9 October 2007

Alinta Limited
ABN 11 119 985 590

Level 14, 1 O'Connell Street
Sydney NSW 2000

PO Box R 1465
Royal Exchange NSW 1225

Telephone +61 2 9270 4600
Facsimile +61 2 9270 4601

Email: mcemarketreform@industry.gov.au

Manager, MCE Secretariat
Department of Industry, Tourism and Resources
GPO Box 9839
Canberra ACT 2601

Dear Sir/Madam

Re: **Alinta Response to NERA / Allen Consulting Recommendations - National Frameworks for Distribution Networks:**

**Network Planning and Connection Arrangements August 2007**

Alinta Limited appreciates the opportunity to make this submission on the recommendations contained in the NERA/Allen Consulting report of August 2007.

If required, I can be contacted on (02) 9270 4512 or email: sandra.gamble@alinta.net.au.

Yours sincerely,

Sandra Gamble
Group Manager Regulatory
Alinta Limited


# Alinta Response to Network Planning and Connection Arrangements – National Frameworks for Distribution Networks:

## A Joint Report Prepared by the Allen Consulting Group and NERA Economic Consulting for the Ministerial Council on Energy Market Reform Working Group

**5 October 2007**

**Level 14, 1 O'Connell Street, SYDNEY NSW 2000**
**PO Box R 1465, SYDNEY NSW 1225**

## TABLE OF CONTENTS

## KEY MESSAGES IN THIS SUBMISSION:

### *General*

- Alinta welcomes investigation of the issues raised in the NERA/Allen report. Alinta supports development of proposals for network planning and connection arrangements to further enhance efficient investment in electricity network services. Alinta also recognises that the present consultation results from the terms of the Australian Energy market Agreement which includes an objective of national consistency where this is considered feasible.

- Nevertheless, the NERA/Allen recommendations have, in Alinta's view, resulted in proposals for a measurable increase in the use of prescriptive Rules and regulatory oversight to be applied to distribution businesses. Overall, Alinta does not believe that this is an appropriate response and submits that improved design of the economic regulatory framework would be a better route to encourage efficient network and non-network investment solutions and improved locational signals.

- Alinta generally supports a reference to the AEMC for many of the matters addressed in the NERA/Allen report because addressing network planning and connection matters from a national perspective would be consistent with the AEMC's market development role. In addition;

  - the Rule development process offers a transparent national forum for addressing the complexity of the matters raised by NERA/Allen;

  - Alinta considers that use of the Retail Policy Working Group national (non-economic) framework to address network planning and connection raise some significant issues, particularly given that that the recommendations to date from that process have received no stated policy support.

### *Alinta view on specific recommendations in the report*

#### (a) Network development and planning

- Alinta supports the central publication of planning reports to provide an effective and low cost source of information for DG/DSR proponents, but considers the proposed NERA/Allen regime to be unnecessarily intrusive and potentially costly;

- Alinta considers that there should be a distinction between generally available information provided by businesses to the market and specific detailed information required by genuine applicants proposing non-network solutions. The latter should be met by specific information exchange between businesses and proponents;

- Alinta does not agree with the report's proposed application of the regulatory test to distribution assets for reasons given in this submission.

## (b) National framework for distribution network connection

- Alinta agrees with NERA/Allen that primarily the Rules should be used to set national connection requirements. However, NERA/Allen have not in many cases specified the content of the proposed new national Rules and Alinta submits that the AEMC is the appropriate body to be charged with undertaking this task;

- Allinta has significant concerns with the recommendation to appropriate the draft Chapter 6 negotiation framework for the purpose of a negotiated *connection application*. Alinta considers that this proposal needs very careful evaluation in the light of the latest draft of the *National Electricity Rules* for distribution. Alinta considers that aspects of the NERA/Allen recommendations may not be consistent with the SCO design intention for the classification of distributor services into *direct control* and *negotiated* services.

## (c) National framework for connection charges

- The NERA/Allen develops a view that no element of shared network augmentation should be reflected in a compulsory connection charge ('connection costs') unless agreed by the connecting entity, and that, as a result augmentation of shared assets should be paid for by all users. The report proposes new definitions of 'dedicated' and 'extension' assets which would exclude shared network assets;

- Alinta does not agree with this view and submits that other valid charging concepts may well include a place for the inclusion of shared network augmentation. Alinta considers that a more 'neutral' terminology to that proposed in the report should apply pending a wider review of the Rules for determining network connection charges;

- Alinta considers that the AEMC would be the logical body to undertake such a review for distribution.

## (d) Network loss factors

- Alinta notes that network losses were not a matter to be considered through the AEMA and are therefore not required under the current consultation;

- Alinta does not agree that the public disclosure of average and marginal loss factors over a five-year planning period as proposed in the NERA/Allen report is a practical solution to presumed locational issues for network users. Requiring DNSPs to publish forecast network loss information would be very complex and lead to a significant increase in costs without commensurate benefits;

- Since the AEMA does not require network losses to be addressed now, Alinta submits that a comprehensive review of network losses should be undertaken by the AEMC, encompassing all market sectors.

### Background to Alinta

Following shareholder approval of an offer from the consortium of Babcock and Brown and Singapore Power International, Alinta Limited was acquired jointly by these two companies. Subsequently, Alinta assets have been allocated between these two entities, with the majority of Alinta's electricity and gas distribution assets currently under the control of Singapore Power International.

As Alinta currently operates electricity distribution networks in Victoria and the ACT plus gas distribution networks in Victoria, NSW and the ACT, Alinta's comments on the NERA/Allen Consulting report reflect the perspective of an electricity distribution network operator.

## SECTION A – IMPORTANT PROCESS MATTERS

### 1. Previous consultation

As part the April-May 2007 consultation on the exposure draft distribution National Electricity Rules, two NERA/Allen Consulting reports were presented which recommended modifications to the distribution rules to enhance the uptake of demand side response (DSR) and distributed generation (DG). Alinta offered initial comments[1] on those recommendations which it continues to support, and which still appear relevant to the present consultation.

In summary Alinta considered that:

- a too rapid uptake of consultant's recommended DSR/DG initiatives without a clear understanding of their total implications could be more detrimental to the overall market rather than helpful;

- some of the recommendations appeared to require significant modifications to the building block regulatory framework for distribution, and wider consultation via an AEMC rule change process seemed more appropriate for such matters; and

- given that the recommendations focused to a large extent on network pricing initiatives, there was a need to recognise that effective and efficient end-user price signals must exist to significantly impact on DSR/DG. To the extent that these price signals were muted, then changes to network pricing alone would not suffice to provide the needed incentives.

### 2. Current consultation and implementation

The NERA/Allen Consulting report contains 36 recommendations for SCO in order to increase overall electricity distributor incentives for efficient investment, including non-network solutions to network expansion by way of DSR and DG.

Alinta has previously understood that if any of the NERA/Allen recommendations were to be adopted, they could be implemented either:

[1] Alinta submission 30 May 2007: Draft National Electricity Distribution Rules (and associated matters)

- as part of the national (non-economic) framework for distribution networks scheduled to be in place by 1 July 2008;
- by Ministerial Order; or
- as part of a reference to the AEMC for a Rule change process in respect of DSR and DG.

