

8 April 2008

Dr John Tamblyn
Chair, Australian Energy Market Commission
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Dear Dr Tamblyn

AEMC Discussion Paper: National Transmission Planner Review

The Energy Networks Association (ENA) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) Discussion Paper – *National Transmission Planner Review* released on 28 March. The ENA has a significant interest in the outcomes of this MCE directed review due to its potential to set a new Regulatory Investment Test (RIT) in the National Electricity Rules which may ultimately apply to distribution networks.

In December ENA wrote to you highlighting that the RIT developed by the AEMC in the context of the electricity transmission sector could be inappropriate when applied to the particular characteristics of the distribution sector. Any test resulting from the current review that was applied to the distribution sector that did not take into account these characteristics would risk not promoting the long term interests of consumers as it would potentially impose high costs on end users of distribution services that were not balanced by commensurate tangible benefits.

These high costs would arise from detailed market benefits assessments being for the first time required on a large volume of continuously developed and delivered distribution network projects that have little or no market impacts, and the disruption of normal network planning processes implicit in the lengthy nature of the assessment processes contemplated by the Commission.

Regulatory Investment Test specification

The *Regulatory Investment Test – Draft Specification* contained in the Discussion Paper has reinforced the distribution sector's initial concerns about the risk of an inappropriate test inadvertently applying to distribution as an outcome of the review. Some examples of areas of concern are:

- the principle (1(f)) of not requiring a level of analysis which is disproportionate to the scale and likely impacts of the options being considered does not appear to be implemented through the draft specification in a way that would make the RIT appropriate for distribution
- a threshold of \$5 million for the conduct of a RIT would capture many distribution projects with little or no market benefits, and represent an effective lowering of the current regulatory test threshold for many businesses (see 3(b)(i))
- the principle of assessing the RIT threshold on the basis of the "most expensive" of the range of credible options compounds the effect described above (see 3(b)(i))

- an allowance of a minimum of 26 weeks for interested parties to comment on project specification reports would be unworkable in a distribution network planning context where many projects will be aimed at delivering reliability in a more dynamic network environment

Energy network businesses do not consider the Council of Australian Governments direction on amalgamating the reliability and market benefits for a new electricity transmission regulatory test to be appropriate for distribution businesses. This is partly due to the fact that the bulk of distribution augmentations do not have market impacts. This feature of distribution augmentations, combined with the significantly higher number of smaller distribution augmentations compared to transmission augmentations, would result in an unmanageable, unnecessary and costly regulatory investment test.

Proposed way forward on distribution regulatory test issues

I note that the issue of a future distribution-specific regulatory test process has been a matter of MCE consideration with a consultation process recently undertaken in response to the release of an Allens/NERA paper on network planning and connection issues. It is critical that industry, MCE Standing Committee of Officials and the AEMC coordinate to ensure that arrangements that are inappropriate for the distribution sector are not the inadvertent outcome of this AEMC review process. The following steps should be pursued to remove this risk:

1. clarification from AEMC that the outcomes of its review of the RIT may not be appropriate for distribution sector; or
2. AEMC amending its proposed draft specification to limit application of any changes to the RIT to the transmission sector until such time as a review of the role of the RIT for the distribution sector has occurred; and
3. consultation, following the release of the AEMC draft determination, on the overall policy objective and role of applying a RIT to distribution and a recommendation for MCE action by way of a rule change or reference for a review to ensure that appropriate arrangements are established for distribution

I emphasise that energy distribution businesses fully appreciate that in the conduct of this review the AEMC is bound to deliver a rule specification appropriate for electricity transmission, and that the Commission has not to date been provided with a remit to review or assess separate arrangements which may be appropriate for distribution. In ultimately assessing the potential benefits of the rule change, however, the negative impacts on all affected parties will be required to be considered.

The suggested steps above seek to avoid these potential negative impacts, and will also be brought to the attention of relevant MCE SCO members. If you would like any further information on the above matters, please contact me on (02) 6272 1555.

Yours sincerely



Garth Crawford
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