



**ActewAGL**  
Always.

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Dr John Tamblyn  
Chairman  
Australian Energy Market Commission  
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Dear Dr Tamblyn

**Submission responding to Australian Energy Market Commission (AEMC)  
Scoping and Issues Paper**

Thank you for the opportunity to comment on the Scoping and Issues Paper which commences the AEMC's review of the *Electricity Distribution Network Planning and Connection Framework*. ActewAGL understand that the AEMC is working under a Terms of Reference from the Ministerial Council on Energy (MCE) to develop recommendations on the appropriate design of a national framework for electricity distribution network planning.

In February this year, ActewAGL Distribution lodged a submission responding to an earlier policy response proposal released by the MCE Standing Committee of Officials (SCO). ActewAGL Distribution is pleased many of the issues raised in stakeholder submissions have been referred to the AEMC for review.

ActewAGL Distribution's submission focuses on the intent of the national planning framework and how it fits within current network business planning processes and currently published information. The attached submission details our comments.

ActewAGL Distribution looks forward to continuing to work with the AEMC throughout this review. Please contact Janusz Worony, Manager Strategy and Regulatory, on (02) 6248 3190 if you would like to discuss the submission.

Yours sincerely

Michael Costello  
Chief Executive Officer

REVIEW OF NATIONAL FRAMEWORK FOR ELECTRICITY  
DISTRIBUTION NETWORK PLANNING AND EXPANSION

# ActewAGL Distribution Response to AEMC Scoping and Issues Paper

April 2009



## 1. Introduction

ActewAGL Distribution welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) Scoping and Issues Paper (the Issues Paper) which represents the initial phase of its review of the National Framework for Network Planning and Expansion. ActewAGL Distribution has previously provided comment at earlier stages of this project on the NERA/Allen Consulting Group (ACG) report and the Ministerial Council on Energy (MCE) Standing Committee of Officials' (SCO's) Policy Response Paper. ActewAGL Distribution offers electricity, natural gas, water and wastewater services. ActewAGL Distribution owns and operates the electricity network connecting to approximately 156,000 customers in the ACT.

The *MCE SCO Terms of Reference* sets out a number of factors to be included as part of the national framework for distribution network planning. The Issues Paper calls for views on the scope and objective of the Annual Planning Report (APR), the design of the project assessment and consultation process and the scope of projects to be subject to the Regulatory Investment Test (RiT-d). ActewAGL Distribution's submission focuses on the intent of the national planning framework and how it fits within current network business planning processes and currently published information.

## 2. Scope and Approach

ActewAGL Distribution understands that this review is aimed at developing recommendations on the appropriate design of a national framework for electricity distribution network planning<sup>1</sup>. Within this framework, the AEMC is considering the appropriate scope of a requirement for DNSPs to publish an APR, and the relationship between that report and the RiT-d and the Request for Proposal (RFP) process.

ActewAGL Distribution supports the AEMC's stated decision making criteria for the national planning framework to accommodate jurisdictional variations, minimise burden, encourage efficient market planning and ensure a level playing field across regions<sup>2</sup>. These criteria, however, do not establish the objective for the framework and how it will meet the long term interests of consumers. While ActewAGL Distribution recognises that some aspects of the framework have been established through the terms of reference, it is still important to ensure the entire framework is structured to ensure that it meets its objectives.

In forming recommendations, ActewAGL Distribution therefore considers it important for the AEMC to clearly determine the purpose, intent and audience of each stage of the planning process, and how each stage will contribute to the overall objective of the planning framework. ActewAGL was expecting this as an important early step in the review process.

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<sup>1</sup> AEMC, 2009, *Scoping and Issues Paper: Review of National Framework for Electricity Distribution Network Planning and Expansion*, p. 1

<sup>2</sup> AEMC, 2009, *Scoping and Issues Paper: Review of National Framework for Electricity Distribution Network Planning and Expansion*, p. 9

It is also important for the AEMC to consider information currently available in the market and ensure that the information requirements of the annual planning report and associated documents address a clearly defined need and ultimately deliver benefits to consumers. Requirements to include additional information will increase the cost and regulatory burden and should be only imposed if a clear benefit is established. This approach will ensure that the planning documents are well targeted and do not overlap in purpose or scope with other documents currently produced by distribution businesses or market bodies. For example, key information documents currently or soon to be available include:

- AER annual state of the market report;
- AER distribution performance reporting under chapter 6 of the Rules; and
- Jurisdictional technical and compliance reporting.