Following comments made at the 21 September forum, Alinta now understands that if any recommendations are adopted which impact on the new Chapter 6 distribution Rules, they will be implemented via an AEMC Rule change process and not by Ministerial Order. Alinta commends this approach, as it preserves the MCE's governance model, avoids an ad hoc approach to Rule making and does not re-open legislative matters which industry had believed to be settled during consultation.

As the remainder of this submission will indicate, Alinta favours a reference to the AEMC for many of the other issues raised in the NERA/Allen report. This would be consistent with the AEMC's market development role. Further, the Rule change process offers a well-defined national forum for addressing the frequently complex and difficult matters raised by NERA/Allen. If the national (non-economic) framework route was to be used, Alinta considers that MCE/SCO needs to provide greater clarity about the eventual framework that will be adopted (see next section).

## 3. Retail Policy Working Group (RPWG) process

Certain of the NERA/Allen report's recommendations appear to assume that elements of the framework proposed for the RPWG's development of a non-economic regulatory package will be implemented. In particular, the report cites the Allens Arthur Robinson (AAR) Consultation Paper of June 2007 which proposed a number of connection obligations for distributors and associated interface procedures with customers[2].

In its responses to the series of AAR papers throughout 2007, Alinta expressed significant reservations with the process followed to date by the RPWG and the direction of recommendations contained in the AAR papers. Throughout the RPWG consultation, the MCE/SCO have stated that the views and recommendations presented to stakeholders have been those of the various consultants and not MCE/SCO. However, this has provided little guidance as to the relevance of the consultants' proposals to eventual MCE/SCO policy development or the impact of stakeholders' submissions. The same shortcomings appear evident in respect of the NERA/Allen reports, given that MCE/SCO have repeated the same caveats in relation to those reports. Alinta also notes that the current NERA/Allen report builds upon and appears to assume the adoption of recommendations in the two previous NERA/Allen reports.

Alinta acknowledges the value of consultants' reports as "thought starters" for developing a national framework, but considers that they should not substitute for policy development by assuming that previous reports will be implemented as policy. Overall, Alinta submits that

[2] NERA/Allen report section 3.2.1.1 (p 59) says that "these defined connection requirements and conditions will be of a similar nature to those identified by AAR". See Allens Arthur Robinson, *National Framework for Distribution and Retail Regulation - Consultation Paper June 2007,* in particular recommendations 24 to 31 "Distributor obligation to provide connection services" and "Distributor interface with customers".

MCE/SCO could improve the RPWG process by providing a preliminary broad outline of the envisaged national non-economic framework, perhaps at the same time suggesting which are the priority issues to be settled and those which can be left for later development. This would provide a more certain context for stakeholders in commenting on consultants' reports.

## SECTION B - THE NERA / ALLEN CRITERIA AND APPROACH

Section 2 of the NERA/Allen report considers the evaluation criteria used as a basis for the report's recommendations, particularly network planning. The discussion is somewhat discursive, but includes a mixture of economic rationale, references to transmission arrangements and a review of relevant jurisdictional practices for distribution. One of the essential bases for the recommendations appears captured by the following comment:

> *an inevitable consequence of the [network] incentive regimes – at least as at present – is that even where DNSPs should be neutral between technologies, the financial rewards for selecting the lowest cost option may not be strong. Hence, combined with concerns about cultural and other biases, it is difficult to have confidence that DNSPs naturally will have the incentive to adopt non-network solutions (DG and DSR) when it would be efficient to do so.*
>
> *Therefore Chapter 5 of the Rules will also be important in order to put in place an administrative/regulatory framework for planning requirements and negotiation for connections to address these remaining problems*[3]*.*

Consequently the report addresses a number of Chapter 5 changes but in addition suggests a number of Chapter 6 changes, both of which in Alinta's view are based questionable propositions. The report also proposes that '*commonality of the planning procedures and planning-related information that distributors release is required'* [4] on the grounds that this would minimise the costs that participants incur to determine their optimal location and timing across the NEM. In Alinta's view, this is also a proposition that needs closer examination.

In summary, the report proposes the following:

- For network planning, a standard network economic evaluation and reporting framework is to be applied by all DNSPs under new or modified Chapter 5 Rules, with significant AER involvement and oversight;
- For network connection, a standard application framework is to be placed in the Chapter 5 National Electricity Rules (NER), with modification of the draft Chapter 6 Rules to accommodate a new negotiating framework for connection;
- For connection charges/capital contributions, the AER is to develop a guideline for the determination of connection asset charges, and also a methodology for the partial repayment of those charges upon connection of new customers. This will require some revision of the Chapter 5 and draft Chapter 6 Rules;

---

[3] NERA/Allen Consulting Group August 2007: *Network Planning and Connection Arrangements – National Frameworks for Distribution Networks* p 10

[4] Op cit p 9

- A new basis for calculating network loss factors is proposed, involving modification of NER Rule 3.6.3.

Alinta's general conclusion is that NERA/Allen have devised a costly and potentially onerous regime for networks in order to remove supposed biases against non-network solutions, with no assurance that their recommendations will in fact contribute to increased uptake of DSR and EG. At the September 21 public forum to discuss the NERA/Allen recommendations, this view was firmly put to SCO by the ENA, individual network businesses and representatives of the proponents of non-network alternatives, such as the Business Council for Sustainable Development. Further, Alinta considers that the proposed modifications to the draft Chapter 6 Rules do not appear consistent with the MCE/SCO operational intent for the new distribution framework.

At the same time, Alinta fully supports efforts to improve the prospects for DSR and DG solutions. Contrary to the NERA/Allen view, distribution businesses do have incentives to pursue non-network options, so long as the proposed solutions do not result in significantly increased risk being placed on distribution businesses in such matters as system reliability, safety and risk management[5]. Any proposed new mechanisms to further support DSR and DG would need to factor in these constraints on distributors, which in Alinta's view, are very superficially addressed in the NERA/Allen report.

Alinta considers that improved incentives for distribution businesses to pursue DSR and DG could be designed into the overarching regulatory framework itself to minimise the additional risk faced by businesses from adopting non-network solutions, and that this is a very important subject for further investigation. But this is not the approach adopted by the NERA/Allen report.

NERA/Allen have essentially assumed that information transparency and uniform administrative processes placed on distributors via the Rules (and overseen by firm regulation from the AER), will encourage DSR and DG proposals. This in turn assumes that there is a large untapped "pool" of non-network solutions which would have occurred but for the existing jurisdictional planning frameworks. Alinta suggests that this assumption should have been 'market tested' against reality, given (for example) the zero uptake of non-network solutions in South Australia where the NERA/Allen proposed planning framework has been used (but has since been abandoned)[6]. Alinta's experience with Victorian networks is similar, where a known planning process established by guidelines (essentially rules) has drawn limited market response.

Further, Alinta is most concerned that while the NERA/Allen report has recognised the poor SA experience, it has persisted with its view that a "robust" planning regime should continue on the basis that '*if experience later demonstrates this belief to be in error, then the Rules (and AER* statements of specific requirements thereunder) can be modified or removed in an *expeditious manner from that time onwards'*[7]*.* This comment appears to propose that a regulatory framework should be put in place on a trial basis, and this appears to be confirmed by the statement that *'it is because of this ability to review the regime in the future that this*

---

5 This risk arises because the existing regulatory framework for capital efficiency does not quantify the increased risk faced by distribution businesses from the adoption of non-network solutions which may fail and therefore give rise to service level penalties.

