



By email: submissions@aemc.gov.au

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Jemena submission on:

**AEMC Draft Report: Review of National Framework for Electricity Distribution Network
Planning and Expansion - Stage 2 Draft Report - 7 July 2009**

Introduction

Jemena appreciates the opportunity to provide comments on the AEMC's stage 2 draft report on its review of the National Framework for Electricity Distribution Network Planning and Expansion.

Jemena directly owns the Jemena Electricity Networks (JEN) distribution network serving some 300,000 consumers in Melbourne. In addition, Jemena Asset Management (JAM) provides asset management services to other Australian electricity (and gas) distribution networks.

Background

We have previously responded to the AEMC scoping and issues paper on the national framework in our submission of 17 April 2009. Some key points made in that submission were:

- To the extent that government policy is trying to encourage non-network solutions, Jemena considers that the answer does not lie solely in additional planning requirements. Rather the focus should be on the regulatory framework and shaping of incentives to moderate the risk associated with non-network solutions, which would thereby encourage their uptake;
- Distribution businesses must have confidence that a new planning framework will allow them to not only efficiently conduct planning, but to develop plans for network development that will ensure their business responsiveness and sustainability to new consumer expectations (such as smart network solutions) in the medium and longer term.

These remain key concerns for Jemena. Nevertheless, given that the AEMC has moved beyond the initial analysis in its scoping and issues paper to firmer conclusions in its stage 2 draft report, Jemena has provided its attached comments. In general, these support the Energy Networks Association (ENA) submission and the joint submission from the Victorian electricity distribution businesses.

Jemena looks forward to participation in further stages of the review. If required, I can be contacted on (02) 9270 4512 or email: sandra.gamble@JEN.com.au.



Yours sincerely

A handwritten signature in black ink that reads "Sandra Gamble". The signature is written in a cursive, flowing style.

Sandra Gamble
Group Manager Regulatory

**AEMC Draft Report: Review of National Framework for Electricity Distribution Network
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Jemena comments

1. Implementation and transition

Jemena strongly supports the ENA view that the national framework must not lead to the duplication of planning arrangements, nor result in overlapping compliance obligations. Jemena suggest that to implement the national framework without overlap and disruption will require the development of a detailed and comprehensive transition and implementation plan by the AEMC.

Jemena notes that the present jurisdictional arrangements are frequently licence conditions (for example, transmission interconnection planning by distributors in Victoria) and that it would not be appropriate for the new Rules-based framework to overlay these arrangements.

Equally, it would not be appropriate for a distribution project initiated under one planning regime to be subject to further assessment under the new regime.

Jemena notes that DNSPs will need varying periods to establish the processes required under the new framework, depending on how similar these processes are to current jurisdictional arrangements. A sufficient period for transition to the new framework should be allowed.

2. Forthcoming price reviews

Jemena notes that the draft report suggests that the first distribution annual planning report (DAPR) should be published by 31 December 2010. The forthcoming Victorian distribution price review process formally commences in November 2009, and the commencement of the next regulatory control period in Victoria (1 January 2011) appears the most appropriate time for implementation of the new national framework in Victoria.

3. Annual planning process

Jemena supports a consistent national planning process for electricity distribution businesses and agrees with the draft report recommendation for a process covering a period of five years. A forward planning period of ten years for transmission activities is also appropriate.

At the same time, the practicalities of each DNSP's circumstances need recognition. Many investments (especially small ones) which DNSPs must make are not amenable to a systematic process which takes forecast loads, compares them with system capability, and then formally plans the augmentation of that capability.

The AEMC's general approach in the draft report is to endorse a regulatory and compliance regime directed at enforcing prescriptive consultation and planning requirements. Jemena considers that a prescriptive process is not required to ensure the effective engagement of non-network proponents. The draft report's approach is also at odds with the AEMC's former conclusion that the current economic regulatory framework provides sufficient incentive to encourage efficient DSP¹.

Jemena suggests that there is no need to impose additional obligations on DNSPs to proactively seek DSP solutions as part of the of the regulatory planning requirements, given that service standards schemes, efficiency benefit schemes and capital return already drive distributors towards an efficient level of DSP implementation.

4. Distribution annual planning report

¹ AEMC Draft Report, *Demand-Side Participation in the National Electricity Market*, April 2009, p. 17.

The draft report proposes that the distribution annual planning report (DAPR) must be certified by the chief executive officer and a director or company secretary. This is an extreme degree of certification to be required by the Rules. Typically, semi-technical reports like the DAPR are approved for release at the level of general manager. To obtain a director's sign-off would require engagement of an external expert to endorse the report. Jemena does not consider that it is appropriate for approval to be at director level. The DAPR should not go beyond CEO level and preferably should only require approval by the appropriate executive.

5. Transmission connection planning in Victoria

Jemena welcomes the AEMC's recognition of the need for the national framework to accommodate the unique transmission connection planning arrangements in Victoria. At the same time, Jemena considers that there is lack of clarity regarding application of a regulatory investment test to transmission connection assets that does not appear to have been addressed by the proposals set out in the draft report. This issue is extensively discussed in the joint Victorian DNSPs' submission, which also suggests a possible solution to resolve the issue.

6. Other joint planning issues

At the public forum on 5 August, representatives of the Victorian DNSPs noted difficulties that they had recently experienced in undertaking joint planning with AEMO (formerly VENCORP). This planning dealt with transmission connection projects that also involved shared transmission network augmentation. The Victorian DNSPs joint submission discusses this issue in detail.

In this regard, Jemena welcomes the recent initiative by the AEMC to arrange a meeting in the near future with all interested stakeholders to discuss the joint planning arrangements in Victoria.

7. Reporting requirements

Jemena endorses the ENA's comments regarding the proposed reporting arrangements, which it sees as going significantly beyond current jurisdictional requirements. The draft report's recommendations would require the duplication of significant amounts of information which are published in other documents. Jemena supports the ENA proposal that the content of the DAPR should simply reference web sites where current information can be obtained on items such as asset management and network performance.

8. Regulatory investment test for distribution

Jemena acknowledges that a well designed consultation process for new distribution network investment should encourage parties to identify and evaluate practical non-network augmentation.

At the same time, Jemena agrees with several concerns expressed by the ENA with the process proposed in the draft report for applying the regulatory investment test for distribution (RIT-D). In particular, the multi-stage approach to the RIT-D is excessively complex for the planning environment faced by DNSPs including the relatively large number of projects which they are required to implement. Additionally, the proposed threshold at which the Test would apply is too low and does not align with the threshold level for transmission. The result will be an unnecessary administrative burden imposed on DNSPs in providing excessive information.

Jemena therefore strongly supports the proposals for a redefined test and simplified process outlined by the ENA including:

- the RIT-D threshold to be set (initially) at \$5 million
- simplification and clarification of the specification threshold test.

Exclusions from the RIT-D

Jemena does not support the exclusion of certain classes of network expenditure from the scope of the RIT-D, such as IT and communications equipment investment. Such expenditure will be an

essential component of smart grid investment in the future, and needs to have benefit assigned to it to the extent that the expenditure will form part of a DNSP's regulatory asset base.

9. Dispute resolution

Jemena strongly supports the draft report's proposal that the dispute resolution process be limited to compliance by a DNSP with the Rules in relation to its application of the RIT-D to specific distribution investments.

In assessing that compliance it is vital that the elements of compliance be specified with sufficient clarity, either in the Rules, in AEMC guidelines or in a document submitted by a DNSP and approved by the AER.

The ENA submission raises a number of concerns with the proposed dispute resolution process, and makes some alternative suggestions. Jemena supports the ENA proposals.