Consumer
Challenge
Panel

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Comments on the AER Draft Industry practice application note – Asset Replacement Planning, September 2018

Dear Mark,

Thank you for the opportunity to attend the Asset Replacement Planning application note workshop in Melbourne yesterday.

The issuing of the Industry Practice Application Note (*the Note*) will be of significant value in providing a level of consistency and transparency to informed community representatives. It will assist advocates and stakeholders to better consider a utility's investment plans; not only in the context of the Regulatory Investment Test but also in the wider application of regulatory determinations. As mentioned at the workshop, asset replacement is the largest single capital investment category for many utilities. In conjunction with the significantly changing customer energy landscape of slowing overall peak demand and access to new energy technologies, any initiative that supports transparency and assists understanding of a utility's plans is an important step forward.

The AER is to be commended in producing this note as part of the wider review of the Regulatory Investment Test (RIT) guidelines. For consumers, the note clearly enhances the application and effectiveness of the RIT.

It is recognised that the note is not a binding guideline, however it is hoped that utilities will recognise its importance by not only following (as is generally the case), but also being *seen* to follow, good asset planning. To this end, it is hoped that the guideline is a relatively dynamic document, regularly refined to include further examples of good practice and supported by forums involving consumer advocates and representatives such as that held yesterday.

The note contributes to the interests of energy consumers in three ways.

Firstly, the conceptual separation of the decision to retire an asset from that of determining the need and form of any action to restore the service is powerful. Such an approach takes a significant step forward in the transparency and assessment of the prudency of capital investment plans . I am sure that many Consumer Challenge Panels will adopt this approach.

Secondly, the note reinforces the importance of the concept of the service the asset plays in meeting changing customer requirements, rather than the asset itself. The need for clarity in understanding the value of that service is highlighted in the note.

Finally, as informed consumer advocates are now being called upon to consider a number of utility's investment proposals across a range of jurisdictions – whether they be as part of a RIT or a in the process of framing and making a regulatory proposal – the note supports customers' interests by:

a) identifying good practice amongst utilities, with the view of sharing and promulgating best practices across the industry;

b) demonstrate a level of consistency in the terminology, process and options assessment used by utilities, supporting a better understanding of the asset retirement and service restoration process and cost by customers.

There are a number of issues raised for the AER's consideration in the development of the final issue of the note.

1. Some further clarity in the understanding of 'Business as Usual' will be helpful. It was observed that some industry representatives were unclear of how such a case was defined, and that uncertainty flows over into the community sector. Perhaps a guide to the materiality of the response may assist.

2. It will be helpful for the note to consider the emerging approach of 'no regrets investment'. This term is becoming more prevalent in the utilities' investment proposals, and a position on this concept will be useful. At present, it is understood that the term reflects a falling confidence that a long-term decision will be appropriate over time. In this case, the note could consider the value of short-term investment that may not have been considered appropriate in the past when demand growth was generally strong and reasonable alternatives to network supply to customers rare.

3. The application of the note to 'moderate-sized' fleets of equipment could be further clarified, perhaps by examples. 'Moderate-sized' fleets include assets such as protection relays, reclosers, or similar devices where utilities may consider bulk-change programmes as an alternative to identification and, if necessary, replacement of individual units.

   It is appreciated that utilities consider such a replacement approach based on efficiency. The approach to asset replacement in this note has the opportunity to assist consumer advocates understand the cost/benefit of a wider 'programme' approach, where some units are still functioning and do not require replacement, and may be changed unnecessarily.

   Some comment in the note to assist the transparency of a utility's reasoning as to whether a 'programme' approach may be appropriate as opposed to considering the assets as single independent items (e.g. power transformers) may be useful.

4. The examples and scenarios presented in the note are effective. Should time allow, the AER is encouraged to develop further examples of the application of the note, relevant specifically for the issues being seen in recent regulatory proposals and asset-replacement related RITs. This may include 'replacement programs' over the RIT threshold proposed by utilities, such as protection relays, substation environmental measures and the like.
5. The reference to risk appetite is largely inherent in the note. Granted, some risks are largely quantifiable in impact (such as VCR), however some others such as regulation or compliance risk, environmental risk and commercial risk (such as price variation) can vary widely in their interpretation and application by different utilities. Whilst it is recognised that the role of this note is not to presuppose or guide the approach to these risks, recognising where they

'fit' in the bigger picture of asset replacement decisions would assist advocates identify where they should look for these influences in assessing the utility's intentions.

Finally, as mentioned in the workshop, as a future initiative it may be useful for the AER to consider producing a note adapting this approach to the replacement of ICT assets. ICT is now a very significant part of a utility's capital investment programme, and to some extent ICT can be considered as a particular class of 'network assets'. On first look, it appears that many of the objectives and practices in the asset replacement note could apply just as clearly to the consideration of ICT 'repex' investment.

Thank you once again for the opportunity to attend the workshop and respond to the draft of the Asset Replacement Planning note.

I trust these comments assist the further development of this initiative that is of significant value to energy customers.

Regards,

Mike Swanston
AER Consumer Challenge Panel