

9 August 2012

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South, NSW 1235

via website: submissions@aemc.gov.au

Dear Mr Pierce

ERC0131 – Distribution Network Planning and Expansion Framework – Draft Rule Determination

The Energy Networks Association (ENA) is pleased to have this opportunity to respond to the Australian Energy Market Commission's Draft Rule Determination on the Distribution Network Planning and Expansion Framework.

The ENA is the peak national body for Australia's energy networks, which provide the vital link between gas and electricity producers and consumers. The ENA represents gas distribution and electricity network businesses on economic, technical and safety regulation and national energy policy issues.

Energy network businesses deliver electricity and gas to over 13.5 million customers, employ more than 40,000 people and contribute approximately 1.25 per cent to Australia's gross domestic product. Energy is delivered across Australia through approximately 48,000 km of transmission lines, 800,000 kilometres of electricity distribution lines and 81,000 kilometres of gas distribution pipelines. Energy network businesses are valued at more than \$60 billion and annually undertake investment of more than \$6 billion in network operations, reinforcement, expansions and greenfields extensions.

The Rule change presents a series of interrelated and complex regulatory compliance issues for all distribution network service providers (DNSPs) and the ENA acknowledges the Commission's attempt to address these issues in its Draft Rule and Determination. The ENA is pleased that the Commission has addressed many of the issues previously raised by its members but notes that a number of changes would further improve the draft Rule and importantly, avoid material and unnecessary costs being incurred by distribution businesses, which are ultimately passed onto customers.

In particular, it is expected that distribution businesses will experience significant implementation and ongoing costs associated with:

- The proposal for DNSPs being required to complete a Regulatory Investment Test for Transmission (RIT-T) for all joint planning projects, even where such development involves minimal transmission network investment. DNSPs would be required to implement and maintain compliance with not only the RIT-D but also the RIT-T, which is an additional costs not borne by transmission network service providers. In addressing this issue ENA suggests that the AEMC should amend clause 15.4.1(a)(d)(4)(iii) of the draft rule so that:

Where the project is determined to be a RIT-T project, the Transmission Network Service Provider is deemed the lead party responsible for carrying out the regulatory investment test for transmission, unless otherwise agreed between the parties.

- Applying the RIT-D to the ‘most expensive’ option, which would capture all but the smallest distribution projects. The requirement that the RIT-D cost threshold be applied to the most expensive potential credible option is inconsistent with the intention of having a cost threshold that attempts to address the currently disproportionate regulatory burden on DNSPs. The cost threshold as currently drafted will yield the following outcomes:
 - A RIT-D will be required for a \$1M capital project because the most expensive option (e.g. a substation) is \$10M; and
 - A RIT-D will not be required for a \$4M capital project if it is the most expensive option.

If the intention behind the ‘most expensive’ threshold is to provide adequate incentive on DNSPs to comply with the Rules the most cost effective solution would be to rely on existing compliance mechanisms under the responsibility of the AER;

- Unnecessary duplication of reporting requirements in the Distribution Annual Planning Report, which are already provided for in RIT-D reports. For example, S5.8 (b)(2)(vi), S5.8(c)(4), S5.8(c)(5), S5.8(d)(6), S5.8(d)(7), S5.8(e), S5.8(g), S5.8(h), S5.8(i), and S5.8(l)(1) are all clauses that should be removed from the reporting requirements of the DAPR as it would involve including information that is already provided for in RIT-D reports; and
- Significant delays from identifying project limitations to commissioning due to protracted RIT-D assessment and dispute timeframes. ENA members do not support a four month consultation period on non-network options as it is disproportionate to other consultation periods already in the Rules. It is also expected that due to the greater number of potential parties that can raise a dispute, DNSPs will incur costs for every project that is delayed.

In addition to the above comments and costs concerns, ENA wishes to raise other changes that would further improve the draft Rule:

- Jurisdictions should be able to prescribe the start date of the forward planning period. The publication date of the DAPR needs to be on a jurisdictional basis, due to the fact that networks have different planning drivers and rely on up to date seasonal data to finalise planning forecasts;
- The Commission should confirm in its Final Determination, that quantification of market benefits is optional under the RIT-D and if a DNSP elects not to quantify market benefits then this decision should not be subject to the dispute resolution process;
- ENA disagrees with the Commission’s view that ‘commercially feasible’ and ‘economically feasible’ are interchangeable expressions. ENA is concerned that without clarification DNSPs will adopt materially different interpretations;

Given the increasing pressure on network business for increasing cost efficiencies, the ENA strongly urges the Commission to ensure that the implementation and ongoing costs associated with this Rule change are taken into consideration and are outweighed by realisable benefits to customers.

The ENA appreciates the work put into this Rule change by the AEMC and appreciates the opportunity to continue to contribute to its development. If you have any questions please contact Jim Bain on 02 6272 1516.

Yours sincerely

A handwritten signature in black ink, appearing to read "M Roberts". The signature is fluid and cursive, with the first name "M" being particularly prominent.

Malcolm Roberts
Chief Executive