



Office of the Minister for Energy and Water Supply

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Mr David Watson
Acting Chairman
Queensland Competition Authority
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Dear Mr Parmenter

I am writing to you regarding the Australian Energy Market Commission (AEMC) Distribution Network Planning and Expansion Rule change (<http://www.aemc.gov.au/electricity/rule-changes/completed/distribution-network-planning-and-expansion-framework.html>), which is to take effect as part of the National Electricity Rules (NER) on 1 January 2013.

The Ministerial Council on Energy (MCE) initiated the Rule change on 30 March 2011, following an AEMC review of jurisdictional planning and expansion arrangements. It delivers on a Council of Australian Governments (COAG) commitment under the Australian Energy Market Agreement (AEMA) for the expansion of distribution networks to be regulated under common National Electricity Rules, instead of state legislation. This Rule change fosters the following elements of AEMA objectives:

- improve the quality and national character of network regulation to improve the climate for investment;
- create a stable framework for efficient investment; and
- enhance the participation of energy users in the markets, including through demand side management.

The AEMC considers the Rule will establish an efficient, clearly defined planning process for investment in distribution networks and provide transparency to planning and decision-making processes, assisting market participants to make efficient investment decisions and enabling non-network service providers to propose credible non-network solutions in a timely fashion. It concludes that these elements will provide for the minimisation of total distribution system costs which should, over time, lead to efficient prices for customers.

My department considers that the Distribution Annual Planning Report (DAPR) introduced by the Rule change will enhance the transparency of capital investment decisions by Queensland's distribution network businesses, increasing the AER's ability to assess the prudence and efficiency of these investments, and enhancing accountability. In particular, the requirement to report on any significant changes from the previous report, and the reasons for these changes, provides for transparent evaluation of performance - a strong incentive to drive continued improvement. However, the introduction of the DAPR requirement results in some duplication of the requirements of the Queensland Electricity Industry Code (the Code).

To enable this Rule to take effect as intended, I propose the following amendments to the Code for your review:

- to repeal all of section 2.3 of the Code (which requires ENERGEX and Ergon Energy to prepare and publish Network Management Plans), to avoid duplication with new national requirements for DAPRs under clause 5.13.2 and Schedule 5.8 of the NER; and
- to incorporate within the Code a "DAPR date" (i.e. annual date for publishing the DAPR), as required by clause 5.13.2(a) of the NER.

Discussions with the distribution entities have identified 30 September as the most suitable date for publication of the DAPR, to enable the continued use of actual (rather than estimated) end of financial year data, and to allow an additional month beyond the current publication date for Network Management Plans, to appropriately address the additional demands of the DAPR.

The Network Management Plan was a significant recommendation of the 2004 Electricity Distribution and Service Delivery (EDSD) Review, to introduce a rigorous, formal planning and reporting process to provide the basis for adequate and efficient capital investment and maintenance programs. As recognised by the 2011 Electricity Network Capital Expenditure (ENCAP) Review, this reporting requirement has resulted in significant improvements in the understanding ENERGEX and Ergon Energy have of the capabilities of their networks, enabling them to plan and develop their networks more efficiently, and to employ more cost-effective non-network options to address some system limitations.

The DAPR effectively encompasses all the elements of the NMP, aside from the DAPR requirements for reporting on primary distribution feeders forecast to experience an overload within the next two years (Schedule 5.8 (d)), which lack the targeted nature and clarity of the NMP's requirements for reporting on worst performing feeders (Code section 2.3.2(k) to drive continued improvement. Whether Queensland should retain reporting requirements for worst performing feeders and, if so, whether this should be reported within the DAPR or directly to the QCA, are matters for the consideration of the Inter-Departmental Committee on Energy Reform. Any advice the QCA may wish to contribute on these matters should be directed to Ms Catherine Cussen, Director of Networks and Demand Response at the Department of Energy and Water Supply, on 3227 7567.

I also propose that section 2.2 of the Code, regarding Summer Preparedness Plans, be repealed. These requirements are not duplicated in the DAPR. However, I am advised by the distributors that the network capacity review and contingency planning processes promoted by those plans have been assumed into their normal operations as standard business practices.