6 Alinta does not accept the hypothesis in the NERA/Allen report (page 20) that ETSA Utilities could have rejected all non-network options inappropriately.

7 NERA/Allen, op cit p 20

*report is more definitive in its recommendations about the requirements for the future planning regime than otherwise may be justified'.*[8]

Thus, the NERA/Allen report appears to be proposing that a less than rigorous process for determining the basis of Rules for an initial national framework for non-network solutions is permissible because such Rules can be changed later. Alinta strongly submits that application of this view would be guaranteed to lead to inefficient outcomes, could not produce long term benefits in accord with the National Electricity Objective, and would involve a misapplication of the Rule change process.

***Alinta comments on particular NERA/Allen recommendations***

Section D of this submission provides a detailed response to each of the NERA/Allen recommendations. Section C below comments on issues raised by particular recommendations under each of the four main areas covered in the report.

[8] NERA/Allen, op cit p 9

## SECTION C – COMMENTS ON PARTICULAR NERA/ALLEN RECOMMENDATIONS

### (a) Network development and planning

### (i) Information disclosure

Alinta would support publication of 5 year planning reports in a central location to provide a low cost source of information for DG/DSR proponents.

But the SCO consultants have devised a potentially intrusive and costly regime. The NERA/Allen report does not balance costs imposed on businesses by the proposed release of highly detailed information versus the usefulness or relevance of the information to be provided to the market.

Alinta considers that there must be a distinction between general information available to the market and specific detailed information required by genuine applicants proposing DG/DSR projects. The latter should be met by specific information exchange between businesses and proponents.

Alinta supports publishing a single annual planning report including all relevant future projects, associated 'requests for proposals' (RFPs), responses to RFPs in the previous year's report and the outcomes and status of the projects identified in that year.[9]

### (ii) Application of the regulatory test

Alinta does not agree with the report's proposed application of the regulatory test to distribution assets.

The report says that 'the cost of administering the process of evaluating projects should be such that it is commensurate with the scale of the projects being considered' – but the proposed application of the regulatory test to distribution projects above the proposed upper threshold level and even to projects within the lower thresholds (all of which thresholds the report admits are arbitrary) does not meet the report's own criterion of 'proportionality' in regulatory design.[10]

Alinta submits that there is a significant case for investigating a distribution-specific test to network augmentation rather than the ACCC's regulatory test which is designed to apply to transmission. The AEMC would be the appropriate body for this investigation. Alinta notes that the AEMC is currently conducting a review of the regulatory test focused on transmission - but under the NERA/Allen proposals, distribution would be automatically "caught" by this review. Alinta considers that there needs to be a more objective assessment of the most appropriate test for distribution.

---

[9] Alinta notes all five Victorian businesses have been publishing a 5-year distribution and a 10-year transmission planning report annually since 2002. These two reports provide high level planning information and invite proponents of non-network solutions to approach Alinta. To date, Alinta understands that there is general satisfaction regarding level of information provided.

[10] NERA/Allen, op cit p 7

### (iii) Threshold levels for economic evaluation and issuing RFPs

Alinta agrees with the principle of an economic threshold for advising the market of potential network augmentation, but does not support the NERA/Allen framework of a $2 million threshold for issuing individual 'request for proposals' (RFPs) accompanied by a public consultation process, and subsequent distribution business review and advice of outcomes to the market. The threshold is far too low and the attendant process costs will be far too high.

The proposed lower threshold of $0.5 to $2 million for public reporting of economic evaluations is also far too low and would capture the majority of "business as usual" network augmentation projects, resulting in a costly and inefficient regulatory obligation.

Further, the components of network development and planning must be defined. For example, should asset replacement be included given that there is no deferral benefit? Should fault level containment projects be included given that there are no feasible non-network solutions? Alinta submits that only demand related projects should be included.

Alinta also seriously questions the cost-effectiveness of continually issuing RFPs as a basis for "discovering" non-network solutions. RFPs are not likely to be an effective mechanism, and Alinta supports efforts to determine more efficient and effective alternatives.

Alinta notes that the NERA/Allen report has specifically rejected the concept of a 'filter' for advising the market of potential DSR/DG projects, based (for example) on a feasibility test as currently applies in SA.[11] The report's reasons for this rejection are mixed, but appear to be based on the report's preference for a case by case assessment process. As noted above, the costs involved in this process do not warrant the level of detail envisaged in the NERA/Allen report, and Alinta considers that further investigation of the 'filter' approach is warranted.

### (iv) Regulator involvement

The NERA/Allen report proposes that the AER should be required to produce a statement of specific requirements that sets out the standard format and required contents of the annual planning report and that the Rules should set out the matters the AER is permitted to address.

Alinta notes that it would be inappropriate for AER to have unfettered discretion to direct content of planning reports. Subject to satisfactory resolution of issues raised in this submission, planning content should be specified primarily in the Rules, with sufficient detail for businesses to produce complete reports. The AER's role would be one of guidance. Individual businesses should also be able to include additional information if they judge this necessary.

## (b) National framework for distribution network connection

### (i) Development of connection framework

[11] NERA/Allen, op cit p 28

The NERA/Allen report recommends that a new national framework should apply to all network connections (except standard small user connections which have already been addressed)[12].

Alinta agrees that primarily the Rules should be used to set national connection requirements. However, NERA/Allen have not in many cases specified the content of the proposed new national Rules and Alinta submits that the AEMC is the appropriate body for this task.

While Alinta supports nationally consistent arrangements for DG and other loads where appropriate, Alinta considers that the degree of national consistency attainable in connection arrangements is likely to vary considerably depending on the sizes of customer loads and (for DGs) the types of generation units installed.

**(ii) Negotiation framework**

Recommendations 12-14 in the NERA/Allen report cover what are termed "standard' applications for connection, the content of which is to be developed under the Rules (including standard contracts which will include details of charges). By definition, these contracts would only apply to customers with standard connection requirements. NERA/Allen observe that *'the standard connection route will not be available in all circumstances'*[13]. Since NERA/Allen have excluded consideration of small retail customers from their recommendations, it may reasonably be assumed that NERA/Allen envisage that a significant number of connection applications – probably the majority – will be negotiated (see below).

NERA/Allen recommend that the Rules should state that the negotiation framework developed in accordance with Draft Rule 6.7.5 should apply in the negotiated connection application process, and for this purpose recommend extensive modifications to draft Rule 6.7.5(c).

Alinta has significant concerns with the recommendation to appropriate the draft Chapter 6 negotiation framework for the purpose of a connection application process, and suggests that a revised section 5.3 of the NER could be more appropriate for this purpose.

The NERA/Allen report notes that the form of regulation applying to entry and exit charges will under Draft Rule 6.2.1 depend on whether the AER defines the services as direct control' or 'negotiated'. The report continues: "Assuming however that the provision of connection assets is classified as a negotiable service in keeping with the AEMC's conclusion in relation to transmission, then the relevant charge ---- (will be) based on the negotiating framework provided for in draft chapter 6, Part D"[14]

Alinta does not agree that under the new Chapter 6 Rules it can be assumed that particular network connection services will be automatically treated as 'negotiable'. Draft Rules 6.2.1 and 6.2.2 require the application of a series of market power tests to determine if distribution services will be categorised as direct control (regulated) or not, but the actual classification depends on the outcome of the regulatory process.

