Contact: Andrew Knowles
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Our Ref: NW30407103
Your Ref:

25 February 2013

Mr Chris Pattas
General Manager
Network Operations and Development
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Sir

Issues Paper – Regulatory Investment Test for Distribution

Thank-you for the opportunity to provide input to the Issues Paper, *Regulatory Investment Test for Distribution*, released in January 2013 (the Issues Paper).

Aurora Energy Pty Ltd, ABN 85 082 464 622 (Aurora) is an incorporated, State Government owned fully integrated energy and network business, with complementary activities in telecommunications and energy-related technologies. Aurora provides electricity generation, retail and distribution services to more than 270,000 customers in the Tasmanian jurisdiction. In this document, reference to Aurora should be taken as reference to Aurora in its capacity as the provider of distribution network services licensed by the Regulator under the Electricity Supply Industry Act 1995.

Aurora supports the harmonisation of the Regulatory Investment Tests for Transmission and Distribution where such can be achieved. With the new approach to joint planning contained within chapter 5 of the National Electricity Rules as a result of the Distribution Planning rule change, whereby solutions to network constraints may have either a transmission- or distribution-led solution, it is important that assessment performed by each party gives a similar result.

The attachment to this letter provides Aurora's answers to the questions posed in the Issues Paper.

If you have any questions, please address them to the contact noted above.

Yours faithfully

Anton Voss
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ATTACHMENT TO AURORA SUBMISSION TO ISSUES PAPER – REGULATORY INVESTMENT TEST FOR DISTRIBUTION

This attachment provides Aurora's answers to the questions posed by the Australian Energy Regulator (AER) in their Issues Paper, *Regulatory Investment Test for Distribution*, released in January 2013 (the Issues Paper).

In this document, reference to Aurora should be taken as reference to Aurora Energy Pty Ltd, ABN 85 082 464 622 in its capacity as the provider of distribution network services on mainland Tasmania, licensed by the Regulator under the Electricity Supply Industry Act 1995.

Section headings relate to the questions in the Issues Paper, with the numbers in parentheses relating to the section within in that paper to which the responses relate. Questions posed in the Issues Paper are presented in this appendix in boxed text. Terms used in this attachment are contained within the appendix to this attachment.

Removal of the Base Case (4.1)

Aurora has no comment on this issue.

Clarification of Factors Delivering Market Benefits (4.2)

> We are seeking stakeholder views on how any of the factors which should deliver market benefits listed above should be clarified.

Aurora suggests that the following are some of the issues that may require clarification:

- consideration of costs associated with interruptions during project implementation;
- consideration of costs associated with embedded generation on stand-by as a "spinning reserve";
- consideration of costs associated with load shifting where there is an impact upon consumption patterns; and
- consideration of costs associated with embedded generation.

Additional Market Benefits (4.2)

> We are also interested in whether we should look at any additional distribution level market benefits, other than those specified under clause 5.17.1(c)(4). In particular, we are interested in whether broader types of demand side participation are likely to result in distribution level market benefits. In addressing this, we recommend that stakeholders have regard to the AEMC's Power of Choice Review.
>
> Specifically, noting the recently released Power of Choice report, does the RIT-D

> consideration of market benefits need to be amended to support demand side participation?

Demand-side participation involving generation solutions seems to be covered by clause 5.17.1(c)(4)(v) of the NER. Demand-side participation not involving generation solutions seems to be implicitly covered in clause 5.17.1(c)(4)(vi) of the NER. Given the potential for demand-side participation to defer capital expenditure, Aurora supports consideration being given to its effect, but observes that to develop a robust forecasting methodology will be challenging.

Interaction with STPIS (4.2)

> The RIT-D process is designed to capture significant new projects and programs. It is feasible that the scale of these new projects and programs could be large enough to have a material impact on overall network reliability. In these cases, it is most likely that the reliability impact will be a positive one and this would then result in the DNSP receiving an incentive payment under the Service Target Performance Incentive Scheme (STPIS). It is also technically feasible that the STPIS outcomes could be negatively impacted by a RIT-D project or program. In both of these cases, it would be reasonable to assess the STPIS impact and potentially adjust the STPIS targets to account for the forecast reliability change. How should the consideration of market benefits under the RIT-D recognise the impact the proposed works would have on the STPIS?

Aurora considers that there should be consideration given in the RIT-D to the effects of any incremental changes in reliability on:

- the NEM in general, with the effect quantified in terms of the value of customer reliability; and
- effect of the of STPIS on the DNSP.

Aurora does not consider that there should be an alteration to the STPIS targets during a regulatory control period to account for any incremental variation in reliability resulting from a RIT-D project.

Aurora notes that the first sentence of the AER's question (above) assumes that reliability standards and STPIS are based on system-wide performance, when such may not be the case. This "segmentation" of reliability measurement increases the likelihood of a RIT-D project having an effect on reliability, but also reduces the overall impact of any one project.

Aurora observes that the parameters for the application of the STPIS are reassessed in making a new determination. Aurora expects that any project that is liable to have a significant impact on reliability will have a long lead time due to its size. Any such project that is to be completed in the first few years of a regulatory control period should, therefore, be considered during the distribution determination process. Any similar large project not considered during the distribution determination process is unlikely to be commissioned before the third year of a regulatory control period, thereby limiting any STPIS impact.

Finally, Aurora understands that the STPIS parameters are not reviewable during a given regulatory control period because they are part of the constituent decisions of the AER in making the relevant determination[1], and a determination is not, generally, able to be altered[2].

