AUSTRALIAN ENERGY REGULATOR

Your Ref: ERC0209
Our Ref: 57227-D17/76012
Contact Officer: Mark Wilson
Contact Phone: 08 8213 3419

6 June 2017

John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Pierce

Re: National Electricity Amendment - Replacement expenditure planning arrangements (Draft Rule Determination)

We welcome the opportunity to respond to the draft rule determination on our replacement expenditure planning arrangements rule change proposal.

We broadly support the proposed amendments made by the AEMC on this important issue in light of the growing replacement program being proposed by the network businesses. We believe that the transparency introduced by these changes will facilitate more efficient decision making.

We note the AEMC's proposed transitional arrangements and believe that a transition is appropriate. However in our view, a transition limited to only those projects which meet the 'committed project' definition in the RIT-T (and RIT-D) would be appropriate. We suggest that projects that meet this definition of committed project at the time the rule is made could be exempt from the requirement to conduct a RIT. This would exclude projects that are well advanced from the requirement to conduct a RIT, but would also prevent a 'rush' of projects being proposed in order to avoid the scrutiny of the RIT. For example, we were notified of over 50 projects in the transition from the regulatory test to the RIT-D.

We consider that the risks of applying extended transitional provisions in this instance are even greater than when the RIT-T and RIT-D were introduced. In those cases, while the projects that were brought forward avoided a RIT assessment, they were still subject to some scrutiny under the regulatory test. In this case, there would be no scrutiny of investments resulting from asset retirements during the transition period and the potential benefits of the rule change would not be realised.

As a consequence of the draft rule, we anticipate that there would be no changes required of the RIT and minimal changes required to be made to the RIT application guidelines - to make the RIT guideline consistent with the rules. We also note that the businesses would need to extend the application of an existing assessment framework to a new category of expenditure. This would appear to require minimal (if any) changes to the business's current processes.

There are a number of references to the need to consider the age and condition of network assets when retiring or de-rating assets. The age of an asset can be used as a proxy to predict asset condition when forecasting revenue requirements. However condition rather than age is relevant when considering whether to retire or de-rate an asset. We therefore suggest that references to 'age' be deleted.

We welcome the opportunity to discuss this submission with you. If you have any questions, please do not hesitate to contact Mark Wilson on 08 8213 3419.

Yours sincerely

Peter Adams
General Manager - Wholesale Markets
Australian Energy Regulator