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13 January 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 (Consultation Paper)

The AER would like to thank the AEMC for commencing consultation on our replacement expenditure planning arrangements rule change proposal.

The purpose of this letter is to share our views regarding comments made in submissions to the AEMC consultation paper on the potential increased regulatory burden on network businesses if the rule change proposal was accepted.

We observe that some of the submissions to the AEMC consultation paper have raised concerns about the increased regulatory burden which would be imposed on network businesses. Similar concerns were raised with the AER during the development of the rule change proposal.

If our proposal is accepted, network businesses will be required to undertake additional consultation and engagement processes and subject investment decisions to a more robust assessment framework. We consider that any additional regulatory burden that might occur as a result of this would be outweighed by the benefits of this rule change in increasing the transparency of network investment decisions, giving more opportunities for non-network proponents and assisting in the growth of innovative products and services to meet future needs. These are all consistent with key energy policy objectives as the energy market transitions.

As we noted in our rule change proposal, for the foreseeable future demand growth in the NEM is expected to be flat, and the focus of network investment will be on replacement and not augmentation. The shift in network investment trends has identified a gap in the current network planning framework in relation to replacement

expenditure. More fundamentally, it highlights an artificial distinction between the treatment of replacement and augmentation projects from an efficient investment perspective. In our view, there is no compelling policy rationale for maintaining this distinction, particularly with non-network alternatives and new technologies becoming increasingly more commercially viable and cost-effective in accommodating replacement projects.

We believe there is a need to amend the network planning framework to ensure it continues to promote efficient investment decisions. With the cost of these network investment decisions ultimately borne by consumers over the life of the asset, it is important that there is sufficient rigour to ensure consumers pay no more than necessary irrespective of the investment trigger.

One of the key changes our rule change proposes is for increased transparency, through the Annual Planning Reports (APR), of asset de-rating and retirement decisions which give rise to replacement projects. To promote efficient network asset replacement decisions, it is important to understand the de-rating and retirement decisions which underpin them.

For example, one of the main drivers of the current Powering Sydney's Future RIT-T¹ being undertaken by TransGrid and Ausgrid is the planned de-rating and retirement of network assets. However, there appears to be little information provided by either of the RIT-T proponents to demonstrate the prudence and efficiency of those de-rating and retirement decisions. This makes it difficult to ascertain whether such decisions are reasonable and consistent with best practice principles of asset management.

To promote efficient network replacement decisions, we believe it is important that there be increased transparency on de-rating and retirement decisions to ensure they are prudent and efficient. It should be noted that a number of network businesses already undertake these practices and provide information from these processes as evidence to support their regulatory proposals, which is provided to the AER once every five years. For these businesses, our rule change proposal would increase the transparency around this work and allow greater market involvement in developing innovative solutions.

We note that some of the submissions from the network businesses highlight the development of Network Opportunity Maps to provide clear, consistent and easily accessible data about network investment opportunities for non-network proponents. While we consider that Network Opportunity Maps are a useful complement to the APR process and we strongly support such initiatives, it should not be viewed as a substitute for the existing APR process. High quality information being made available in APRs ultimately supports the development of tools such as Network Opportunity Maps.

In our view, any increased regulatory costs placed on network businesses, will be far outweighed by the additional benefits of greater transparency, increased investment opportunities for non-network options, the integration of more efficient products and innovative services into the NEM and ensuring the planning practices of network businesses are consistent with best practice. Our rule change proposal will support

¹ We understand from the project specification consultation report that while this project is driven in part by the need to replace aging assets, TransGrid and Ausgrid consider that it is currently not exempt from the requirement to undertake a RIT-T.

greater stakeholder involvement and improve community confidence that networks are being built and operated in the most efficient and innovative way.

We look forward to working with the AEMC and all interested stakeholders on this rule change and hope these comments are helpful. Please contact George Huang, A/g Assistant Director, Wholesale Markets, on (02) 9230 3856 if you would like to discuss any aspect of this letter.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Peter Adams', with a long horizontal flourish extending to the right.

Peter Adams
General Manager - Wholesale Markets
Australian Energy Regulator