Distribution businesses also develop detailed submissions for the AER on a regular basis setting out forecast network maintenance, replacement and augmentations as part of the next price review period. These submissions undergo public consultation and a thorough assessment by the AER, including assessment of the extent to which the network business has considered and made provision for non-network alternatives.<sup>3</sup>

ActewAGL Distribution considers that the proposed APR would need to fit within these existing publications and not lead to overlapping and duplicative reporting requirements. In this respect, reporting requirements established by the AER through annual compliance reporting templates need to be harmonised with reporting requirements under the planning report to ensure that distribution businesses are not subject to inconsistent requirements that significantly increase compliance costs.

ActewAGL Distribution suggests the AEMC consider the relationship between the proposed network planning report and other information available in the market, and assess ways in which existing processes and reports can be efficiently used to deliver the outcomes sought from the planning framework.

The Issues Paper asks whether the review should be extended to include alternative control services and negotiated services. ActewAGL Distribution believes this would be an unnecessary extension of the scope. The Law and Rules provide for separate treatment of alternative control and negotiated services, recognising that they differ from standard control services and may warrant a less prescriptive approach to regulation<sup>4</sup>. All of ActewAGL Distribution's regulated services are classified as direct control services. ActewAGL Distribution does not have any services classified as negotiated services and Alternative Control Services only cover the provision and servicing of all meters for customers consuming less than 160 MWh per year, which are not relevant to the planning framework.

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<sup>3</sup> National Electricity Rules cl. 6.5.7(e)(10)

<sup>4</sup> "The purpose of an alternative control mechanism is to give the AER the discretion to apply a different form of regulation to that applied to standard control services." AER. 2008. *Statement on control mechanisms for alternative control services for the ACT and NSW 2009 distribution determinations*. P.8

### *Trade-off between compliance costs and information provision*

Compliance with legislative requirements and standards is a key driver of the administrative costs for ActewAGL Distribution<sup>5</sup>. In shaping the requirements for the annual planning report, it is therefore important to balance the information provided against the costs, considering the purpose to which the information is to be put. For example, it may not be efficient to place detailed planning information including consideration of options in an annual planning report where this information is more appropriately included as part of the RiT-d or RFP process.

ActewAGL Distribution considers that the APR should provide enough information for proponents of alternative solutions to identify potential opportunities for demand management that it can pursue through further requests for information from the distributor. This approach recognises that not all distribution augmentation projects are suitable for demand management, but allows the demand management proponent to understand where opportunities may arise. Later stages in the planning process, such as the application of the RiT-d and the RFP process can include more detailed information to allow a demand management proponent to develop a detailed proposal.

Consideration of the trade-off between compliance costs arising from information requirements and the benefits of more information being available should also consider the incentives distribution businesses currently face to pursue demand management. The AER has recently published its demand management incentive scheme under the NER. The application of this scheme to individual businesses is intended to increase incentives for assessing and delivering efficient demand management solutions. It is therefore important to consider the impact that these incentives will have on the uptake of demand management options independent of imposing additional prescriptive regulatory requirements.

### *Relationship with TNSPs*

The Commission has stated it will have regard to differences between transmission and distribution networks<sup>6</sup> in this review. ActewAGL Distribution considers that there are key differences between transmission and distribution network planning processes and drivers. Distribution businesses are likely to have a large number of individual investment decisions of varying sizes, unlike transmission businesses which generally have a small number of large investment decisions. This means there are higher costs imposed on distribution businesses by reporting and information obligations. It is therefore important to consider the differences between transmission and distribution businesses in the AEMC review.

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<sup>5</sup> ActewAGL Distribution, 2008, *ActewAGL Distribution Determination: Regulatory Proposal to the Australian Energy Regulator*, p.49

<sup>6</sup> AEMC, 2009, *Scoping and Issues Paper: Review of National Framework for Electricity Distribution Network Planning and Expansion*, P. 9

### **3. ActewAGL's current planning arrangements**

ActewAGL has in place an extensive network planning and asset management framework which includes a Network Ten Year Augmentation Plan. This Augmentation Plan is a key element of ActewAGL Distribution's network planning and management approach. The plan is reviewed and updated annually. Its primary objectives are to provide network augmentation and demand management strategies, programs based on the current network capabilities and performance, projected load growth, performance improvement requirements and regulatory compliance requirements.

