

**The Ministerial Council on Energy  
Standing Committee of Officials**

**INTRODUCTORY NOTE**

**National Frameworks for Electricity Distribution Networks**

**Network Planning and Connection Arrangements -**

**August 2007**

## 1. Introduction

The Ministerial Council on Energy Standing Committee of Officials (SCO) engaged NERA Economic Consulting (NERA) and Allen Consulting Group (ACG) to provide expert advice to assist in the development of a national framework for electricity distribution network expansion and planning, connection charges and capital works contributions. Additionally, NERA and ACG were engaged to address the potential impacts of a new distribution framework on network incentives for Distributed Generation (DG) and Demand Side Response (DSR) and the treatment of network losses in the National Electricity Market (NEM).

The report is being released for stakeholder comment as an independent paper. It has not yet been considered by SCO and does not represent a policy position. The report should be read in the context of the broader energy market reform process and as such SCO may consider progressing any of the recommendations through an Australian Energy Market Commission (AEMC) rule change process and/or as part of the non-economic retail package.

The consultant report is attached in two parts as a separate document. The two documents include:

- Report 1: *Network Planning and Connection Arrangements – National Framework for Distribution Networks – August 2007*
- Report 2: *Revised Demand Side Response and Distributed Generation Case Studies – August 2007*

A summary of the consultant's recommendations is provided in Appendix 1 of the NERA/ACG report.

## 2. Reform Background

The Commonwealth and State and Territory Governments agreed in the Australian Energy Market Agreement (AEMA) to establish a national framework for the regulation of distribution and retail activities covering both electricity and natural gas.

The amended AEMA of June 2006 sets out the activities that will form part of the national distribution and retail regulatory framework for electricity and gas. In particular, clause 14 and Annexure 2 of the AEMA outlines the functions to be transferred to the national framework and those functions to remain with the state and territories.

Two of the outstanding issues that need to be addressed are contained in items 4 and 5 of Annexure 2 of the AEMA. These are:

- 4. Connection and capital contribution requirements** - new connections charges and capital works contributions.
- 5. Distribution network expansion** - determining when extensions are part of a regulated service and how charges are levied.

Under the AEMA, regulatory responsibility of these issues is to be transferred to the national framework. These items have not been addressed to date in either the economic legislative package or the retail policy working group legislative package.

In addition, the MCE and the Council of Australian Governments (COAG) have made commitments to reduce barriers and establish effective mechanisms for distributed generation and demand-side response. Accordingly, in developing a national distribution framework for

network expansion and connection and capital contribution requirements it is necessary to consider incentives and impacts as they relate to these network alternatives.

### **3. Links to Previous and Parallel Work Streams**

The NERA/ACG paper will be used as the basis to develop the national arrangements for electricity distribution network planning, connection and connection charge arrangements.

This consultancy builds upon and complements other current and previous MCE and industry work streams, including:

#### ***NERA/Gilbert + Tobin Paper***

The May 2005 NERA / Gilbert + Tobin report "*Public Consultation on a National Framework for Energy Distribution and Retail Regulation*" set out a 'best practice' approach to the regulation of energy distribution and retailing, including network expansion and connection and capital contributions. The report provided high level consideration of the national framework for distribution and retailing, having regard to the arrangements that existed in jurisdictions.

Aspects of that report's recommendations have been considered by NERA/ACG in providing advice on a national framework for electricity distribution network planning and connection arrangements.

#### ***Renewable and Distributed Generation Working Group (RDGWG)***

Work completed under the RDGWG initially focused on increasing clarity and consistency between the different jurisdictional regimes. This work included the development of a discussion paper on the Impediments to the Uptake of Renewable and Distributed Generation and a draft Code of Practice for Embedded Generation (CoPEG) prepared for the Utility Regulators Forum (URF).

Submissions to these papers were reviewed by CRA International. The final CRA report titled [\*Impediments to the Uptake of Renewable and Distributed Generation\*](#) is attached.

Under the Energy Market Reform work program, the MCE has committed to transferring distribution and retailing functions to the national framework. These functions will be transferred in two packages:

- Package 1: transfer economic regulation of distribution electricity networks to the national framework
- Package 2: transfer non-economic distribution and retail regulation to the national framework

As part of this commitment, the MCE is developing the initial national rules for these packages. Therefore, rather than reviewing the jurisdictional regimes to remove impediments to the uptake of renewable and distributed generation (DG) and demand side response (DSR), the initial electricity distribution revenue and pricing rules (part of the economic legislative package) and the NERA/ACG report consider removing the impediments to the uptake of DG and DSR from the perspective of the new rules being developed.

### ***Review of Network Incentives for Demand Side Response and Distributed Generation – April 2007***

The April 2007 NERA report "*Distribution Rules Review – Network Incentives for Demand Side Response and Distributed Generation*" provided a review of the proposed electricity distribution revenue and pricing rules, with the aim of removing impediments to the uptake of DSR and DG. The report raised several issues requiring further work including the treatment of network losses.

In EMR Bulletin 95, SCO responded to the NERA report titled *Distribution Rules Review – Network Incentives for Demand Side Response and Distributed Generation*.

Recommendations from that report which are relevant to the electricity distribution revenue and pricing electricity rules will be included as part of the economic legislative package. Recommendations or outstanding issues from that report which are relevant to the network planning and connection work stream have been considered further and addressed in the NERA/ACG paper.

### ***National Framework for Distribution and Retail Regulation***

In June 2007, the Retail Policy Working Group (RPWG) released the Allens Arthur Robinson (AAR) Composite Consultation Paper on options for the major components of distribution and retail regulation (items 6 to 15 of Annexure 2 of the Amended AEMA). The Composite Paper consolidates five earlier Working Papers, the second of which addressed distributor obligations to provide connection services and the interface with retailers and embedded generators.

## **4. Next Steps**

Stakeholders are invited to make submissions on recommendations presented in the NERA/ACG report by Friday **28 September 2007**.

The report is being released for stakeholder comment as an independent paper. It has not yet been considered by SCO and does not represent a policy position. The report should be read in the context of the broader energy market reform process.

A stakeholder forum on these matters may be conducted in the coming weeks. Further details will be provided in an upcoming Bulletin.

SCO will consider and respond to stakeholder comments on the NERA/ACG report in formulating its policy positions on the national framework for electricity distribution network planning and connection arrangements. SCO may consider progressing any of the recommendations through either an AEMC rule change process and/or as part of the non-economic retail package.