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Mr Richard Khoe
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Dear Mr Khoe

National Electricity Amendment (Recovery of Network Support Payments) Rule 2013

Jemena Electricity Networks (Vic) (**Jemena**) welcomes the opportunity to respond to the Australian Energy Market Commission (**AEMC**) rule change consultation paper relating to recovery of network support payments.

Our key messages are:

- Jemena strongly supports the rule change request put forward by SP AusNet.
- In our view, the recent National Electricity Amendment (Distribution Network Planning and Expansion Framework) 2012 Rule Determination is designed to encourage and facilitate non-network providers to put forward non-network options as credible alternatives to network investment. In this context, network support solutions are important consideration in the network planning process.
- Currently the Distribution Network Service Providers' (**DNSPs**) ability to recover the costs of network support service arrangements is limited to the time of the revenue determination or through a nominated pass through mechanism. The revenue determination route is not effective because costs of network support service arrangements are difficult to forecast. Whilst the nominated pass through mechanism allows cost recovery within period, it will be subject to a materiality threshold and this is not ideal. The threshold will be a barrier to those network support solutions where the costs are below the threshold, which is about \$2 million for JEN.
- Accordingly, Jemena believes the current specific network support pass through and the opex roll forward arrangements should apply to all DNSPs in the National Electricity Market (**NEM**) jurisdictions.
- We emphasise that the current specific network support pass-through and the opex roll forward would still be subject to Australian Energy Regulator (**AER**) scrutiny and approval, but with less risk of cost recovery.

- The rule change request aims to address a problem that is faced by all DNSPs in the NEM jurisdictions – although the problem is much more severe in Victoria due to the Victorian licence requirement that puts the responsibility for planning transmission connection assets on DNSPs.

Jemena's responses to questions posed in the consultation paper are set out in Annexure 1.

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

Yours sincerely

A handwritten signature in black ink that reads "Siva Moorthy". The signature is written in a cursive, slightly slanted style.

Siva Moorthy
Manager Network Regulation and Strategy

Annexure – 1

Jemena Electricity Networks (Vic) response to the National Electricity Amendment (Recovery of Network Support Payments) Rule 2013

Jemena's answers to the questions posed in the consultation paper are set out below:

Question 1: Is the assessment framework presented in this consultation paper appropriate for assessing this rule change request?

Response:

Jemena considers the assessment framework is appropriate for assessing this rule change request.

Question 2: Is the recovery of costs for network support service arrangements a material problem in the NEM? If so, please provide evidence to support your views.

Response:

Jemena confirms that the cost shown in Table 5.1 is the recovered costs of transmission connection network support service payments relating to Somerton Power Station. The network support service agreement deferred the construction of a terminal station near Tullamarine Airport in Melbourne. The agreement was terminated in 2010.

It is noteworthy that realisation of such a network support solution was not an issue under the previous regulatory arrangements because the Essential Services Commission of Victoria (**ESCV**) were able to approve the network support service payments as a cost pass through within a regulatory period. The costs were recovered through the annual pricing proposal process. However, such a cost pass through mechanism is not available to the Victorian DNSPs under the current rules in Chapter 6 of the National Electricity Rules (**NER**).

The recent rule change¹ relating to distribution network planning and expansion is designed to enable non-network providers to put forward non-network options as credible alternatives to network investment. In this context, network support solution is an important consideration in the network planning process. Jemena considers a cost pass through mechanism for the recovery of network support service arrangements within period is required to support the recent rule change.

¹ National Electricity Amendment (Distribution Network Planning and Expansion Framework) Rule 2012, Rule Determination, 11 October 2012.

Question 3: Should recovery of costs associated with distribution network support service arrangements be subject to full incentive regulation ie only permitted to be recovered as part of the revenue allowance?

Response:

In Jemena's view, cost recovery of distribution network support service arrangements should not be limited to recovery as part of the revenue allowance. This is because these costs are difficult to predict at the time of the regulatory determination process. A DNSP would not know what would be the most efficient solution to a network constraint, until the DNSP completes the RIT-D or RIT-T process as required under the NER.

Question 4: If distribution network support service arrangements were to be recovered through a pass through regime, is the current "nominated pass through" the appropriate mechanism? Or, should the current specific network support pass through and/or the opex roll forward arrangements apply?

Response:

Jemena does not believe the current nominated pass through mechanism in the NER sufficiently addresses the issue of cost recovery of network support payments for a DNSP. This is because the nominated pass throughs are subjected to a materiality threshold and the threshold amount may be too high – thus discouraging the adoption of network support service arrangements where they fall below the threshold. Jemena considers the current specific network support cost pass through mechanism should be allowed to be applied to DNSP network support solutions as it would encourage efficient development of distribution networks as intended in the recent rule changes relating to distribution network planning and expansion.

