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Australian Energy Market Commission
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By email: submissions@aemc.gov.au

ENA Response to indicative framework presented in AEMC Review of National Framework for Electricity Distribution and Expansion Stakeholder Workshop Paper

The Energy Networks Association (ENA) welcomes this opportunity to respond to the Australian Energy Market Commission (AEMC) AEMC Review of National Framework for Electricity Distribution and Expansion Stakeholder Workshop Paper of 19th May 2009.

Energy network businesses deliver electricity and gas to over 13 million customer connections across Australia through approximately 800,000 kilometres of electricity distribution lines. There are also 76,000 kilometres of gas distribution pipelines. These distribution networks are valued at more than \$52 billion and each year energy network businesses undertake investment of more than \$5 billion in distribution network operation, reinforcement, expansions and greenfields extensions. Electricity transmission network owners operate over 57,000 km of high voltage transmission lines, with a value of \$15 billion and undertake \$1.6 billion in investment each year.

ENA supports the AEMC endeavour to create a nationally consistent planning and reporting requirement applying to distribution networks which conforms with the broad principles outlined in the SKM Report; *Advice on Development of a National framework for Electricity Distribution Network Planning and Expansion*. In this context ENA wishes to express its appreciation to the AEMC for running the two recent work shops on this matter. They provided the opportunity for an informative dialogue between the AEMC and ENA members on the options for implementing a nationally consistent framework addressing the components of the planning and expansion process.

A particular concern for the ENA with the proposals in the Indicative Framework Specifications in the AEMC's Stakeholder Workshop Paper is its failure to meet the framework's proportionality principle.

Firstly, the proposed annual planning report (APR) requirements will require significant Distribution Network Service Provider (DNSP) resources and effort. ENA notes that the Specifications propose the inclusion of asset management strategies and methodologies within the APR for DNSPs. Asset management practices are proprietary operational matters for each business which are already subject to periodic scrutiny by the AER as part of the regulatory review process. ENA also notes that DNSPs are required to publish asset management strategies in their Network Management Plan and that under the AEMA it is contemplated that matters of technical regulation such as this will remain under jurisdictional control. ENA therefore considers it inappropriate to require businesses to publish their asset management strategies and methodology in the APR.

Secondly, the scope of the RIT-D in the Specifications goes beyond the purposes of the test. There is no reason to include refurbishment and replacement in the scope of the RIT-D. If it is intended to act as a form of transparency and regulatory discipline, ENA considers this unnecessary as this expenditure has been justified and approved as part of the regulatory review process by the Australian Energy Regulator (AER). ENA also notes that under the Australian Energy Market Agreement (AEMA) it is only "Distribution Network Expansion" that will be covered as part of the national function. In addition, it goes beyond the scope of the AEMC's terms of reference which is

to enhance network planning. The Terms of Reference provided by the Ministerial Council on Energy (MCE) states that the specific outcomes to be achieved include:

- ensuring DNSPs develop the network efficiently. This includes addressing a perceived failure by DNSPs to look at non-network alternatives in a neutral manner when making distribution augmentation assessments; and
- appropriate information transparency to allow efficient planning by parties that may offer alternative, more cost-effective solutions to network augmentations to address emerging constraints.

Consistent with this, the Review needs to focus on establishing a national framework for both the RIT-D and the APR to meet demands on the distribution network.

The proposal to require DNSP's to prepare and publish a "Non-network Alternatives Strategy" is generally supported by the ENA as a significant initiative in ensuring the inclusion of potentially effective non-network alternatives in options assessed to address identified network constraints. Its introduction should complement the APR process and lessen the current emphasis apparently being placed on an increase in disclosure reporting as the mechanism for addressing the perceived failure in adopting/considering non-network options.

Investment decisions for which there are unlikely to be non-network alternatives, such as the need to duplicate assets to meet supply security requirements or replace existing assets, should not be subject to the RIT-D. ENA questions whether there would be a net benefit to the market in conducting hundreds of extra regulatory test processes each year for refurbishment and replacement projects.

Further, the way in which the framework approaches the scope of the test reverses the current approach which states what the test applies to. In contrast, the Specifications mandate that DNSPs have to demonstrate what projects over \$1-2 million are exempt from the RIT-D through the application of the proposed "Project Specification Threshold Test." This would inappropriately broaden the ambit of the test to include non-network investment such as communications and IT, when its original focus is network development. Rather than putting the onus on DNSPs to justify what they exclude from the RIT-D, ENA believes that the "proportionality" principle would be best served if the regulations specified what is to be included. The threshold should be set at an appropriate level to filter out significant and important projects, for which a full analysis is necessary, rather than projects which will not have alternative options or market impact. ENA notes in this context that various parties have suggested that the RIT-D threshold should be the same as the one applying to the transmission RIT.

The proposed RIT-D consultation process is unnecessarily complex and needs to be simplified. ENA submits that the three elements of the planning framework (the RIT-D, the Annual Planning Report and the facilitation on non-network strategy) must be allowed to work together, and not as three separate components. As such, the RIT-D process must be balanced appropriately against the new obligations related to publishing a non-network strategy (and administering a register of non-network proponents) and the significant demands of the annual planning report.

ENA looks forward to further working with the AEMC on this matter and in particular, on ways to improve the RIT so that it better reflects the features of the distribution sector.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'ABlyth', with a large loop at the bottom and a horizontal line extending to the right.

Andrew Blyth
Chief Executive