

13 August 2009

Mr John Tamblyn
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Australian Energy Market Commission
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Dear Mr Tamblyn

Re | Review of the National Framework for Distribution Network Planning and Expansion (Draft Report)
AEMC Reference - EPR0015

AEMO is pleased to be able to respond to the AEMC's Review of the National Framework for Distribution Network Planning and Expansion. AEMO considers the interface between distribution and transmission networks to be important particularly in the light of current market developments such as climate change policies. AEMO holds a strong view that improvements can be made to the current Joint Planning obligations in the National Electricity Rules.

A consistent national framework

AEMO concurs with the AEMC's draft findings regarding Joint Planning. Joint regulatory test assessments (in the form of the regulatory investment test for transmission when it commences operation) between TNSPs and DNSPs is the best means to achieve efficiency and reliability of supply. AEMO supports the alignment of Transmission Network Service Provider (TNSP) and Distribution Network Service Provider (DNSP) reporting requirements. AEMO also supports consistency in DNSP reporting requirements across the NEM and the alignment of the transmission and distribution regulatory test processes. Each of these elements will play an important role in delivering a truly national grid and facilitate AEMO's National Transmission Planning roles and functions.

Demand Side Response – Information Standardisation and Dissemination

AEMO agrees with the broad direction of the AEMC's process development and information dissemination requirements in respect of demand side response initiatives. In developing these requirements it is appropriate to understand the capabilities of demand side providers and the commercial realities in participating in these markets. In AEMO's experience, demand side providers have little capacity to deal with variations in process. Therefore to address these limitations AEMO suggests that the AEMC consider potential opportunities to provide a single NEM wide process that applies to all DNSPs such as a common Demand Side Engagement Strategy. As an initial step, the AEMC may wish to consider common

strategies for DNSPs in the same jurisdiction. Examples already exist where DNSPs have developed a common standard or process that applies to their jurisdiction. B2B (see section 7.2A of the National Electricity Rules) is an example of DNSPs working with core stakeholders (in this case retailers) to develop a consistent process that applies to all DNSPs in the jurisdiction.

Information dissemination requirements should also consider the commercial realities for demand side providers. Requiring targeted and useful information to be made available to potential demand side providers will enable such providers to respond more effectively to identified needs.

Victorian transmission planning arrangements

Under the Victorian Transmission Planning arrangements AEMO is responsible for planning and directing the augmentation of the Victorian shared transmission network and providing all shared transmission network services¹. Consistent with this, at least in the case of a non-contestable augmentation, the declared transmission system operator for that network, is prohibited from augmenting the shared transmission network unless AEMO authorises or directs it to carry out that augmentation². Instead, the declared transmission system operator is responsible for providing the connection services. In Victoria, these connection services are planned by DNSPs in accordance with their licence obligations.

New terminal stations, or upgrades to existing terminal stations, typically result in augmentations to both the shared transmission network and connection assets. While the Rules deem connections between TNSPs and DNSPs to provide prescribed transmission services, the same does not apply to shared network augmentations resulting from a new or modified connection. These are more likely to provide negotiated transmission services as referred to in Chapter 5 of the Rules.

In order for AEMO to authorise or direct an augmentation to the shared transmission network it must undertake a cost benefit analysis and, in most cases, apply a probabilistic planning approach³. Therefore, even if a shared network augmentation could be classified as providing a prescribed transmission service by virtue of the Rules definition (eg. because the augmentation is required to meet a prescribed network performance requirement or, although it results in such a requirement being exceeded, the augmentation system has system wide benefits), AEMO cannot automatically authorise the augmentation.

AEMO considers that, if an investment that spans both networks is the investment option that has the greatest net benefit when a probabilistic planning approach is applied, then the associated costs may appropriately be passed onto all consumers in the TNSP's region.

¹ Section 50C of the National Electricity Law.

² Section 50F(1) of the National Electricity Law.

³ Section 50F(2) of the National Electricity Law.

This is because this is the option that provides the maximum net economic benefit to the market and so should be paid for by the market.

Economic planning is a very complex undertaking that involves a number of separate steps, forecasts, assumptions and calculations. The assessment of a project's optimality and economic efficiency can vary markedly depending on one's views of those forecasts and assumptions and on the methodology of carrying out the calculations involved in undertaking a regulatory test.

Consequently, as a result of its NEL planning obligations and the desire to send the appropriate pricing signal, AEMO's view is that, before it is able to direct an augmentation to the shared transmission network that arises from a need identified on a particular DNSP's network in circumstances where the costs of the augmentation are to be recovered through transmission service (or system) charges, AEMO would need to be satisfied that the augmentation passes the applicable regulatory test analysis. Joint Planning therefore requires appropriate sharing of information between all parties involved in the conduct of the applicable regulatory test.

AEMO disagrees with the possible assertion that this process will impede a DNSP's flexibility to adopt a reliability planning standard. The AEMC was able to suggest an economic solution to achieve a reliability outcome in its regulatory investment test for transmission framework development, and AEMO sees no hindrance in being able to apply the same principles underpinning the Joint Planning framework to this Joint Planning process. Having said this, AEMO has not to date seen any transmission network augmentations arising from a distribution network requirement that could not be justified on net economic benefit grounds rather than solely on reliability grounds. Consequently, AEMO's preference in this respect is to adhere to the discipline that the economic planning test applies to the greatest extent possible.

In the event that a DNSP is not satisfied with AEMO's involvement, the installation of the assets and the provision of the shared transmission network service may proceed as a negotiated transmission service.

Connection Arrangements

A final concern that AEMO considers should be addressed as part of this Review relates to the connection application process. Whenever Joint Planning identifies a requirement for a shared transmission network augmentation as a result of a proposed connection then, as with all other connection application processes, the DNSP should be obliged to make a connection application to the Network Service Provider. Currently, AEMO enforces that requirement on DNSPs and believes that it is essential that it continues. The reason for this is that it ensures that any connection (or modification of any existing connection) will need to comply with the access standards set out in Chapter 5. Without clarity in the Rules that a DNSP is required to make a connection application under Chapter 5, there is no guarantee that those access standards will be met.

If you have any questions or queries please contact Franc Cavoli on (03) 8664 6616.

Yours sincerely



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