31 May 2012

Jemena Electricity
Networks (Vic) Ltd
ABN 82 064 651 083

321 Ferntree Gully Road
Mount Waverley VIC 3149
Locked Bag 7000
Mount Waverley VIC 3149
T +61 3 8544 9000
F +61 3 8544 9888
www.jemena.com.au

Ms Caroline Taylor
Australian Energy Market Commission
POP Box A2449
Sydney South NSW 1235

Dear Ms Taylor

National Electricity Amendment (Distribution Losses in Expenditure Forecasts) Rule 2012

Jemena Electricity Networks (Vic) (**Jemena**) welcomes the opportunity to respond to the Australian Energy Market Commission's Consultation Paper on the proposed National Electricity Rule (**NER**) Change relating to relating to the cost of distribution network losses.

Our key messages are:

Jemena is supportive of the principle that Distribution Network Service Providers (**DNSPs**) should consider the cost of network losses in network planning and investment decisions.

Jemena does not support the Rule change proposal by the Copper Development Centre (**CDC**). Instead we suggest it would be more appropriate to make a rule change in Chapter 5 of the NER requiring DNSPs to consider the cost of network losses in network planning and investment decisions.

Jemena detailed response is set out in Attachment 1.

If you have any any questions in relation to this submission, please contact me on (03) 8544 9442 or by email siva.moorthy@jemena.com.au.

Yours sincerely

Siva Moorthy
Manager Network Regulation and Strategy

Annexure – 1

Jemena Electricity Networks (Vic) response to the National Electricity Amendment (Distribution Losses in Expenditure Forecasts) Rule 2012

Discussion

In 2001, the Office of the Regulator-General Victoria (now the Essential Services Commission of Victoria) placed obligations in the Electricity Distribution Code requiring distributors to take cost of losses into consideration in network planning decisions. This was done following the Electricity Distribution Price Review in 2000. Jemena have been complying with this requirement by taking into consideration the cost of distribution losses in our investment analysis at a project level.

When making a capital investment decision to address the projected limitations of the distribution system, the NER requires a DNSP to carry out an economic cost effectiveness analysis of possible options and to identify options that satisfy the regulatory test—that is, the preferred option has to either maximise the net economic benefit or minimise the cost of meeting a reliability or compliance requirement. Network losses are included at the time when these economic benefit assessments are performed. We believe a requirement to consider losses at the time of proposing a capex and opex expenditure forecast in a regulatory submission is not practical. Hence, Jemena does not support the Rule change proposed by CDC in s6.5.6 of the NER.

Jemena is supportive of network losses being considered under the proposed RIT-D framework. We understand the RIT-D framework applies to investment that is greater than $5 million or more. To address the issue raised in CDC's rule change request, we believe it is appropriate to place a general requirement on DNSPs to consider the cost of network losses in network planning decisions, but this requirement should be placed in section 5.6 of the NER. Section 5.6 appropriately deals with network planning and development. This would capture those investments that are less than 5 million. Such a Rule change will be similar to the requirement currently applying to Victorian DNSPs, which requires distributors to "develop and implement plans for the establishment and augmentation of transmission connections in a way which minimises costs to customers, taking into account distribution losses".

DNSPs do not purchase energy to make up the network losses. DNSP operation decisions on matters like determining and restoring the network configuration has negligible effect on the total distribution losses. On this basis, the Rule change proposal by CDC in s6.5.6 of the NER requiring DNSPs to include electrical energy losses in the distribution systems in their operating expenditure forecast does not make sense and is not supported by Jemena.

Our answers to the specific questions posed in the Consultation Paper are set out below:

Question 1

a) Is there evidence that DNSPs do not consider the cost of electrical energy losses when making capital and operating expenditure forecasts?

Response: In 2001, the Essential Services Commission of Victoria placed obligations in the Electricity Distribution Code requiring distributors to take cost of losses into consideration in network planning decisions. This was done following the Electricity Distribution Price Review in 2000. Jemena have been complying with this requirement. Therefore, we submit the costs of distribution losses are already reflected in the capex expenditure forecasts.

(b) Do the rules provide effective incentives for DNSPs to make efficient capital and operating expenditure decisions? If so, what are these incentives?

Response: Yes. The Australian Energy Regulator (**AER**) is required to access whether the proposed expenditure forecasts in regulatory submission are efficient and prudent. This could include an assessment as to whether the costs of distribution losses are reflected in those forecasts. Moreover, the consultation paper[1] notes that the proposed RIT-D principles in effect would require DNSPs to consider the cost of losses for all investments that meet the RIT-D requirements.

Jemena is supportive of the costs of network losses being considered under the proposed RIT-D framework. In our view, a general requirement on DNSPs to consider the cost of network losses in network planning decisions in section 5.6 of the NER would addresses the issues raised in CDC's rule change request. Section 5.6 appropriately deals with network planning and development. This would capture those investments that are less than 5 million.