---

12 NERA/Allen observe (p 41) that connection recommendations for small retail load customers have already been made by AAR for the RPWG process. The connections addressed by the NERA/Allen recommendations are described as micro/small/medium/large DGs plus large load customers, market customers and market network service providers.

13 NERA/Allen report p 60

14 NERA/Allen report p 74/75

There is a comment on p 64 of the report that 'one implication of this recommendation is that for some DNSPs the negotiating framework would cover some services which are regulated as direct controlled services because the terms and conditions for those services are not pre-determined by application of other regulatory instruments'.

Alinta considers that this comment does not appreciate the nature of the distribution regulatory framework developed by SCO, which has specifically rejected any concept of categorising services in the Rules, instead relying on the regulatory process to do this. A mandatory requirement to produce a negotiating framework for a direct control service (which does not involve any major negotiation) appears contradictory to this framework.

**(iii) Previous consultations**

Alinta notes that many of the NERA/Allen recommendations from 17 to 28 overlap with small customer connection recommendations developed for the Retail Policy Working Group (RPWG) by Allens Arthur Robinson (AAR).

Alinta therefore considers it important that the AAR proposals for distributor connections should be considered as part of a total package of recommendations on network connections for MCE/SCO consideration, including further work on the issues raised in the present consultation, so that inconsistencies between customer groups can be avoided.

**(c) National framework for connection charges**

**(i) Terminology and concepts**

The NERA/Allen report recommends that the NER should adopt a proposed new terminology for the purposes of calculating a connection asset charge. This terminology does not coincide with that used by the AEMC for transmission, and Alinta suggests that the extent of consistency between transmission and distribution in this regard requires further investigation by MCE/SCO.

**(ii) Shared network charges**

The NERA/Allen proposed definitions of 'dedicated connection assets' and 'extension assets' are so contrived as to result in 'connection costs' encompassing both dedicated and extension assets but *excluding shared network assets*.

These definitions are designed to support the NERA/Allen view that no element of shared network augmentation should be reflected in a compulsory connection charge (unless agreed) and that augmentation of shared assets should be paid for by all users.

Alinta submits that this view of network charges is simply the consultants' opinion and other valid charging concepts may well include a place for the inclusion of shared network augmentation. Alinta considers that a more 'neutral' terminology should apply pending a wider review of the Rules for determining network connection charges.

Given that the AEMC has conducted a review of connection charging issues as part of its Transmission Rules, it would be the logical body to undertake such a review for distribution. in particular, the AEMC would be able to discern whether there are overall market efficiency gains

that would support an element of shared costs being included in distribution connection charges.

### (iii) "Contracting" to constrain generators

The NERA/Allen report section 4.4.1 (p 84) argues that some kind of (undefined) contracting approach should be applied by distributors in their contracting with unscheduled generators who choose not to fund improved network transfer capability. This contracting would "constrain" the maximum energy exports of the generator, and would replicate NEMMCO algorithms applied to scheduled generators as to maximum energy exports.

Alinta's strong view is that the NERA/Allen proposed framework is loosely conceived, ignores the very different circumstances of NEMMCO as a specialised market operator, places unacceptable risks on distributors, and is most unlikely to result in equitable and efficient outcomes for both distributors and the energy using community. The proposed framework does not indicate how the complex provisions in the National Electricity Rules for NEMMCO to manage market dispatch could be replicated for a single distributor contracting with multiple embedded generators. Alinta submits that no simple low-cost solution (which also ensures competitive neutrality for treatment of each generator) could be identified to resolve this problem.

### (iv) Current jurisdictional practice

The NERA/Allen proposals to not include shared network costs in connection charges are novel and are contrary to past reviews (eg the Code of Practice for Embedded Generation)[15].

Alinta also notes that the proposals are contrary to much jurisdictional practice – eg in Victoria, the ESC Guideline No 14 provides for an element of shared network augmentation costs to be recovered through network connection charges.

Alinta suggests that the impact of the NERA/Allen proposals on the distribution prices paid by all users could be significant, depending on the degree of shared augmentation currently funded by connecting network users.

### (v) Repayments of connection charges

Alinta notes that the NERA/Allen report has made only high level recommendations as to the refunding (or 'clawback) of single-user assets that subsequently become shared, instead leaving the detail to an AER 'guideline'.

Alinta supports equitable arrangements for the subsequent sharing of single-user network costs, but considers that such arrangements need a focused consultation with industry to address practical issues.

### (d) Network loss factors

[15] Alinta acknowledges that the AEMC did exclude such charges in its Chapter 6A Transmission Rule Review, but as suggested above, the AEMC could be asked to take a fresh look at this issue from a distribution perspective.

Alinta notes that network losses were not a matter to be considered through the AEMA and are therefore not required under the current consultation.

NERA/Allen take the view that the use of average loss factors in network pricing applied to DGs results in a bias against these projects since it does not reward them for the losses they alleviate (marginal losses, which are generally higher than average losses). Conceptually, this view may have some merit, and needs further investigation. This is a complex and difficult topic, and Alinta suggests that finding a solution that combines equity, workability and minimum cost will not be easy.

Even so, Alinta does not consider that the public disclosure of average and marginal loss factors over a five-year planning period as proposed in the NERA/Allen report (recommendation 1) is a workable solution to presumed locational issues for network users, including DGs. The NERA/Allen report itself states that calculating marginal loss factors for large numbers of customers is expensive (p 98). Requiring DNSPs to publish extensive forecast network loss information would be very complex and lead to a significant increase in costs without commensurate benefits.

Rather than being presented with information which is not focused on specific projects, Alinta considers that DG proponents would benefit more by dealing on a one-to-one basis with distributors in order to determine site-specific DLFs (based on some form of equitable calculation).

Alinta submits that a comprehensive review of network losses should be undertaken by the AEMC, encompassing all market sectors including distributed generation.

## SECTION D - DETAILED RECOMMENDATIONS IN NERA/ALLEN REPORT AND ALINTA RESPONSE

| No | Recommendation | Response |
|---|---|---|
| ***Network development and planning*** | | |
| 1 | The Rules should require DNSPs to undertake an annual planning process and publish an annual planning report that sets out the outcomes of that planning process. The annual planning report should include:<br>▪ a 5-year forecast of potential constraints, together with preliminary estimates of the costs of network solutions;<br>▪ a forecast of areas of substantially under-utilised existing transfer capability;<br>▪ a forecast of average and marginal distribution loss factors for different points in the network over the planning horizon; and<br>▪ a description of the DNSP's compliance with their planning-related obligations including:<br>- a summary of the case by case application of the regulatory test completed in the previous year, status of the projects and status of any projects from previous years;<br>- the results of applying the regulatory test to projects below the threshold for a case by case process but that meets the threshold for transparent reporting, status of the projects and status of any projects from previous years.<br>▪ The annual planning reports (and any other planning-related information) should be made public and available from a single point (such as the NEMMCO website). | ▪ Alinta would support publication of 5 year planning reports in a central location to provide a low cost source of information for DG/DSR proponents.<br>▪ But the consultants have devised a potentially intrusive and costly regime. The NERA/Allen report does not balance costs imposed on businesses versus the usefulness or relevance of the information to be provided to the market.<br>▪ Alinta considers that there must be a distinction between general information available to the market and specific detailed information required by genuine applicants proposing DG/DSR projects.<br>▪ Report says that 'the cost of administering the process of evaluating projects should be such that it is commensurate with the scale of the projects being considered' – but the proposed application of the regulatory test to projects including those below the threshold levels (which are themselves arbitrary) does not meet the report's own criterion of 'proportionality' (Report p 7)<br>▪ Alinta supports publishing a single annual planning report including all projects, RFPs and responses to RFPs in the previous year's report and the outcomes and status of the projects.<br>▪ Alinta submits that there is a case for applying a distribution-specific test to distribution businesses rather than the Regulatory Test which is designed to apply to transmission. The AEMC would be the appropriate body for testing this potentiality.<br>▪ Alinta does not agree with publishing a forecast of average and |

