

MCE

Ministerial Council on Energy

CHAIR

The Hon Martin Ferguson AM MP
Minister for Resources and Energy

Telephone: (02) 6277 7930 Facsimile: (02) 6273 0434

Dr John Tamblyn
Chairman
Australian Energy Market Commission (AEMC)
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Dr Tamblyn 

TERMS OF REFERENCE – AEMC REVIEW OF NATIONAL FRAMEWORK FOR ELECTRICITY DISTRIBUTION NETWORK PLANNING AND EXPANSION

As outlined in the 2006 amended Australian Energy Market Agreement (AEMA), there are a number of energy distribution and retail regulatory functions currently carried by jurisdictions which are being transferred to the national framework. A number of functions have already been transferred to the national framework as part of the recent economic package. There are some outstanding items currently being addressed by the Ministerial Council on Energy (MCE), which will be implemented via the retail non-economic legislative package. One of the outstanding items to be addressed is the national framework for determining when distribution network extensions are part of a regulated service. This influences the electricity distribution economic network planning framework.

In 2007, the MCE Standing Committee of Officials (SCO) commissioned a report by NERA Economic Consulting (NERA) and the Allen Consulting Group (ACG) to provide advice on a national framework for electricity distribution network planning, connections and capital contribution arrangements. Following the release of the NERA/ACG report titled *Network Planning and Connection Arrangements – National Frameworks for Distribution Networks* in August 2007, there was a period of consultation and receipt of written submissions.

In the process of developing a policy response to the NERA/ACG report's recommendations it has become apparent that, given recent developments in the National Electricity Market (NEM), including the development of a Regulatory Investment Test for Transmission, the proposed introduction of a Carbon Pollution Reduction Scheme and increased Renewable Energy Target and the AEMC review of Demand Side Participation in the NEM, further analysis and consultation is required before the details of the arrangements governing planning and expansion of electricity distribution networks can be finalised.

In this regard, the MCE has agreed to direct the AEMC to conduct a review of the electricity distribution planning and expansion framework and undertake the necessary stakeholder consultation, with the objective of creating a national framework that conforms to the high level policy parameters outlined below.

MCE direction to the AEMC

Section 41 of the National Electricity Law (NEL) enables the MCE to direct the AEMC to review any matter relating to the NEM or any other market for electricity.

Pursuant to section 41 of the NEL, the MCE directs the AEMC to conduct a review into the current distribution network planning and expansion arrangements which exist across the NEM jurisdictions, and propose recommendations to assist the establishment of a national framework for distribution networks, having regard to the National Electricity Objective in the NEL.

The AEMC review shall provide detailed advice on implementation of any recommendations the AEMC considers appropriate to implement a national framework for electricity distribution network planning, which may include changes to the National Electricity Rules (the Rules). The review will not cover distribution network connections or other network access issues as these are to be addressed by the MCE via a separate process.

Purpose of distribution network planning and expansion framework

The specific outcomes intended to be achieved by the National Framework for Electricity Distribution Network Planning include:

- Ensure Distribution Network Service Providers (DNSPs) have a clearly defined and efficient planning process which provides certainty in relation to approval of network expansion and augmentation to maintain the reliability of the electricity supply to consumers.
- Ensure DNSPs develop the network efficiently. This includes addressing a perceived failure by DNSPs to look at non-network alternatives (such as embedded generation, energy efficiency and conservation measures) in a neutral manner when making distribution augmentation assessments.
- Appropriate information transparency to allow:
 - network users, including distributed generators, to plan where best to connect to the network and provide an appropriate regulatory environment to facilitate this;
 - network users to understand how the timing of connection might affect connection charge arrangements, to the extent which connecting users contribute to upstream augmentation requirements; and
 - efficient planning by parties that may offer alternative, more cost-effective solutions to network augmentations to address emerging constraints.

The principal means for achieving these objectives is to require DNSPs to undertake standard and comprehensive forward planning, and where appropriately triggered, conduct a robust economic assessment of alternatives. Information transparency regarding analysis and decisions made, and recourse to dispute decisions where appropriate, are also viewed as being paramount to ensure compliance and accountability.

The above mentioned drivers for electricity distribution network development and planning arrangements are also important within the context of the creation of a consistent national framework, which will look to:

- Ensure a level playing field for all regions in terms of attracting investment and promoting more efficient decisions, in that the same overarching regulatory framework applies across the NEM; and
- Reduce the regulatory compliance burden for participants operating in more than one region in the NEM.

Key elements of the national distribution network planning and expansion framework

The MCE agrees that the national electricity distribution network planning framework should comprise the following key elements:

- The electricity distribution network framework should contain an annual planning process in which DNSPs produce a 5 year forward planning report;
- The report will be published annually and be publicly available;
- At a minimum the annual plan will forecast distribution network constraints. Current jurisdictional distribution planning requirements require planning for load growth generally, or transmission interface specifically, as a basic minimum. Other possible factors for inclusion in the annual plan could include, but be not limited to: adequacy of transmission interchange capacity, general network capacity and summer and winter peak capacity;
- There will be a requirement for DNSPs to undertake case by case project assessments triggered by certain thresholds; and
- There will be a dispute resolution process.

In the context of the specified key framework elements and purpose, the AEMC review should consider:

- The range and level of detail of information required to be included in the annual planning report, balancing the cost of producing the report with the benefit that will potentially be realised by the users of the report;
- The thresholds applied in various levels of the case by case assessments;
- The dispute resolution aspect of the distribution network planning framework;
- The distribution network regulatory test and its application;
- Overlaps with other relevant planning and reporting documents required by jurisdictional regulators or the Australian Energy Regulator;
- The views of non-network proponents on the usefulness and appropriateness of the information for identifying non-network solutions; and
- The cost to DNSPs in producing these reports.

In developing its recommendations and proposed new Rules or Rules changes to implement the national framework for distribution networks, the AEMC should seek to achieve consistency, to the extent appropriate, with the electricity transmission planning framework.

In conducting this review, the AEMC is to consider other relevant current and past reviews and Rules changes. These include:

- The NERA/ACG report Network Planning and Connection Arrangements – National Frameworks for Distribution Networks;
- Jurisdictional regulatory codes and guidelines;
- The Implementation Plan for the National Transmission Planner; and
- The Demand Side Participation Review.

Timing and process

The MCE requires the AEMC to:

- Undertake a formal consultation process including publication of a scoping paper and draft report;
- If considered appropriate by the AEMC, they may also hold a public forum; and
- Provide its final report by 30 September 2009.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'M Ferguson', with a long horizontal flourish extending to the right.

Martin Ferguson