ActewAGL Distribution also undertakes an annual joint planning exercise with relevant transmission network service providers, for a five-year planning horizon. This is in line with existing planning requirements in Chapter 5 of the National Electricity Rules (NER). As part of the joint planning process, ActewAGL Distribution must provide NEMMCO with forecast load and planning information. Where the planning process uncovers an expected limitation in the network, and the proposed network option to address that limitation would not be a small distribution network asset (that is, would be greater than \$10 million), ActewAGL Distribution must apply the regulatory test published by the AER. This involves consulting with registered participants, NEMMCO and interested parties on possible options, including demand side options, generation options and market network service options, to address projected limitations in the network. Any network options recommended as a result of this regulatory test process must be available for service by the agreed time, and must include the costs of relevant assets in the calculation of distribution service prices determined in accordance with Chapter 6 of the NER<sup>7</sup>.

The proposed distribution APR must fit in with the current business planning cycle to ensure that information is available at the appropriate time and the reporting requirements do not place unnecessary additional costs through duplicative processes.

ActewAGL Distribution considers it would be appropriate for the distribution network's APR to be due with or after the transmission's APR is due on June 30 each year. This means the results of the Annual Planning Review between transmission businesses and DNSPs would be available for inclusion in the APR.

### **4. National Planning Framework**

#### *Annual Planning Report*

MCE SCO has directed the AEMC to include a published annual report in the planning framework. As noted by the AEMC, there are no existing requirements on ActewAGL

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<sup>7</sup> ActewAGL Distribution, 2008, *ActewAGL Distribution Determination: Regulatory Proposal to the Australian Energy Regulator*, p.67



Distribution to publicly release an APR in the ACT<sup>8</sup>. This means the introduction of new planning requirements will call for added resources and create costs not previously imposed on the business. The AEMC must ensure that the APR is not overly burdensome and the obligations are proportional to the benefits that can be expected for consumers. This outcome can be assisted by ensuring that the APR only includes useful, relevant information tailored to the audience for the document, and that is appropriate for the stage of the process.

ActewAGL is already required to submit detailed planning arrangements through other regulatory obligations. Furthermore it is in ActewAGL's interest to have its own planning system in place to make decisions on expenditure and to comply with service standard requirements. An APR is not necessary to create business incentives for planning within the business; ActewAGL Distribution considers that its aim is instead to provide transparency in the consideration of options for augmenting the network to minimise overall network costs whilst meeting service standards. The APR should not, however, include detail that is more appropriately included in RFPs or in the application of the RiT-d. This level of detail, particularly over a five year period, is unlikely to lead to benefits for customers and will considerably increase compliance costs. This is because network options and opportunities change over time, including in response to changes in demand, and detailed information included in the APR on projects some years away is unlikely to be relevant at the time of the investment decision.

The AEMC paper suggests specific content requirements the APR could include:

- 5 year demand forecasts
- Forecast of network problems and constraints
- Potential solutions to constraints including case by case project assessments and public consultations
- Outcomes of TNSP and DNSP joint planning
- Forecast of network capacity.

ActewAGL Distribution considers the level of analysis undertaken should vary with the scale of each project. Assuming the APR is the first point of assessment, the level of detail of information should be kept to the minimum required to deliver outcomes sought by the report. When projects are identified as candidates for further consultation in later stages of the planning process, a higher level of detail can be provided.

### *Regulatory Investment Test*

The AEMC has suggested the regulatory test threshold for distribution assets be reduced to \$5 million, with the exception of unforeseen investments, investments related to the provision

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<sup>8</sup> AEMC, 2009, *Scoping and Issues Paper: Review of National Framework for Electricity Distribution Network Planning and Expansion*, P. 14



of connection or negotiated services, and transmission projects which only involve replacements<sup>9</sup>. ActewAGL proposes that the distribution regulatory test only apply to network augmentations and does not apply to the replacement of assets.

ActewAGL Distribution notes that the NERA/Allen paper suggested that projects with capital expenditure greater than \$500,000 be subject to an economic cost assessment and projects which cost greater than \$2 million be subject to public consultation and issue RFP for non-network solutions. These thresholds are significantly lower than those which currently apply to distribution assets. NERA/Allen's proposed thresholds were strongly opposed in ActewAGL Distribution's previous submission.

Customers ultimately bear the costs of highly detailed information and project assessment requirements. The AEMC must therefore balance the costs and expected benefits of the regulatory test in light of existing incentives to employ demand management techniques<sup>10</sup>. ActewAGL Distribution considers that the regulatory investment test applying to distribution businesses should be simplified compared to the proposed new test for transmission and that regulatory test thresholds be reviewed every three years.

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<sup>9</sup> AEMC, 2009, *Scoping and Issues Paper: Review of National Framework for Electricity Distribution Network Planning and Expansion*, P. 22

<sup>10</sup> ActewAGL Distribution, 2009, Response to MCE SCO Policy Response, p.4