| No | Recommendation | Response |
|---|---|---|
| | | marginal distribution loss factors for different points in the network over the planning horizon – see response to recommendation 31 below. |
| 2 | The AER should be required to produce a statement of specific requirements that is given effect by the Rules that sets out the standard format and required contents of the annual planning report.<br><br>The Rules should set out the matters the AER's statement of specific requirements is permitted to address, which should include requiring:<br><br>▪ an accessible summary of where and when constraints are expected to emerge over the planning horizon and of the value of deferring the associated network augmentations (e.g. in $/kVA per annum terms);<br><br>▪ an accessible summary of the extent of surplus capacity at different points in the network;<br><br>▪ an accessible summary of the magnitude of current and forecast average and marginal distribution loss factors at different points in the network; and<br><br>▪ a standard format for reporting on applications of the regulatory test. | ▪ Alinta supports (in principle) the concept of nationally consistent information disclosure; but this must be balanced against likely costs and effectiveness of such disclosure.<br><br>▪ However, Alinta does not accept many of the consultants' recommendations for information content.<br><br>▪ Alinta notes that it would be inappropriate for AER to have unfettered discretion to direct content of planning reports. Subject to resolution of issues raised in this submission, planning content should be specified primarily in the Rules, with sufficient detail for businesses to produce complete reports. The AER's role would be one of guidance. Individual businesses should be able to include additional information if judged necessary.<br><br>▪ Report says (p 9) that "it is more difficult to forecast future specific investments – or future constraints – [in distribution] than it is for transmission" – but then recommends very detailed specification of constraints – eg $/kVA per annum terms.<br><br>▪ Alinta does not agree with publishing a forecast of average and marginal distribution loss factors for different points in the network over the planning horizon – see response to recommendation 31 below.<br><br>▪ Alinta supports investigation of a distribution-specific test rather |

| No | Recommendation | Response |
|---|---|---|
| | | than the Regulatory Test (see response to recommendation 1). |
| 3 | ▪ For any project to alleviate a network constraint for which the network solution would require an estimated capitalised expenditure of $2m or more, DNSPs should be required to perform an economic cost-benefit assessment of that project.<br>▪ As part of this assessment, the DNSP should be required to consult publicly and be required to issue an RFP from potential providers of non-network solutions to the network constraint.<br>▪ The DNSP should be required to report publicly the results of its assessment immediately after its assessment has been completed, and also to summarise the outcomes of the assessment in its annual planning report | ▪ Alinta agrees with the principle of an economic test of some kind and at some level but does not support the $2M threshold. It is far too low.<br>▪ Further, the components of network development and planning must be defined. For example, should asset replacement be included given that there is no deferral benefit? Should fault level containment projects be included given that there are no feasible non-network solutions? Alinta submits that only demand related projects should be included.<br>▪ Alinta seriously questions the effectiveness of issuing RFPs as a basis for "discovering" non-network solutions. The NERA/Allen report cites SA as a successful user of RFPs but SA has effectively abandoned this approach in favour of a 'reasonableness test'. RFPs are not likely to be an effective mechanism, and Alinta supports efforts to determine more efficient and effective alternatives.<br>▪ Alinta agrees in principle with public reporting but not immediately after each assessment has been completed. Rather, the results of assessments should be included in the one planning report published annually. |
| 4 | ▪ For any network constraints for which the network solution would require an estimated capitalised expenditure of $0.5-2m, DNSPs should be required to undertake an economic cost-benefit | ▪ The proposed threshold of $0.5 to $2 million is far too low and would capture the majority of "business as usual" network augmentation projects, resulting in a costly and inefficient |

| No | Recommendation | Response |
|---|---|---|
| | assessment of the project and publish the results in the annual planning report, without being required to issue an RFP or consult on the options.<br><br>▪ For a network solution requiring an estimated capitalised expenditure of less than $0.5m, there would be no formal ex post reporting requirement and DNSPs would not be required to undertake an economic cost-benefit assessment of the project, to issue an RFP or to consult on the options. | regulatory obligation. Alinta does not agree with this threshold.<br><br>▪ While Alinta agrees that there should be no requirement to issue RFPs or consult on the options for the above small projects, it is far from clear what is to be achieved by the recommendation to publish the results of internal economic evaluations for these projects.<br><br>▪ Alinta suggests that there could be a trigger mechanism for revising upwards whatever project thresholds are eventually placed in the Rules should there be very little response to published network information. |
| 5 | The Rules should require the AER to issue a statement of specific requirements that sets out the contents of a Request for Proposals for non-network solutions to address an emerging network constraint and that sets out the process to be followed in issuing such requests.<br><br>The Rules should require the AER statement to require the RFP to include, at a minimum:<br><br>▪ the technical requirements that the non-network solution would need to meet;<br><br>▪ the estimated range of costs for network solutions and an indication of the resulting annual cost that a non-network solution would need to better in order to be selected; and<br><br>▪ an indication of whether the DNSP considers non-network alternatives to be a feasible solution for the project. | ▪ As noted above, Alinta seriously questions the effectiveness of issuing RFPs as a basis for “discovering” non-network solutions.<br><br>▪ The whole issue of regulator involvement in specifying RFP processes needs careful consideration. If the basic incentives for discovering the most efficient solutions are not available to both distributors and external proponents, then no amount of regulatory direction will add anything to the discovery process. |

| No | Recommendation | Response |
|---|---|---|
| | The Rules should require the AER statement to require the RFP process at a minimum to:<br><br>▪ provide sufficient time for proponents of non-network solutions to prepare their cases while allowing the DNSP, in the absence of a committed non-network project, to implement a network solution after a cut-off date; and<br><br>▪ ensure that the RFP process is be capable of being brought to closure, with the non-network solution either committed (and bound) to deliver in a reasonable period of time, or the DNSP free to select an alternative option.<br><br>The Rules should require all RFPs to be published in the same central location as the annual planning reports. | |
| 6 | DNSPs should be required to apply the standard regulatory test (rule 5.6.5A) when undertaking a cost-benefit assessment of alternative projects (requiring amendment to clause 5.6.2(g)) so long as it continues to provide the flexibility for the test to be applied in a manner that is proportionate to the size and scale of the project. | As noted, Alinta supports an investigation into alternatives to the standard regulatory test in the case of distribution. |
| 7 | The DNSP's obligations to undertake the annual planning and reporting activities, and to undertake project evaluations, should be Rules obligations and able to be enforced through standard Rules-enforcement processes. | No objection. However, the obligations should not exist at the national level until the other elements of a national network planning framework are in place. |