Treatment of Distribution Losses

> A portion of electricity is naturally lost in its transmission and distribution. RIT-D proponents pass through these costs on the network, although proponents are obligated to comply with certain efficiency standards. How should the economic cost of electricity loss be treated within the market benefits assessment?

Aurora considers that the economic cost of line losses properly belongs in a market benefits assessment of a RIT-D project.

Aurora considers that the assessment of costs associated with line losses should be based upon the marginal cost of energy and the incremental variation of line losses according to asset characteristics.

An issue arises, however, because assets with characteristics that lend themselves to lower losses are, in general, more expensive than those that are considered to be an "efficient" solution. In consequence, although the costs or benefits associated with using "lower loss" assets in a RIT-D may be assessed, there is no obligation upon the AER under the current pricing regime to approve expenditure on assets that, while meeting an objective to reduce line losses, are not "efficient". Currently, the only way to account for this is for the proponent to consider the effect upon its revenue stream of the incremental difference between the higher loss, "efficient" solution and the lower loss "inefficient" solution not being included into its regulatory asset base. This is not a particularly satisfactory work-around to an issue that really requires a solution at policy level.

Material and Adverse NEM Impacts for the Purposes of Interested Parties (4.3)

> We are seeking stakeholder views on who should be considered an interested party under this definition. We are interested in what guidance stakeholders would find useful in interpreting the definition of interested parties.
>
> We are of the view that the change in terminology from material and adverse 'market impacts' to 'NEM impacts' improves clarity. We are seeking stakeholders' views on this.

Aurora has no comment on this issue.

[1] as per clause 6.12.9 of the NER

[2] Except in line with the provisions of clause 6.13 of the NER.

Estimating Costs (5.1)

> We are interested in stakeholder views regarding what other financial costs are likely to be relevant.

Aurora has no comment on this issue.

> The RIT-T specifies that transmission network service providers could determine additional classes of costs if we agreed that they were relevant. We are seeking stakeholders' views on whether it should make a similar specification for RIT-D proponents under the RIT-D.

Aurora considers that, to reduce uncertainty, it would be helpful to include an indicative set of additional classes of relevant costs in the RIT-D, provided that such a set was not considered to be exhaustive.

> The RIT-T specifies that if the costs were materially uncertain, the cost should reflect the probability weighted present value of the direct costs of the credible option under a range of different cost assumptions. We are seeking stakeholders' views on whether we should make a similar specification under the RIT-D.

Aurora considers that such a specification would be a useful inclusion in the RIT-D, providing additional flexibility in the calculation of costs. Aurora suggests that, if this specification is included in the RIT-D, worked examples of its application are also included.

Determining the Discount Rate (5.2)

> We seek stakeholder views on whether the RIT-D should specify the same methodology for determining the discount rate as the RIT-T and current regulatory test.

Aurora considers that the methodology for determining the discount rate for the RIT-D and RIT-T should be the same to place the assessments on the same footing.

Methodologies for Estimating Costs (5.4)

> We seek stakeholder views on the methodology that the RIT-D should specify for estimating costs. We are interested in whether stakeholders think the methodology should be adopted from those specified under the RIT-T and regulatory test.

Aurora considers that the methodologies for estimating costs for the RIT-D should be consistent with the RIT-T where possible. In the event that this is not possible, and with there is an alternative acceptable calculation methodology in the Regulatory Test, then this latter should be adopted.

Operation and Application of the RIT-D (6.1)

> The RIT-T guidelines provide guidance and worked examples on these topics. Having regard to the RIT-T guidelines, we are interested in whether the RIT-T guidelines provide useful information which should be adopted in the RIT-D guidelines.

Aurora considers that the RIT-T Guidelines do provide useful information that should be adopted into the RIT-D Guidelines.

> Additionally, we are interested in whether stakeholders consider the guidelines should provide guidance and worked examples on any additional areas that have not been specified under clauses 5.17.2(c) or 5.17.2(b)(2) of the NER.

Aurora has no comment on this issue.

Application of the Guidelines (6.2)

> We seek views on what guidance we should give on when a regulatory test assessment will be considered to have commenced for the purposes of 11.50.5(c).

To avoid retrospective application of the RIT-D, Aurora suggests that, at a minimum, those projects that have been identified in joint planning between a DNSP and TNSP before RIT-D commencement date should not be subject to RIT-D. Aurora further suggests that all projects (other than those arising from joint planning) that are identified in a DAPR published before RIT-D commencement date should also not be subject to a RIT-D.

Process to be Followed (6.3)

> We seek stakeholders' views on whether there are any particular areas where further guidance on the RIT-T assessment process would be useful.

Aurora has no comment on this issue.

Estimating Market Benefits (6.4)

> We seek stakeholder views on what methodologies the RIT-D application guidelines should adopt for valuing market benefits.

Aurora has no comment on this issue.

Dispute Resolution (6.5)

Aurora considers that the content of the dispute resolution section of the RIT-T Guidelines would be suitable to be adopted into the RIT-D Guidelines.

Appendix: Terms Used in This Document

Term	Meaning
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
DAPR	Distribution Annual Planning Report
DNSP	Distribution Network Service Provider
NEM	National Electricity Market
NER	National Electricity Rules
RIT-D	Regulatory Investment Test for Distribution
RIT-T	Regulatory Investment Test for Transmission
STPIS	Service Target Performance Incentive Scheme
VCR	Value of Customer Reliability