Summer Preparedness Plans were another significant outcome of the ESD Review, providing for targeted improvements to network capacity, security and reliability ahead of peak summer demand and storm risk periods, and for improved communication with customers affected by outages during the summer storm period. These have, necessarily, been approached as long-term, continuous strategies and, with the results now embedded within operations, further formal reporting is considered unnecessary.

The effectiveness of these activities has been demonstrated in the distributors' response to recent emergencies, including the floods of 2011 and Cyclone Yasi. I am advised that removing the formal reporting requirements would not impact these activities, but instead simply remove a now-redundant regulatory burden. With the distributors understood to commence work on compliance reporting for Summer Preparedness Plans in January, their removal now appears timely to maximise the savings of reduced regulatory burden.

The proposed amendments satisfy the Code objective "*to promote efficient investment in, and efficient use of, electricity services for the long-term interests of Queensland customers about –*
(a) *price, quality, reliability and security of supply of electricity; and*
(b) *the reliability, safety and security of the Queensland electricity system*"
by removing potential duplication, and in providing certainty for distributors and non-network service providers of the appropriate timing for the new DAPR.

Unfortunately, with the Rule being finalised only on October 11, and set to commence on 1 January 2013, sufficient time is not available to allow for the consultation process for Code amendments under Part 1A, Division 1 of the Electricity Regulation 2006.

However, as specified in the Electricity Act 1994 subsection 120PA (2), this amendment: is needed urgently; does not materially detriment anyone's interests; and is uncontroversial, as outlined below, and therefore should be able to be implemented without consultation.

Distributors require certainty that they will not be subject to duplicative annual reporting requirements, with significant time involved in undertaking annual reviews and preparing the resulting reports. In the absence of certainty for the distributors that they do not need to compile data for both reports, significant duplication could result.

Furthermore, under clause 5.13.2(b) of the NER, in the absence of a DAPR date being specified in *jurisdictional electricity legislation*, a DAPR date of 31 December will apply. This could result in Queensland's electricity distributors not publishing their annual planning reports until halfway through the first financial year of the five-year period for which they apply. This would impact the timeliness of planning information available to interested parties, including data on emerging commercial opportunities across the networks for non-network service providers to prioritise and develop non-network alternatives within the lead time for consideration.

The Distribution Network Planning and Expansion Rule change has been extensively consulted on by the AEMC, including through a review that commenced in 2007, and during the Rule change process. My department has consulted extensively with the Queensland distributors at each stage of the review and subsequent Rule change, and the distributors both support the amendments here proposed. This Rule change represents consequential changes required solely to support the intended implementation of the DAPR under the Rule change and, accordingly, it does not pose a risk to any person's interests, and is not controversial in any way.

Indicative new drafting is provided below to assist you in meeting the timeframe for this Code change.

Indicative new clauses (which might replace the existing clause 2.3):

Clause (x) – The requirements of clause x.1 operate in conjunction with clause 5.13.2 of the *National Electricity Rules*.

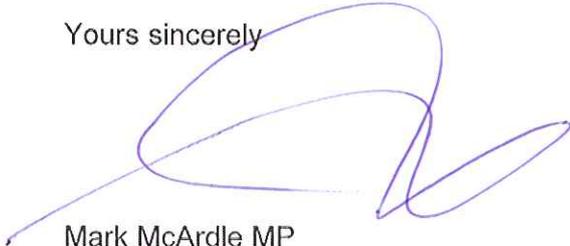
Clause (x.1) – A *distribution entity* must publish its *Distribution Annual Planning Report* (DAPR) by 30 September each year. To avoid doubt, 30 September is the "DAPR date" for the purposes of clause 5.13.2 of the *National Electricity Rules*.

Indicative new definition under Code clause 10.1.1:

Distribution Annual Planning Report has the meaning given in the *National Electricity Rules*.

Should you require any further information to progress this matter, please contact Claire Tune at the Department of Energy and Water Supply on 3224 6116.

Yours sincerely



Mark McArdle MP
Minister for Energy and Water Supply