| No | Recommendation | Response |
|---|---|---|
| 8 | A dispute resolution regime based on rules 5.6.6(j)-(n) should exist in relation to the DNSP's conduct of a cost-benefit assessment (and associated RFP for non-network options) for particular distribution projects, which should have the following features:<br>▪ threshold – should be limited to projects that are new large distribution assets (currently projects whose total capitalised cost is $10m and above);<br>▪ parties to the dispute – extend to parties directly affected, which would include proponents of non-network options, end-users and agents on their behalf;<br>▪ scope of the dispute – should not be significantly limited;<br>▪ dispute resolution process – the AER should have the role of hearing the dispute and adopt a low cost process for this; and<br>▪ effect of the dispute – the current effect of the mechanism, whereby the DNSP cannot be directed in its activities, should be maintained. | A dispute resolution process of some kind is required, but its features require further consideration. Alinta notes that this dispute resolution process would be additional to the process for resolving access disputes in Part M of the proposed Chapter 6 distribution Rules. |
| 9 | The Rules should ensure that DSR/DG trials and risk sharing arrangements are encouraged in order to build trust and communication between DNSPs and proponents of non-network alternatives. | Alinta supports moves to increase experience with non-network options for both distributors and proponents. The NERA/Allen paper has suggested two mechanisms:<br>▪ recommendation 9 (which operates through the regulatory regime); or alternatively<br>▪ an adaption of the Ofgem scheme which encourages distributor |

| No | Recommendation | Response |
|---|---|---|
| | | innovation via a research and development fund.<br><br>Alinta considers that the most efficient approach is to refer these suggestions and any others to the AEMC for a review of the preferred mechanisms for encouraging incentives for DG and DSR. |
| ***Network connection arrangements*** | | |
| 10 | Specify in the Rules the connection requirements that must be met by a user which include the requirement for users to:<br><br>▪ pay the DNSP for the construction of any dedicated connection assets (where the construction of these assets is not contestable) and any extension works to the distribution system required to effect the connection; and<br><br>▪ comply with technical and safety requirements in relation to the customer's installation or equipment, ie, payment for extension assets, dedicated connection assets and compliance with technical and safety matters. | The NERA/Allen report recommends a national framework to apply to all network connections except standard small retail load users.<br><br>Alinta agrees that primarily the Rules should be used to set national connection requirements (in so far as such requirements are appropriate).<br><br>However, NERA/Allen have not in many cases specified the content of the proposed new Rules and Alinta submits that the AEMC is the appropriate body for this task.<br><br>While Alinta supports nationally consistent arrangements for DG and other loads where appropriate, Alinta considers that the degree of national consistency attainable in connection arrangements is likely to vary considerably depending on the sizes of customer loads and (for DGs) the types of generation units installed. |
| 11 | Schedules to Chapter 5 of the NER should be amended to include a definition of the technical requirements for small load, large load, | As noted, NERA/Allen have not in many cases specified the content of the proposed new Rules and Alinta submits that the AEMC is the |

| No | Recommendation | Response |
|---|---|---|
| | micro, small and medium DGs. | appropriate body for this task. |
| 12 | The NER should define the standard connection services to apply to micro DGs. | As noted, NERA/Allen have not in many cases specified the content of the proposed new Rules and Alinta submits that the AEMC is the appropriate body for this task.<br><br>For Victoria, standard DG connection services including obligations on customers are currently defined in various sections the Victorian Electricity Distribution Code. ESC Guideline no 15 also deals with embedded generators. |
| 13 | The NER should set out the minimum content for standard applications in a schedule to Chapter 5. | As noted, NERA/Allen have not in many cases specified the content of the proposed new Rules and Alinta submits that the AEMC is the appropriate body for this task. |
| 14 | The NER should:<br><br>▪ set out the minimum content for standard connection contracts in a schedule to Chapter 5 including a requirement for the DNSP to specify the number of days after the finalisation of the agreement that the standard connection will be effected;<br><br>▪ require the AER to approve the content of the standard application form and the terms and conditions specified in the standard contract and require the AER to apply the 'fair and reasonable' test | As noted, NERA/Allen have not in many cases specified the content of the proposed new Rules and Alinta submits that the AEMC is the appropriate body for this task. |

| No | Recommendation | Response |
|---|---|---|
| | when determining whether to approve the proposed standard contracts. | |
| 15 | The NER should state that the negotiation framework developed in accordance with Draft Rule 6.7.5 and as modified should apply in the negotiated connection application process.<br><br>Rule 6.7.5(c) should be modified to include the following additional provisions which would require the DNSP to specify a requirement:<br><br>▪ for the exchange of technical as well as commercial information between the two parties;<br><br>▪ that when considering a connection application the DNSP is to use its reasonable endeavours to provide the user with the service it requires in accordance with the reasonable requirements of the user, including without limitation, the location of the proposed connection point and the level and standard of power transfer capability that the network will provide (currently Rule 5.3.6(d));<br><br>▪ any offer pertaining to a negotiated distribution service to be fair and reasonable and consistent with the safe and reliable operation of the power system in accordance with the NER and consistent with the technical requirement schedules contained in Chapter 5 (as applicable) and must not impose conditions on the user that are more onerous than those contemplated in these technical schedules (currently Rule 5.3.6(c));<br><br>▪ the cooling off period that will apply to any contract negotiated with vulnerable users; | Alinta has major concerns with the recommendation to appropriate the draft Chapter 6 negotiation framework for the purpose of a connection application process.<br><br>The NERA/Allen report in chapter 4 develops a national framework for connection charges. It notes that the form of regulation applying to entry and exit charges will under Draft Rule 6.2.1 depend on whether the AER defines the services as direct control' or 'negotiated'. The report continues: "Assuming however that the provision of connection assets is classified as a negotiable service in keeping with the AEMC's conclusion in relation to transmission, then the relevant charge ----(will be) based on the negotiating framework provided for in draft chapter 6, Part D" (report p 74/75).<br><br>Alinta does not agree that it can be assumed that the Chapter 6 framework will automatically classify network connection services as 'negotiable'.<br><br>There is a comment on p 64 of the report that "one implication of this recommendation is that for some DNSPs the negotiating framework would cover some services which are regulated as direct controlled services because the terms and conditions for those services are not pre-determined by other application of other regulatory instruments".<br><br>Alinta considers that this comment does not appreciate the nature of the distribution regulatory framework developed by SCO, which has |

| No | Recommendation | Response |
|---|---|---|
| | ▪ a requirement that when considering a connection application the DNSP must consult with any affected Distribution Network Users and NEMMCO (where relevant) if the DNSP believes, in its reasonable opinion, that compliance with the terms and conditions of those connection agreements will be affected, in order to assess the application to connect and determine:<br><br>– the technical requirements for the equipment to be connected;<br><br>– the extent and cost of augmentations and changes to all affected networks;<br><br>– any consequent change in network service charges; and<br><br>– any possible material effect of this new connection on the network power transfer capability including that of other networks (currently Rule 5.3.5(d)); and<br><br>- the time periods for the commencement and finalisation of negotiations relating to negotiated connections once a completed application form is submitted to the DNSP for the alternative types of users and connection requirements. | specifically rejected any concept of categorising services in the Rules, instead relying on the regulatory process to do this. A mandatory requirement to produce a negotiating framework for a direct control service (which does not involve any major negotiation) appears contradictory to this framework. |
| 16 | Schedule 5.6 of the NER should be amended:<br><br>▪ to ensure that it can be utilised in contracts negotiated with small users, large users, micro, small and medium DGs; | As noted, NERA/Allen have not in many cases specified the content of the proposed new Rules and Alinta submits that the AEMC is the appropriate body for this task. |