Additionally, Jemena considers that the current opex roll forward mechanism that applies to transmission network support service arrangements should also apply to distribution network support arrangements for the same reasons – that is, the network support arrangements may span multiple control periods. This would remove the uncertainty about whether the AER would allow the DNSP to recover ongoing network support service payments in future regulatory periods. As noted in the consultation paper², opex cost is set on a "revealed cost" basis in revenue determinations, and there is a risk that DNSPs may not be able to recover the network support service payments in full. Without an opex roll forward mechanism, the DNSPs may not be incentivised into entering arrangements that continue over regulatory periods.

Jemena believes the current specific network support pass through cost recovery and the opex roll forward mechanisms should apply to DNSPs as it will promote network support solutions as efficient alternatives to network solutions. We

² Recovery of Network Support Payments Rule Change Consultation Paper, 11 April 2013, p20

emphasise that under this mechanism, the network support payments would still be subjected to the AER's scrutiny and approval, but with less risk of cost recovery.

Question 5 Are the differences between transmission and distribution sufficient to justify different cost recovery mechanisms for transmission and distribution network support service arrangements?

Response:

The AEMC notes in section 5.2.2 of the consultation paper:

“Transmission projects are likely to be larger but less in number than in distribution. In distribution, if distribution network support service arrangements are used for more numerous and smaller projects, the administrative burden on the AER to assess them may not be proportional to the net benefit of the projects. This is because there would be an increase of mini determinations mid-period.”

We consider the number of network augmentation projects where a network support solution would be an alternative is small. Jemena's experience to date with network support agreements relates to only one project. It is to do with the Somerton Power Station, which deferred the construction of a terminal station near Tullamarine Airport. We believe the number of eligible network support arrangements in the future will continue to be low and therefore would not administratively burden the AER with mini determinations mid-period of a regulatory cycle, as envisaged by the AEMC.

Question 6: Are there reasons why specific network support pass throughs should allow for transmission connection support service arrangements?

Response:

Jemena believes specific network support pass throughs should be extended to include transmission connection support service arrangements. The Bairnsdale and Somerton power stations are good examples of why they should be allowed. They were possible under the ESCV regulatory revenue determinations.

Should the network support pass throughs be extended to include transmission connection support service arrangements, then Jemena contends that they should be extended to Victorian DNSPs because they have the responsibility for planning transmission connection planning assets.

In section 5.3 of the consultation paper the AEMC notes:

“In this rule change request, we refer to transmission connection assets which connect the transmission and distribution networks and provide for prescribed exit services. However, there are other types of connection assets that provide services which are not prescribed exit services. For instance, connection services for large loads and generators would be regulated as negotiated services and raise different issues.”

The issue can be addressed by extending the rule change to only transmission connection assets which connect the transmission and distribution networks.

Question 7: Should DNSPs be able to recover costs for deferring transmission connection assets?

Response:

The consultation paper acknowledges³ that Victorian DNSPs are responsible for planning transmission connection assets. Therefore, they should be able to recover costs for deferring transmission connection assets.

The AEMC notes under a non-network option with respect to transmission connection assets, the DNSPs would be able to bypass the Transmission Network Service Provider (**TNSP**) by directly levying its customers – that is recovering costs for network support service arrangement that defer augmentation of transmission assets. In our view, this type of cost recovery arrangement has existed previously under the ESCV regime without any issues and so should not be an issue going forward. What is most important is an efficient network transmission connection planning outcome that delivers electricity to customers at the lowest cost.

Question 8: Is this problem unique to Victoria? Should this be addressed through Victorian specific arrangements?

Response:

Currently DNSPs in the NEM jurisdictions are only able to recover costs of network support payments at the time of regulatory determination. The rule change request aims to address a problem that is faced by all DNSPs in the NEM jurisdictions – although the problem is much more severe in Victoria due to the Victorian licence requirement that puts the responsibility for planning transmission connection assets on DNSPs. The problem is unique to Victorian DNSPs because DNSPs in other NEM jurisdictions do not have this responsibility.

Should the AEMC only decide to extend the specific network support pass through associated with augmentation of transmission connection assets to TNSPs only, then it would not address the cost recovery problems faced by Victorian DNSPs.

³ Recovery of Network Support Payments Rule Change Consultation Paper, 11 April 2013, p24.

Question 9: If a rule were to be made, when should the rule commence operation?

Response:

Should the AEMC decide make the rule change, Jemena considers the rule should commence operation immediately to maximise the benefits to customers.

Question 10: Are there any other transitional requirements that should apply to the rule change?

Response:

No.

Question 11 Are there any relevant jurisdictional requirements that may be impacted by the rule change? If so, please specify which instrument and when the potential overlap or conflict arises.

Response:

We are not aware of any jurisdictional requirements that may be impacted.