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Mr Sebastian Roberts
General Manager, Transmission and Gas
Australian Energy Regulator
GPO Box 520
MELBOURNE 3001

Dear Sebastian,

Draft Industry practice application note for Asset Replacement Planning

AusNet Services welcomes the opportunity to respond to the Australian Energy Regulator's (AER) published draft Industry Practice Application Note for Asset Replacement Planning and also appreciates the open discussion at the recent public forum.

From our review of the AERs draft, we have identified the following areas for further consideration and refinement:

Section 4.3: Quantifying the expected service cost – 'business as usual'

AusNet Services generally supports the guidance in relation to the choice of an appropriate base case being Business As Usual (BAU), or 'do nothing different'.

However, AusNet Services suggests additional guidance is provided around what constitutes 'standard operating and maintenance practices' as the asset 'remains in service, operated and maintained on a BAU basis'.

In particular, as an asset approaches end of life, it may require more frequent and intensive inspection and maintenance than earlier in its life to keep it in service. The application note should clarify that increasing maintenance costs, in line with the standard practices of an organisation, may form part of a 'do nothing different' approach and may be included in the base case. It should be noted that this increased maintenance generally will not have a material impact on service levels.

If it is considered that changes to operation and maintenance practices will have a material impact on service levels, these changes should be considered as a separate option and not included in the 'do nothing different' option.

Section 5.1.2: Risk consequence areas

The draft note appears to condone the concept of not investing in risk mitigation measures if the risk of incurring fines is less than the cost of the proposed mitigation measures. We do not support this as a practice. If an obligation has a penalty, then in the first instance it is important, and secondly the penalty may not represent the potential impact, but be designed to facilitate accountability. AusNet Services suggests that further consideration in the note is required on how to frame legal and compliance obligations.

Section 6.2.1: Consideration of SFAIRP and ALARP principles

It should be noted that in Victoria the Electricity Safety Act 1998 requires safety risk to be eliminated or reduced 'As Far As Practicable' (AFAP).

Energy Safe Victoria (ESV) has indicated that it does not subscribe to the approach sometimes referred to as 'As Low As Reasonably Practicable' (ALARP), in particular the concept of 'Intolerable', 'Tolerable if ALARP' and 'Broadly Acceptable' risks.

Instead, ESV requires that ***all*** risks, not just extreme and high risks, should be proactively reduced until the cost of doing so becomes grossly disproportionate to the benefits.

The note should be prepared consistent with this view as to safety obligations by the safety regulator.

Section 5.3.1: Determining critical input values for likelihood of consequence

AusNet Services believes that businesses should have the ability to propose weights for High Impact, Low Probability (HILP) scenarios that would align the benefits from avoiding HILP events in a way that is consistent with community expectations, where they have evidence to support those weights. Such an approach is consistent with economic theory as it enables highly adverse outcomes to be avoided in a way that minimises regret. Regret theory is a model in theoretical economics originally developed in 1982 and the concept of regret and how it relates to electricity network planning is summarised well in the Handbook of Power Systems[1].

Section 4.4.2: Alternative credible options

The draft note includes the example of an alternative credible option being the supply of customers with an alternative to a network solution, such as a stand-alone power system. This is not a good example, as it is not a credible option.

Currently DNSPs are not able to offer stand-alone supply to their customers, and we understand it was the AER's advice to Western Power on this point that led to Western Power submitting the 'Alternatives to grid-supplied network services' rule change proposal. This was not agreed by the AEMC. However we note it is currently exploring this further via a subsequent review.

Section 6.1.4: Determining the duration of risk event

In this section, the statement is made that 'the [value of customer reliability] VCR was developed for short duration events and was not intended for valuing sustained long-term outages'. On page 49 is it stated that short-time duration outages are up to a few hours.

AusNet Services would like to note that the AEMO review of VCR considered outage durations of up to 12 hours, which were considered statistically significant.

AusNet Services would also like to note, for the vast majority of extended equipment outages (for example, power transformer failure), customer impact is managed so that the outages seen by customers are in the form of rolling outages to manage load, so in the order of a few hours, rather than days or weeks. AusNet Services believes that in these circumstances the use of VCR is still applicable.

Section 6.3: Application to high volume low value assets

AusNet Services believes additional clarification is necessary with regard to the application to high volume low value assets. AusNet Services believes the RIT can only practically apply to proactive replacement programs (for example, when replacing a whole distribution line) rather than replacement of randomly deteriorated components (for example, the periodic pole inspection program, which identifies any poles where their safety factor is found to have fallen below an acceptable level and the pole is condemned). We view expenditure of this nature to be maintenance activity.

Pages 37, 41, 42 and 60

AusNet Services believes there are errors and ambiguities in the equations presented on pages 37, 41, 42 and 60.

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[1] Rebennack, S., P.M. Pardalos, M.V.F. Pereira and N.A. Iliadis, Handbook of Power Systems, Springer Heidelberg Dordrecht London New York 2010, p. 373

Please contact Andrea Dickinson (andrea.dickinson@ausnetservices.com.au) if we can assist with any further information on the items discussed in this submission.

Yours sincerely,

Kelvin Gebert
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