| No | Recommendation | Response |
|---|---|---|
| | ▪ to include a cooling off period for those contracts negotiated with small users; and<br><br>▪ to include provisions which enable the connection agreement to be modified over time where both parties agree to changes in non-price terms and conditions (including technical conditions which may require NEMMCO involvement) and where those changes have no associated cost effects. | |
| 17 | The NER should require a DNSP, within five business days of receiving a user's initial enquiry:<br><br>▪ to advise the user whether there is a standard connection service that would encompass its connection requirements and if so:<br><br>▪ supply the user with the relevant standard contract and application form; and<br><br>▪ inform the user that they have the option of using either the standard connection service or negotiating an alternative connection service.<br><br>▪ to provide the user with a copy of the negotiation framework it has developed in accordance with Rule 6.7.5 and that has been approved by the AER which will come into operation if the connection service is to be negotiated;<br><br>▪ to inform the user of whether any aspects of the connection service are contestable; | Alinta notes that many of the NERA/Allen recommendations within items 17 – 28 overlap with small customer recommendations developed for the Retail Policy Working Group (RPWG) by Allens Arthur Robinson (AAR); namely "Distributor obligation to provide connection services" and "Distributor interface with customers". Alinta has previously commented on those recommendations.<br><br>Alinta considers it vital that there should not be overlapping processes in MCE/SCO consultations, and that therefore the NERA/Allen and AAR proposals for distributor connections should be considered as a total package of recommendations for MCE/SCO consideration.<br><br>At the same time, Alinta wishes to make it clear that it does not necessarily agree with aspects of both the NERA./Allen and AAR recommendations. |

| No | Recommendation | Response |
|---|---|---|
| | ▪ to inform the user of any additional information required which is of the kind specified in Schedules 5.4; and<br><br>▪ to inform the user of the indicative value of the loss factor applying in the area within which the user is seeking connection. | Regarding this last dot point Alinta considers that "standard" (most likely smaller) prospective customers are most unlikely to avoid connection in the area within which the user is seeking connection simply because of a notification of an "indicative" DLF. The more influential factors are likely to be connection costs. See response to recommendation 31. |
| 18 | The NER should require a user in the connection enquiry phase to advise the DNSP whether it will be seeking connection via the standard connection service route or the negotiated connection service route. | See recommendation 17 comment |
| 19 | The NER should state that where a user selects the standard connection application route the DNSP must:<br><br>▪ advise the user as soon as practicable, and no later than five business days after receiving advice from the user that it will be seeking the standard connection service route, if the application should be processed by another DNSP; and<br><br>▪ within five business days provide the user with any technical information necessary to process the application in accordance with the technical schedules in Chapter 5 to the extent that it holds such information. | See recommendation 17 comment |

| No | Recommendation | Response |
|---|---|---|
| 20 | The NER should require the DNSP to issue a connection offer and a standard connection agreement within twenty business days of receiving a completed standard application form. | |
| 21 | The NER should allow a user (utilising the standard connection application route) two months to accept the offer otherwise the offer should be deemed to have lapsed unless the DNSP agrees to extend the offer. | Alinta suggests that a distributor and prospective user should be free to negotiate an acceptance period exceeding this proposed limit. |
| 22 | The NER should state that where an application is for a negotiated connection service the DNSP must within ten days:<br>▪ advise the user if the application should be processed by another DNSP; and<br>▪ provide the user with any technical information necessary to process the application in accordance with the technical schedules in Chapter 5 to the extent that it holds such information. | Alinta submits that a maximum of ten days to assess an application and provide a user with the required technical information may not commercially realistic. Moreover, unlike recommendations 17 and 20, ten *business* days are not specified. |
| 23 | The NER should:<br>▪ combine the technical, price and non-price negotiation phases currently set out in the application for connection and offer to connect phases; | See recommendation 15 comment |

| No | Recommendation | Response |
|---|---|---|
| | ▪ remove any provisions which will be captured in the negotiation framework specified in Rule 6.7.5;<br><br>▪ require the DNSP to commence negotiations with the user as soon as it submits a completed application form; and<br><br>▪ require both the DNSP and user to negotiate in good faith.<br><br>▪ state that any negotiation relating to access standards must:<br><br>– be no less onerous than the minimum access standard contained in the relevant schedules in Chapter 5;<br><br>– not adversely affect power system security;<br><br>– not adversely affect the quality of supply for other users; and<br><br>– involve NEMMCO in an advisory capacity and accord NEMMCO twenty business days to inform the parties in writing of any advisory matters arising as a result of the proposed negotiated access standard.<br><br>▪ require the DNSP to develop an offer to connect which contains the information specified in Schedule 5.6 and specifies the outcome of any negotiation relating to access standards, connection charges, prudential requirements and any other terms and conditions within the time specified in the preliminary program or later if the access standards have been negotiated. | |

| No | Recommendation | Response |
|---|---|---|
| 24 | The NER should allow the user (utilising the negotiated connection application route) two months to accept the offer otherwise the offer should be deemed to have lapsed unless the DNSP agrees to extend the offer. | Alinta suggests that a distributor and prospective user should be free to negotiate an acceptance period exceeding this proposed limit. |
| ***Capital contribution requirements*** | | |
| 25 | The NER should allow, subject to a decision by the AER as to the form of regulation to apply to the provision of connection assets, a DNSP to recover from connecting users the cost of dedicated connection assets as well as extension assets for the sole use of a new connection that, but for the new connection, would not have been incurred – a connection asset charge. | See comments below |
| 26 | The NER should adopt the terminology in Box 4.1 for the purposes of calculating a connection asset charge. | The proposed terminology in Box 4.1 comprises:<br>▪ Connection costs<br>▪ Connection asset costs<br>▪ Dedicated connection assets<br>▪ Extension assets<br>▪ Shared network assets.<br><br>The definitions of 'dedicated connection assets' and 'extension assets' are so contrived as to result in 'connection costs' encompassing both dedicated and extension assets but excluding shared network assets. |

| No | Recommendation | Response |
|---|---|---|
| | | Alinta notes that these definitions are designed to support the NERA/Allen view that no element of shared network augmentation should be reflected in a compulsory connection charge (unless agreed – see next recommendation).<br><br>However, this view of network charges is simply the consultants' opinion and other valid charging concepts may well include a place for the inclusion of shared network augmentation. Alinta considers that a more 'neutral' terminology should apply pending a wider review of the Rules for determining network connection charges.<br><br>Given that the AEMC has conducted a review of connection charging issues as part of its Transmission Rules, it would be the logical body to undertake such a review for distribution. Alinta observes that the AEMC did not allow for shared network costs in its Transmission Rules, but this does not imply that a similar outcome would follow for distribution given a 'whole of market' perspective in designing rules in accordance with the National Electricity Objective. In particular, the AEMC would be able to discern whether there are overall market efficiency gains that would support an element of shared connection costs being included for distribution. |
| 27 | A compulsory connection asset charge should not include the cost of any shared network augmentation that may be required to service the load/generation output arising from a new connection. However, a connection applicant may also choose to fund shared network augmentation by negotiation between the DNSP and the connection applicant. | See response to recommendation 26.<br><br>The NERA/Allen report section 4.4.1 (p 84) appears to argue that some kind of contracting "restraint" approach should be applied by distributors in their contracting with unscheduled generators who choose not to fund improved network transfer capability, and that this 'contracting' would replicate NEMMCO algorithms applied to |

