispute Resolution Process. Under Ergon Energy's proposed RIT-D process, the outcome of this assessment will be published in the DAPR and the identified need may have been resolved at the time of publication. This process will be subject to compliance |

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| | | monitoring by the AER as part of its Rules enforcement role. |
| 20 | <i>Registered Participants, the AEMC, Connection Applicants, Intending Participants and interested parties would able to raise a dispute under the proposed process.</i> | <p>Ergon Energy does not consider that the AEMC and ‘interested parties’ should be entitled to raise a dispute under the dispute resolution process. The AEMC as rule maker should not be involved in disputes relating to a DNSP’s compliance with the Rules.</p> <p>Ergon Energy is concerned with the term ‘interested parties’ given the broad interpretation often adopted. Ergon Energy suggests that including a category of ‘non-network proponents’ as registered participants would effectively capture relevant parties.</p> |
| 21 | <i>The deadline for raising a dispute with the AER would be 30 business days following the publication of the DNSP’s final project assessment report or the publication of the DNSP’s DAPR, containing the final project assessment report.</i> | Ergon Energy agrees with the AEMC’s recommendation. |
| 22 | <p><i>The AER would either reject the dispute or make a determination on the dispute within 40-60 business days of receiving the dispute notice, depending on the complexity of the dispute. The AER can only be able to make a determination to direct the DNSP to amend its final project assessment report if:</i></p> <ul style="list-style-type: none"> ○ <i>the DNSP has not correctly applied the RIT-D in accordance with the Rules; or</i> ○ <i>The DNSP has made a manifest error in its calculations.</i> | Ergon Energy agrees with this recommendation but considers that there must be a positive obligation on the AER to provide detailed reasons for making a determination. Ergon Energy seeks clarity as to what constitutes a ‘manifest error’. |
| 23 | <i>In making a determination on a dispute, the AER would specify the timeframe for the DNSP to amend its final project assessment report.</i> | Ergon Energy submits provided that the timeframe for a DNSP to amend its final project assessment report must be reasonable. |

Part C: Comments on Draft Framework Specification – Regulatory Investment Test for Distribution (Appendix B – Draft Report)

Objectives

- Section 1(f) – Ergon Energy supports the objective that market benefits may be quantified by the DNSP where the DNSP considers it appropriate to do so. However, Ergon Energy notes that the quantification of market benefits should be at the discretion of the DNSP and any decision of the DNSP not to take market benefits into account should not be subject to the Dispute Resolution Process or review by the Regulator (refer discussion of market benefits below).

Scope

- Section (2)(c)(i) – Ergon Energy notes that the timeframe of 6 months in the ‘definition’ of whether a proposed investment is urgent or unforeseen is not workable in practice and could potentially result in some projects not being able to be completed in time to meet reliability and system security criteria. The timeframe for urgent and unforeseen investments should equate to the longest potential timeframe under the RIT-D process from identifying the need to the end of the period for a dispute being raised. This would ensure that all projects that are required to commence sooner than the time required to undertake the RIT-D process would fall under this exemption. Ergon Energy also strongly supports changing the wording from ‘required to be operational’ to ‘required to be commenced’ as the requirement for the investment to be ‘operational’ is not workable in practice (given the majority of investments will take longer than 6 months to be operational) and would not capture those projects that would need to commence earlier than the time taken to complete the RIT-D process (even if not operational) to ensure reliability and system security criteria are met.
- Section (2)(c)(ii) – It is not clear how the test of ‘beyond the reasonable control of the DNSP’ would be applied in practice and is not supported. Ergon Energy considers that a test of foreseeability is more appropriate as it can be applied against existing and established forecasting and planning processes;
- Section (2)(c)(iii) – Ergon Energy does not support a materiality test in this case. Meeting network reliability criteria and achieving a secure operating state should not be subject to a materiality test in this context.

Identification of Options

- Section (3)(b) – Ergon Energy does not understand the purpose of the proposed criteria in the context of identifying a credible option. Ergon Energy notes that the current

Regulatory Test adopts this set of criteria in relation to a requirement on the DNSP to consider alternative options 'without bias'.

- Section (3)(c) – Ergon Energy does not understand the rationale for inclusion of this section and questions whether it is workable. In practice, it would be difficult to proceed with an option that has no proponent and therefore no certainty over implementation and its ability to meet the identified need.

