

12 June 2009

Dr John Tamblyn  
Chairman  
Australian Energy Markets Commission  
PO Box A2449  
Sydney South NSW 1235

Dear Dr Tamblyn

**Review of National Framework for Electricity Distribution Network Planning and Expansion (EPR0015)**

Integral Energy fully supports the Commission conducting a thorough and detailed review into the current electricity distribution network planning and expansion arrangements in the National Electricity Market and has participated in the recent workshops conducted by the AEMC. Following are some specific comments on matters arising from the indicative framework specification issued by the AEMC and the two workshops.

**Stakeholder Workshop 1**

*Joint planning framework*

Integral Energy would support the comments made at the workshop in relation to the need for one project assessment and consultation process to be undertaken when the joint planning process identifies a constraint requiring both DNSPs and TNSPs to construct assets to relieve the constraint.

Integral Energy believes that the Rules should not dictate who should be the lead party on any joint planning work but rather the parties should be free to agree on the required investment, the appropriate regulatory test and the appropriate party to lead the project. Integral Energy also considers that the Rules should not mandate who will have responsibility for construction of the required assets.

*Non-network strategy*

Integral Energy supports the establishment of a non-network strategy and agrees that the strategy would provide transparency and assist in the engagement between DNSPs and non-network proponents.

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### *Scope of activities to be included in the Annual Planning Report (APR)*

Integral Energy believes that the AEMC should be clear as to the purpose of the APR. Integral Energy believes that the APR should provide high level information about emerging constraints on the network and some information on the planning process which was used to identify the constraints. This information should be accessible to customers and providers of non-network solutions to provide transparency and to make them aware of any opportunities to be involved in providing a solution to the network constraint.

The APR should not be seen as a document which provides details on such matters as the major investments in non system type assets such as IT, SCADA, communications etc. as this information and type of expenditure is not related to network constraints.

Similarly, Integral Energy does not believe that reporting on asset management practices and strategies is appropriate for the APR. Integral Energy is required to publish asset management strategies through the Network Asset Management Plan. Replicating this reporting in the APR would be inefficient and not appropriate. Also, the asset management strategies used are regularly reviewed as part of the regulatory reset process undertaken by the Australian Energy Regulator (AER).

Integral Energy would also recommend that the APR only require reporting on constraints at the zone substation level and above. Reporting on high voltage lines and cables would mean the provision of a large amount of data that is resource intensive and costly to produce, with no obvious benefits to consumers or other stakeholders.

### *Distribution network advisory committee*

Integral Energy has some concerns over the establishment of a distribution network advisory committee as proposed in the indicative framework. It is not clear to Integral Energy what the purpose and powers of the committee would be and what benefit, if any, it would provide.

If the purpose of the committee is to provide a forum for the exchange of knowledge and discussions on best practice planning techniques then Integral Energy believes that this would naturally occur through industry associations such as the Electricity Networks Association. Mandating the establishment of a new committee with no substantive powers would not, in Integral Energy's view achieve the objectives of the National Electricity Market.

## **Stakeholder Workshop 2**

### *Project Specification Test and threshold value*

Integral Energy would support the view put forward at the workshop that it is preferable for the Rules to define what is to be included in the Regulatory Investment Test for Distribution (RIT-D) process rather than developing an exhaustive list of exclusions.

Also, as discussed at the workshop, it will be necessary to ensure that work associated with customer connections is not included in the RIT-D process as this could substantially delay the connection of customers. In any case, it is difficult to see how a non-network alternative to the connection could be effectively provided.

As discussed at Workshop 1 and was restated at Workshop 2, the application of RIT-D should be focussed on network system assets only and should not included any



expenditure on non system assets. To be consistent with the annual reporting requirements, the application should also be limited to investment on the system assets at zone substation level and above.

Integral Energy believes that replacement or refurbishment expenditure should not be included as part of the RIT-D process. The AER assesses the adequacy and efficiency of future replacement and refurbishment expenditure as part of the regulatory reset process. It would not be appropriate for this expenditure to then be subject to another assessment process through the RIT-D.

In relation to the appropriate threshold at which projects should be assessed and processed, Integral Energy recommends that the threshold be set at the same levels as those applicable for the Regulatory investment Test for Transmission (RIT-T). That is \$5 million for assessment and reporting and \$20 million for the full application of the RIT-D process. These thresholds should be indexed so that they increase in line with the growth in the input costs of investments in system assets.

#### *Dispute resolution process*

Integral Energy believes that the dispute resolution process developed for the RIT-T should be applied to distribution. Integral Energy does not believe that there should be any extension of the scope for dispute resolution and that the dispute resolution process should only apply to project assessments undertaken by DNSPs under the regulatory test. That is, the dispute resolution process should only cover disputes relating to the DNSP's compliance with the NER and the investment test itself.

To allow disputes to apply to matters arising from the annual planning process is problematic. The annual planning process is a forward looking process and is intended to provide information to interested parties on the most likely scenarios in terms of the development of the distribution network. The APR is only provided to interested parties for information purposes only and a DNSP should not be held accountable for any decisions made by participants based solely on the information in the APR.

#### *Quantification of market benefits and costs*

Clause 4(a) and 4(b) of the Indicative Framework Specification require consideration of a range of classes of benefits and costs. In particular, clauses 4(a)(v) and 4(b)(iv) provide for any other benefits (costs) that are determined to be relevant by the DNSP and have been agreed to by the AER.

It is not clear to Integral Energy when and how benefits or costs would be submitted to the AER for approval and what criteria the AER would use to make a decision on the DNSP's proposed other benefits or costs. Integral Energy is concerned that this process as currently envisaged could add an unacceptable delay into the process for assessing projects.

If you have any queries regarding this submission please do not hesitate to contact our Manager Regulatory & Pricing, Mr Mike Martinson on (02) 9853 4375.

Sincerely



Daniel Lucas

**Acting Chief Executive Officer**