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Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO BOX A2449
SYDNEY SOUTH NSW 1235

Ref: 278772
Your Ref: EPR0015
Contact: Franc Cavoli
Ph: 03 8664 6615

By e-mail: submissions@aemc.gov.au

Dear John

**AEMO submission in response to issues arising during the Review of
the National Framework for Electricity Distribution Network Planning
and Expansion workshops**

AEMO appreciates the opportunity to make comments following the National Framework for Electricity Distribution Network Planning and Expansion workshops. This response is being submitted by the Australian Energy Market Operator (Transitional) Ltd (**AEMOT**) on behalf of Australian Energy Market Operator Limited (**AEMO**). Any reference in this letter and submission to either AEMO or AEMOT should be taken as a reference to the entity that will exist from 1 July 2009, which will be called the Australian Energy Market Operator. NEMMCO and VENCORP, who previously contributed separately to this review, have encapsulated their contributions within this AEMO submission.

1. JOINT PLANNING

Joint Planning should identify all issues that affect the distribution networks' interface with the transmission network. Both Distribution Network Service Providers (**DNSPs**) and Transmission Network Service Providers (**TNSPs**) should work jointly to define the need for augmentation. Naturally, in practice, if the constraint arises in a DNSP's network, the DNSP would be primarily responsible for identifying the need. However this should not be mandatory.

The parties should be jointly responsible for determining the optimal solution and the alternatives that will be considered in the regulatory test.

This regulatory test would also need to ensure that the Chapter 5 access standards are satisfied. If any party raises an objection or does not agree to sign off on the regulatory test assessment, then the service should not be classified as providing prescribed transmission services.

2. JOINT REGULATORY TESTS

Regulatory tests should be conducted jointly by the DNSPs and TNSPs. Each party should be satisfied with the conclusions of the test and be bound by that outcome. Responsibility for construction and ownership of the network assets (if this network option is the justified option) will be in accordance with existing Rule definitions.

3. RIT-T

Where a solution to an identified need incorporates a transmission network augmentation, the economic test used to justify the project should be the Regulatory Investment Test for Transmission (**RIT-T**). In Victoria, statutory planning requirements do not mandate that load shedding cannot be considered as an option to address a constraint. In fact, in the case of the Victorian jurisdiction, the NEL will require that load shedding be considered as an option and a regulatory test assessment should be conducted using a probabilistic assessment to determine need for and timing of the option. These considerations fit well within the RIT-T framework hence the RIT-T should be used where joint planning has identified an need.

4. THRESHOLDS

AEMO believes that the thresholds trigger to conducting the Project Specification Threshold Test should be \$2 million. Where there is a network component to the project that has been identified through the Joint Planning process then the thresholds and publication processes adopted should be the ones applying to transmission augmentations. The distribution network component, the transmission network component and all connection assets should be treated as one project and assessed under the transmission augmentation framework (including applying transmission augmentation thresholds).

5. DNSPS' INCENTIVE SCHEMES

DNSP's regulated incentive schemes should be reviewed to ensure that they are not unnecessarily penalised for load shedding events that coincide with decisions to defer network investments on economically justifiable grounds. At this stage, this seems to be an issue limited to the Victorian jurisdiction. However, should the same DNSP incentive arrangements be rolled out to other jurisdictions, this may prove to be an obstacle to efficient and orderly joint planning. AEMO suggests that this issue be looked at with a view to providing some guidance to the AER in its newly acquired economic regulatory role of DNSP businesses.

6. VICTORIAN CONNECTION RESPONSIBILITIES ARRANGEMENTS

The Victorian DNSPs have, as a term of their licences, the planning obligation over connection assets with the transmission system. The DNSPs have argued that this obligation places a responsibility on them that joint planning (particularly a joint regulatory test) would abrogate. AEMO is unsure of the validity of that argument, however, if that obligation is a real obstacle to a consistent joint planning/regulatory test framework across the NEM, then there is no reason why the current planning responsibilities for the Victorian jurisdictions could not be reviewed such that those responsibilities could be divided in a manner that is more consistent with that framework.

A model that may work is one where:

1. the DNSP is responsible for identifying the need (from say a constraint analysed in terms of involuntary load shedding or voluntary load curtailment) and justifying the need with reliable and transparent data; and
2. both AEMO and the DNSP have joint responsibility to:
 - (a) identify the integrated distribution/transmission network solution and other credible network and non-network options; and
 - (b) conduct an economic justification of the project based on the RIT and probabilistic assessment of the need.

While AEMO has yet to fully analyse this option (or indeed others) it is willing to engage in a conversation with the DNSPs to determine what the most appropriate split of responsibilities may be. There are obviously issues of ownership and construction responsibilities that will need to be worked through; however, AEMO believes that these will largely be matters that can be determined in a manner acceptable to each party.

Connection Application

Joint planning also raises the question of whether a connection application is required to be submitted by either party to the other. At present any party initiating a connection to a network must submit a connection application. The joint planning process should incorporate an expedited connection application process for connection to the transmission network.

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

Yours sincerely,



Matt Zema
Managing Director and Chief Executive Officer
AEMO (Transitional) Ltd

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