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Manager
MCE Secretariat
Department of Industry, Tourism and Resources
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Dear Sir

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

Aurora Energy Pty Ltd (Aurora) welcomes the opportunity to provide comment upon the report *National Frameworks for Distribution Networks: Network Planning and Connection Arrangements* (the Report) issued in August, 2007. Aurora's general comments follow in the body of this letter, additional comments upon specific recommendations are contained within the Attachment.

Aurora is a Tasmanian Government-owned electricity entity, licensed as a Distribution Network Service Provider (DNSP) by NEMMCO, and licensed under the *Electricity Supply Industry Act, 1995*, for the provision of monopoly distribution services on mainland Tasmania.

Aurora believes that the codification of the process of making new connections to the distribution network will provide certainty and improve the customer experience, but this will come at a cost to the DNSP which will ultimately pass back to the customer. Under the current National Electricity Rules (NER), the codified procedures apply only to Registered Participants making a connection to distribution networks. By the recommendations in the Report, however, all persons seeking connection to the distribution network will be treated as per the NER, increasing the workload of the DNSP. While streamlining the processes as suggested in the Report will improve matters, the timeframes suggested are unacceptably short. In addition, the recovery of costs for this increased workload and expenditure associated with the implementation and running of the new system is not considered in the Report.

Other recommendations in the Report concerning aspects of planning and calculations of loss factors also lead to increased DNSP workloads and associated expenditure without contemplation of cost recovery for the DNSP. These costs have not apparently been contemplated with regard to "efficient" implementation of non-network solutions; that is, in providing an environment conducive to the use of non-network solutions, the DNSP's underlying, on-going regulatory costs have been, potentially, substantially increased.

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A further factor that has not been considered in the Report is the environmental impact of distributed generation using carbon-releasing fuel, whether or not from non-renewable sources. The associated costs to the distributor or operator of the distribution generator, which will be eventually passed through to the consumer, must also be factored in to the measure of efficiency for non-network solutions.

There is no apparent consideration of distributed generation solutions being provided by the DNSP. Aurora Energy supports the use of non-network solutions to distribution network problems and has incorporated the investigation of such into its strategies for the development of its distribution network into the future. Aurora has several reservations, however, about introducing artificial incentives to “encourage” DNSPs to consider its use. Firstly, by weighting solutions the determination of what constitutes an “efficient solution” is distorted. Secondly, providing incentive to consider one type of solution introduces discrimination against providers of other potential solutions. Finally, wherever there is an incentive, someone has to pay, and there is no clear indication within the Report as to which party “foots the bill”.

Aurora recognises that dispute resolution procedures are a reasonable and necessary part of interactions between parties to ensure fair resolution when negotiations break-down, but to infer that the DNSPs are the sole cause of such break-downs in negotiations, and to imply that DNSPs “pick on” small users due to their lack of legal capital, is inappropriate. Similarly, standard connection processes provide certainty for both customers and DNSPs, there is no call to disparage DNSPs to add weight to the argument.

While it is true that non-network solutions are not widely chosen to solve capacity problems, to imply that the sole reason is because DNSPs do not get a return on such is ludicrous. As regulated monopoly providers of essential services, DNSPs are closely scrutinised by Regulators and Governments to ensure efficient use of resources. Inefficient capital expenditure is penalised by Regulators, usually by reducing the Regulated Asset Base so that the DNSP does not get a return on the inefficient component. It follows, therefore, that if the most efficient solution to a capacity problem were non-network then this would be recognised by Regulators, either in setting ex-ante capital expenditure, or in ex-post reviews of capital expenditure. The logical conclusion, therefore, is that, to date, distributed generation may not be the most efficient solution to capacity problems.

A criterion for effective use of distributed generation as non-network capacity solution is that the generator must be available every time there is a peak load event. If this criterion is not met, DNSPs will still be required to build their network to cope with peak load to meet their regulatory reliability obligations. In Tasmania, Aurora has a legislative obligation to ensure supply reliability, which obligation is not placed upon operators of distributed generation. Load shedding due to the failure of a distribution generator is, therefore, a compliance breach by Aurora, not the generator. While this concept is discussed in the Report, Aurora contends that it has been dismissed too readily.

If you have any questions regarding this correspondence, please contact me.

Yours sincerely

Leigh Mayne
Regulatory Manager

Attachment

Recommendation 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:

- a 5-year forecast of potential constraints, together with preliminary estimates of the costs of network solutions;
- a forecast of areas of substantially under-utilised existing transfer capability;
- a forecast of average and marginal distribution loss factors for different points in the network over the planning horizon; and
- a description of the DNSP's compliance with their planning-related obligations, including:
 - a summary of case-by-case applications of the regulatory test completed in the previous year, and on the status of the relevant projects (and the status of any projects from previous years); and
 - the results of applying the regulatory test to projects below the threshold for a case-by-case process but that meet the threshold for transparent reporting and the status of the relevant projects (and the status of any projects from previous years).

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).

There are several aspects of this recommendation upon which Aurora wishes to comment.

1. The “preliminary estimates of the costs of network solutions” should be required to be the nearest \$1 million. Any requirement for a more accurate estimate will lead to an excessive use of DNSP's resources in making a more accurate estimate, and/or errors associated with changing labour and materials costs.
2. There needs to be some indication as to the nature of the areas that are to be considered in forecasting “areas of substantially under-utilised existing transfer capability”.
3. There needs to be more information about the distribution loss factors to be forecast: locations, voltage levels, etc.
4. The requirement to provide 5-year forecasts of distribution loss factors imposes a new, large workload upon DNSPs.