(c) To what extent does the EBSS impact on a DNSP's consideration of the cost of losses?

Response: The EBSS does not require DNSPs to consider the cost of losses. DNSPs are not in control of all the factors that contribute to distribution losses. These include energy volume, peak network demand and therefore load factors and customer load profiles. In our view, to implementing an incentive scheme aimed at reducing losses is not appropriate. Moreover, the any incentive would be ineffectual, given that the losses occur over a long period of time and the opportunity for reduction is miniscule.

(d) Do distribution losses significantly contribute to the price of electricity to consumers? If so, how much do they contribute and does this materiality vary between networks?

Response: Distribution losses contribute to the price of electricity. We understand this to be between 3 to 10 percent of energy sales and the differences are mainly due to the geography of the networks.

The ESCV undertook a review of the distribution loss levels in 2000. Based on the findings of the review, the ESCV considered that the economic levels of losses for Victorian distributors should be in the range of 3 to 5 per cent of energy sales for urban-based networks and could be as high as 10 per cent of sales for distributors with predominantly rural networks.

Question 2

(a) How might the extension of the EEO program to distribution networks address the concerns raised in the rule change request by CDC?

Response: The CDC's Rule change proposal seeks to ensure that cost of the electrical losses in the distribution networks is appropriately recognised in all capital and operating investment decisions made by DNSPs. CDC's concern is that there needs to be recognition of the rule change in Chapter 6 of the NER, notwithstanding the fact that DNSPs already consider the cost of electrical energy losses when making capital expenditure forecasts.

The proposed extension of EEO program to include DNSPs effectively requires most, if not all, DNSPs to identify opportunities to minimise distribution losses and report publicly on the outcomes. This would address some of CDC's concerns.

[1] Consultation Paper (12 April 2012), National Electricity Amendment (Distribution Losses in Expenditure Forecasts) Rule 2012, p 13.

(b) To what extent do the requirements on distribution transformers under the MEPS program encourage DNSPs to minimise distribution losses?

Response: Jemena's procurement of distribution transformers is based on lowest life cycle cost. Jemena currently includes MEPS in its tender specifications when procuring transformers and we understand this is common practice in our industry. This practice allows DNSPs to optimise (not minimise) distribution losses.

(c) Do the requirements on distribution transformers under the MEPS program influence the broader network equipment decisions of DNSPs?

Response: No. Other considerations including technical and functional performance generally influence the procurement of broader network equipment.

Question 3

(a) Will the proposed rule result in DNSPs considering the cost of network losses in preparing their capital and operating expenditure forecasts?

Costs of network losses are already being considered by Jemena in the preparation of expenditure forecasts due largely to the requirement in the Electricity Distribution Code.

(b) Are there any alternatives to the proposed rule that may better address the issues raised in the rule change request?

Response: Jemena is supportive of the costs of network losses being considered under the proposed RIT-D framework. In our view, a general requirement on DNSPs to consider the cost of network losses in network planning decisions in section 5.6 of the NER would addresses the issues raised in CDC's rule change request. Section 5.6 appropriately deals with network planning and development.

(c) Should a similar requirement to the proposed rule be considered for transmission networks?

Response: Jemena has no comment on this matter.

Question 4

(a) What are the likely implementation and ongoing costs associated with the proposed rule for DNSPs and the AER?

Response: The Rule proposed by CDC would add complexity to the process of determining expenditure forecasts in regulatory proposals. Should the AER require ongoing information through the RIN reporting process, then there will be ongoing costs related to monitoring and audit.

(b) Is the proposed rule likely to result in more efficient expenditure which could lead to lower electricity prices for consumers over the long term?

Response: Jemena is already taking into consideration the costs of distribution losses in their investment decisions through planning design and operating considerations under the Electricity Distribution Code (EDC). It is worth noting that this regulatory requirement will fall away on 1 July 2012 when the National Electricity Customer Framework (NECF) is implemented in Victoria. In Jemena's view, a new rule in Chapter 5 of the NER (equivalent to that which is in the EDC) would ensure continuance of efficient expenditure with respect to optimising distribution losses and hence lower electricity prices over the long term.

Question 5

(***a) How material is the cost of losses to the expenditure by DNSPs that would not be captured under the requirements of the proposed RIT-D?***

Response: All material costs attributed to distribution losses will be captured under the requirements of the proposed RIT-D.

(b) To what extent would the guidance and worked examples proposed to be provided by the AER in the RIT-D application guidelines help determine the value ascribed by DNSPs under this proposed rule if implemented?

Response: DNSPs consider guidance by way of worked examples using the long run marginal cost of energy in the AER's RIT-D application guidelines would be useful to value distribution losses.