Application of Test

Benefits

- Section 4(a) – Ergon Energy strongly supports the consideration of market benefits being at the discretion of the DNSP. The current wording in the AEMC Draft Report appears to require a DNSP to undertake an assessment of market benefits to assess whether any applicable market benefits may be material or alter the selection of the preferred option. The majority of distribution investments will be reliability driven and as such, consideration of market benefits is not relevant in those circumstances. The circumstances in which market benefits are likely to be relevant in a distribution context are very limited and making the assessment of market benefits compulsory will add considerably to the costs of the process with no real benefit.
- Section (4)(h)(i) & (ii) –Ergon Energy understands that the form of the assessment will be a matter for individual businesses. Ergon Energy does not support a prescriptive process for quantifying costs. Ergon Energy considers that allowing the AER to take into consideration DNSPs' application of the RIT-D and final project assessment reporting when considering regulatory proposals under Chapter 6 of the Rules is an appropriate means to ensure that a robust and credible methodology has been implemented by the DNSP.
- Section (4)(h)(iii) – Ergon Energy does not support a requirement for the RIT-D to specify the appropriate method and value for specific inputs for determining the discount rate to apply. This requirement introduces a level of prescription not previously included in the Regulatory Test assessment. Ergon Energy considers this will fail to accurately account for local factors and conditions contributing to input costs. In addition the sensitivity of outcomes from the assessment should be tested over a range of discount rates so specification of how to determine a specific discount rate would seem excessively prescriptive.

Specification Threshold Test (STT) Stage

- Section 6(c)(ii) – Ergon Energy does not support the requirement to publish a STT Report where the DNSP has assessed that the identified need has no material potential for non-network options. A requirement to publish this report would impose a significant reporting and resource burden on DNSPs and it is unclear what benefit it would provide to non-network proponents.

- Section 6(c)(i) 2. – Ergon Energy does not understand the requirement that the identified need has ‘no material potential to impact adversely on the quality of service experience by end use customers’, as it would set too low a threshold. Ergon Energy envisages that the majority of identified needs will have the potential to impact service quality as maintaining reliability of supply for customers is the driver of most distribution investments.

Project Specification Stage

Ergon Energy considers that the Project Specification Stage should be initiated either where the DNSP has not met the STT or where the most likely option for addressing the identified need has a capital cost of greater than \$20 million.

Contents of the Project Specification Report

- Section 7(a) – Under Ergon Energy’s preferred model outlined in section 2.3, Part A of this submission, the Project Specification Report would only contain a summary of the DNSP’s assessment of the identified need for projects with a capital cost of between \$5 million and \$20million.
- Section 7(c) – The required contents of the Project Specification Report should be subject to available information. The DNSP should not be required to provide any further information on alternative proposals than was provided to it by a non-network proponent.
- Section 7(c)(iii) 1. – Ergon Energy considers that this information should be provided by the non-network proponent in response to the Project Specification Report and that the DNSP would need to assess this aspect of their submission.
- Section 7(d) – Ergon Energy supports the requirement to publish the report on the DNSP’s website and to provide a copy to AEMO within 5 business days.
- Section 7(f) – Ergon Energy does not support a requirement for DNSPs to publish any preliminary or supplementary information. Ergon Energy considers that the report should be a stand alone document and there should not be an ongoing obligation to provide further information. Moreover, it is inappropriate to require DNSPs to make a judgment about whether information is ‘likely to enhance the ability of interested parties to engage constructively in the project specification report consultation process’.

Draft Project Assessment Report

- Section 8(a) – If the DNSP elects to proceed with the proposed investment, Ergon Energy supports a requirement for the DNSP to provide AEMO with a copy of its Draft Project Assessment Report and publish a copy on its website.
- Section 8(c)(v), (vi) & (vii) – A DNSP would only be able to determine the costs and benefits of the options provided by external parties based on information included in their submission. DNSPs should reserve the right to determine if the costs and benefits

provided by external parties are realistic and supportable. Where credible supporting information has not been provided, a DNSP should be entitled to classify the option as not credible.

- Section 8(c)(viii) – Ergon Energy does not support the requirement for a DNSP to provide reasons in the Draft Project Assessment Report for why it has determined that a class or classes of market benefits do not apply to a credible option. This is inconsistent with the stated objective of the RIT-D for the assessment of market benefits to be at the discretion / option of the DNSP as it would potentially require the DNSP to undertake a market benefits assessment for each investment.

Final Project Assessment Report

As per Ergon Energy's suggested process in section 2.3, Part A of this submission, there should be no requirement for a DNSP to publish the Final Project Assessment Report separately and in the DAPR.