Recommendation 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.

The Rules should set out the matters the AER's statement of specific requirements is permitted to address, which should include:

- requiring 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);
- requiring an accessible summary of the extent of surplus capacity at different points in the network;
- requiring an accessible summary of the magnitude of current and forecast average and marginal distribution loss factors at different points in the network; and
- requiring a standard format for reporting on applications of the regulatory test.

There are several aspects of this recommendation upon which Aurora wishes to comment.

1. "Network constraints" needs to be defined.
2. There needs to be a differentiation between "emerging" and "current" network constraints.

Recommendation 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 (see recommendation 6). 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. 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 (see Recommendation 1).

There are several aspects of this recommendation upon which Aurora wishes to comment.

1. "Network constraints" needs to be defined.
2. There is no mechanism to adjust the thresholds for CPI or other increases.
3. The current threshold for the full analysis/consultation is \$10 million - reducing the threshold will increase the number of projects requiring the complete treatment leading to increased staffing costs for DNSPs.
4. The \$2 million threshold is not sufficiently high to warrant the expense of conducting a full-scale economic cost-benefit analysis with consultation and RFP. If this threshold is maintained, Aurora suggests that the analysis/consultation process be scaled according to project value.

5. Recognising the potential benefit to investors afforded by the process, the Aurora-preferred threshold for the full analysis/consultation approach is \$5 million.
6. In some cases, the only feasible solution is a network solution; for example, if a new, large customer requires connection. If this is the case, there should be no need to proceed with the consultation. The reasons given in the Report for non-inclusion of such a “screening” process are weak: while the DNSP does not escape reporting, it does remove the necessity to expend resources in a pointless RFP/consultation process.

Recommendation 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 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. We observe that for network constraints for which the network solution would require an estimated capitalised expenditure of less than \$0.5m, there would be no formal ex post reporting requirement: 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. The ex ante requirement to identify emerging constraints in the annual planning report would, however, apply to projects of this magnitude.

There are several aspects of this recommendation upon which Aurora wishes to comment.

1. Aurora believes that the thresholds in this recommendation are excessively low, which will add greatly to the workload, and suggests that:
 - a. The analysis and reporting range should be \$2 million to \$5 million; and
 - b. The upper limit for no formal ex-post reporting requirements should be \$2 million.
2. The ex-ante requirement to identify emerging constraints that will require correction projects of less than \$0.5 million dollars is ridiculous, creating an excessive DNSP work-load to provide public notice of projects of vanishingly small return.

Recommendation 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:

- *threshold* – should be limited to projects that are new large distribution assets (currently projects whose total capitalised cost is \$10m and above);
- *parties to the dispute* – extend to parties directly affected, which would include proponents of non-network options, end-users and agents on their behalf;
- *scope of the dispute* – should not be significantly limited;
- *dispute resolution process* – the AER should have the role of hearing the dispute and adopt a low cost process for this; and

- *effect of the dispute* – the current *effect* of the mechanism, whereby the DNSP cannot be directed in its activities, should be maintained.

There are several aspects of this recommendation upon which Aurora wishes to comment.

1. The thresholds in this recommendation should align with those arising from the previous recommendations.
2. If “the DNSP cannot be directed in activities”, Aurora questions the necessity for a Dispute Resolution Regime.
3. There should be a mechanism by which the DNSPs can recover the costs associated with the completion of an economic assessment.
4. There should be a mechanism to protect DNSPs against “vexatious litigants”.

Recommendation 14

The NER should:

- 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;
- 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 when determining whether to approve the proposed standard contracts.

Aurora agrees with this recommendation in principle, but reserves further comment until the details of the contract are known.

Recommendation 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.

Rule 6.7.5(c) should be modified to include the following additional provisions which would require the DNSP to specify:

- a requirement for the exchange of technical as well as commercial information between the two parties;
- a requirement 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));
- 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));

- the cooling off period that will apply to any contract negotiated with vulnerable users;
- 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:
 - the technical requirements for the equipment to be connected;
 - the extent and cost of augmentations and changes to all affected networks;
 - any consequent change in network service charges; and
 - 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
- 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.

There are several aspects of this recommendation upon which Aurora wishes to comment.

1. “Vulnerable users” should be defined.
2. The introduction of a “cooling off” period places the DNSP at risk of incurring expenditure which must be borne on either the DNSP’s “bottom line” or the DNSP’s customer base because the original connection has been terminated. There should, therefore, be a mechanism by which the DNSPs can recover the costs associated with the completion of an economic assessment.
3. The commencement event should be identified; for example, lodgement of connection enquiry, date of physical connection to the network, date of energisation of that connection, etc.
4. These comments also apply to Recommendation 16.

Recommendation 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:

- 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;
- dispute resolution procedures;
- the basis for calculating the repayment; and
- a requirement that the asset becomes treated as a shared network asset at the expiry of the seven year period.

Aurora supports this recommendation in principle, but reserves further comment until full details of procedures for dispute resolution and repayment calculation methods are made available.

Recommendation 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.

Aurora notes that this is unlikely to be economically feasible for micro-generators.