| No | Recommendation | Response |
|---|---|---|
| | | scheduled generators as to maximum energy exports.<br><br>Alinta's strong view is that the NERA/Allen proposed framework is very loosely conceived, places major risks on distributors in terms of network augmentation, and in no way contributes to equitable and efficient outcomes for both distributors and the energy using community.<br><br>The above approach is not consistent with Victorian practice, where connections are charged on the basis of an economic feasibility test (EFT) based on the net incremental connection costs minus the incremental revenue expected from the connection. This results in reasonable up front connection costs which do not inhibit connection. |
| 28 | The NER should require the AER to develop a Guideline for the determination of connection asset charges. The Rules should provide that the Guideline include:<br><br>▪ a definition of a standard small customer connection asset that may vary for each DNSP, for which no connection asset charge may be levied; and<br><br>▪ definition of the relevant connection point. | Victorian practice is that generally the EFT would result in no connection asset charge for a standard connection. However, there is a one off administrative cost associated with the connection such as setting up the account in the customer information systems and integrating the connection into the asset management systems.<br><br>In Alinta's view, allowing a nominal connection charge in addition to any shortfall from an EFT is a fair and reasonable approach which would not inhibit connection. |
| 29 | The NER should require the AER to develop a Guideline that provides a methodology for the partial repayment of connection asset charges when a new customer connects to an extension asset within 7 years. The Rules should provide that the Guideline include: | The NERA/Allen report has made only high level recommendations as to the refunding (or 'clawback) of single-user assets that subsequently become shared, instead leaving the detail to an AER 'guideline'. |

| No | Recommendation | Response |
|---|---|---|
| | ▪ an obligation for a DNSP to provide a repayment to a connection customer in the event a new connection utilises part of the previously dedicated assets;<br>▪ dispute resolution procedures;<br>▪ the basis for calculating the repayment; and<br>▪ a requirement that the asset become treated as a shared network asset at the expiry of the seven year period | Alinta supports equitable arrangements for the sharing of network costs, but considers that such arrangements need a focused consultation process to address key practical issues. |
| 30 | Provisions within the NER that currently refer to the recovery of network augmentation costs through a connection charge should be removed (ie, Rule 5.5(f)(3)(i) and Draft Rule 6.22(1)(b). | Alinta does not agree. Refer to comments for recommendation 27. |
| ***Network loss factors*** | | |
| 31 | It is proposed that DG receive a DLF that reflects the amount of losses that the DG would avoid by being present and operating (i.e. a marginal loss factor). In contrast, customers would continue to receive a loss factor that distributes the losses to be recovered across customers in proportion to each customer's usage, where the losses to be recovered are the sum of the forecast of actual losses and the sum of the 'avoided losses' from DGs. | NERA/Allen take the view that the use of average loss factors in network pricing applied to DGs results in a bias against these projects since it does not reward them for the losses they alleviate (marginal losses, which are generally higher than average losses). Conceptually, this view may have some merit, and needs further investigation. This is a complex and difficult topic, and Alinta suggests that finding a solution that combines equity, workability and minimum cost will not be easy.<br><br>However, Alinta does not consider that the public disclosure of average and marginal loss factors over a five-year planning period as |

| No | Recommendation | Response |
|---|---|---|
| | | proposed in the NERA/Allen report (recommendation 1) is a workable solution to presumed locational issues for DGs. The NERA/Allen report itself states that calculating marginal loss factors for large numbers of customers is expensive (p 98). Requiring DNSPs to publish extensive forecast network loss information would be very complex and lead to a significant increase in costs without commensurate benefits.<br><br>Rather than being presented with information which is not focused on specific projects, Alinta considers that DG proponents would benefit more by dealing on a one-to-one basis with distributors in order to determine site-specific DLFs.<br><br>Since the AEMA does not require network losses to be addressed now, Alinta submits that a comprehensive review of network losses should be undertaken by the AEMC, encompassing all market sectors including distributed generation. |
| 32 | Marginal loss factors for site specific DG would be calculated on the basis of the forecast losses with the DG being present and operating as forecast, compared to the losses that would be forecast in the absence of that DG. For smaller sites, the distribution loss factor should reflect a marginal loss factor (averaged across the relevant geographic area), but estimated in a manner that keeps the computation burden to a reasonable level – for example, through the use of a 'rule of thumb' relationship between average and marginal loss factors. | |

| No | Recommendation | Response |
|---|---|---|
| 33 | The AER should be encouraged to require the price that a DNSP charges to determine a site specific DLF for a DG or customer that is below the threshold in the Rules be a regulated service (for example, by requiring it to be listed as an alternative control service). | See response to Recommendation 15. Alinta has concerns with proposals to appropriate the draft Chapter 6 Rules for the NERA/Allen proposed framework. It is not clear what recommendation 33 implies by "encouraging" the AER to classify a service as alternative control. The AER must apply the tests in 6.2.1 and 6.2.2 appropriately and it cannot be assumed that any service will automatically be classified as alternative control. |
| 34 | DNSPs should be required to calculate a separate loss factor for geographic regions that are expected to suffer materially different levels of losses, and to combine geographic regions for this purpose only where they are expected to suffer materially similar levels of losses. | |
| 35 | A site should be treated for DLF purposes as a 'customer' when it imports, and a 'generator' when it exports, on the gross flows of electricity, requiring two metered connection points at a site that is a combined distributed generator and customer. | The NERA/Allen report (p 104) says that *'in order to be feasible, this [recommendation] would require two metered connection points at each such site. If there were only one meter, measuring net flows, the customer would have a strong incentive to overstate its internal generation as it would get paid more for what is produced than what is consumed'*. Alinta comments as follows:<br><br>In Victoria, the ESC allows net metering. The advantage of net metering, is that the customer pays NUOS for the net import, thus reducing its NUOS charges. Gross metering would mean that the customer would have to pay NUOS charges based on the gross load meter (measuring imports), which would be significantly higher compared to NUOS charges if the combined generator/load site is net metered. This may disadvantage a combined generation/load |

| No | Recommendation | Response |
|---|---|---|
| | | customer. |
| 36 | Allow, but not require, the AER to develop an incentive mechanism for DLF management guided by the principles of:<br>▪ the need to ensure DNSPs' motivations for controlling and forecasting losses are aligned with the potential costs / benefits of changed losses or better forecasts;<br>▪ the need for neutrality in deciding between network and non network options; and<br>▪ control of losses – rather than accuracy of forecasts – is likely to be of more significance to efficiency. | Alinta comments as follows:<br>▪ It is difficult to accurately calculate energy losses on distribution networks and the accuracy of the figures is very much dependent on the distributors' measurement and monitoring systems.<br>▪ It is therefore generally not practical to place incentives and penalties on distributors to reduce energy losses based on the results of calculation methods currently in use.<br>▪ It is possible however to calculate the benefit and energy loss reduction of specific projects (for example power factor correction or transformer replacement) and therefore a better solution would be to allow distributors to invest in projects that reduce energy losses. |
| | | |