

21 December 2007

Dr John Tamblyn
Chair
Australian Energy Market Commission
PO Box A2449
Sydney South
NSW 1235

Dear Mr Tamblyn

AEMC Issues Paper: National Transmission Planning Arrangements

The Energy Networks Association (ENA) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) issues paper – *National Transmission Planning Arrangements (9 November 2007)* as part of the Ministerial Council on Energy (MCE) directed review of the development of an implementation plan for a national electricity transmission planning function (the review).

Relevance of the AEMC review to distribution networks

ENA agrees with the AEMC that the AEMC's primary task in this review is to design a regulatory investment test (RIT) which is fit-for-purpose for transmission, not distribution. AEMC has stated the MCE's direction was related specifically to transmission. In addition to this, it is important that the AEMC recognises that the yet to be finalised RIT, in the proposed form for transmission businesses, may not be appropriate for distribution businesses, and hence, should not be used as a template for distribution businesses.

ENA considers that although this review is targeted towards the establishment of a new RIT and the establishment of a new National Transmission Planner (NTP) for transmission businesses, the outcomes of the review may influence the future outcome applicable to distribution businesses. The parts of this AEMC review that could be applicable to distribution businesses include the development of the RIT, as the current regulatory test applies to both transmission and distribution, and the development of the structure and governance arrangements of the NTP.

Energy network businesses do not necessarily consider any of the proposed options for amalgamating the reliability and market benefits 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.

In this regard, ENA supports the recent ETNOF rule change proposal as provided to the AEMC for lifting thresholds for the application of the regulatory test. In spite of this, ENA considers it essential that prior to the development of a regulatory test for distribution networks, an overall policy objective for the regulatory test needs to be established. The objective should then be used as the basis for devising a potential regulatory test for distribution businesses. Without a clear purpose for the regulatory test, development of a regulatory test may result in negative consequences for all stakeholders.

Development of the RIT as potentially applicable to distribution networks

The MCE is currently reviewing a national framework for distribution networks which includes consideration of network planning. Within Energy Market Reform Bulletin No.99, SCO stated that it may consider progressing any of the recommendations relating to network planning distribution businesses through either the AEMC rule change processes and/or as part of the non-economic retail package. ENA considers the AEMC an appropriate body to review national network planning issues for distribution businesses including the nature and form of any test applying to distribution. If SCO considers it appropriate to conduct the review process, then the outcomes of this current AEMC review may influence the outcome of the treatment of the regulatory test as applicable to distribution businesses.

Whichever rule development route is adopted, ENA considers the following principles should be applied, the regulatory test for distribution should:

- be practical, applied at a level higher than currently, replicable, and based on existing information for most projects
- be simple and clear to apply
- exclude from its scope network reconfiguration and refurbishment expenditure
- in comparison to the current test which consists of cost thresholds that are too low and therefore disproportionate in determining the extent of assessment and consultation required be revised to reflect commercial conditions
- not extend the time taken to complete the investment decision making process
- allow for differences between transmission and distribution businesses
- not delay current project delivery timelines
- not increase the current time taken to apply the investment test and
- take into account any service incentive schemes applicable to distributors

Governance arrangements for the NTP

The AEMC has outlined a range of possible options of the form that the NTP could take. The spectrum of possibilities provided include on the one end, an administrative body within the existing AEMO, in contrast to an independent and separate entity with a board separate to AEMO but where AEMO resources are shared. ENA understands that the governance arrangements are focused on a NTP, but as already outlined, the final outcome may potentially influence the arrangements applicable to distribution businesses. Within this context, ENA has developed a set of broad principles that it considers should apply to the NTP:

- A business would be unable to legally rely on an assessment of a regulatory test conducted by the NTP, hence, the NTP should not undertake the task of assessing a businesses project against a regulatory test

- Duplication should be avoided where possible, for example, where AEMO has available relevant data/statistics to the NTP's role, this information should be shared
- The role of the NTP should not go beyond gathering and publishing information, that is, a descriptive role
- With a descriptive role, the NTP could be formed as a committee within AEMO, its role could include consultation with stakeholders and provision of sufficient resources to gather and publish relevant information
- Member appointment to a potential NTP committee should be based on relevant skills and experience
- Matters of independence, accountability and funding should be consistent with AEMO's governance arrangements which are yet to be finalised within a separate MCE process

ENA recommends that the AEMC take into consideration the above broad comments in considering its recommendations in the establishment of the new NTP and development of the new transmission RIT. If you would like any further information on the above matters, please contact me on (02) 6272 1555.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'ABlyth', followed by a period.

Andrew Blyth
Chief Executive Officer