24 November 2016

Ms Meredith Mayes
Director
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Ms Mayes

Replacement expenditure planning arrangements rule change

SA Power Networks welcomes the opportunity to comment on the AEMC's consultation paper on the rule change proposed by the Australian Energy Regulator (AER)—*National Electricity Amendment (Replacement expenditure planning arrangements) 2016.* The proposal is to include network asset replacements in the coverage of the Regulatory Investment Test for Distribution (RIT-D) and in the information required in Distribution Annual Planning Reports (DAPR). The rationale is that this will improve transparency in network asset replacement decisions.

While transparency is generally worthwhile and supported, it is important to consider the purpose to which it will be put. The RIT-D and DAPR processes were not intended for general education. Rather, their primary goal was to facilitate the involvement of third parties in network planning and their ability to propose credible alternatives, including non-network options.[1] To transparently assess and invite stakeholder input on revenue proposals, the AER can and already does separately require information from distributors. Therefore, in assessing the costs and benefits of the proposal, we encourage the AEMC to consider the following:

- the RIT-D should only apply to replacement projects with realistic opportunities for non-network alternatives—these are limited to significant investments with long planning timeframes. Compared to network augmentations, replacements generally have shorter planning timeframes and involve more individual and low cost works with no alternatives to like–for–like replacement.
- any network replacement information added to DAPR requirements needs to be shown to be of genuine relevance to third parties and be information that distributors can readily provide noting the complexity of forecasting asset defects. Further, the proposal to disseminate any such information via the DAPR needs to be compared against potentially more flexible and efficient alternatives such as via the Network Opportunity Maps.[2]

These issues are expanded on below.

Applying the RIT-D to network replacement

In efficiently and prudently planning and managing our network, we already consider alternatives to augmenting or replacing network assets. These alternatives might be cheaper network or non-network options including those provided by third parties. In this sense, the RIT-D merely formalises and prescribes into a lengthy regulatory process (which can take several years) a discipline we already employ.

1 AEMC, *Rule Determination-National Electricity Amendment (Distribution Network Planning & Expansion Framework) Rule 2012*, p.i

2 This refers to the maps developed by the University of Technology Sydney in partnership with the Australian Renewable Energy Agency, and which are accessible on the Australian Renewable Energy Mapping Infrastructure website: [http://nationalmap.gov.au/renewables/]

We accept the premise of the RIT-D's and their extension to network replacements, noting that it is only designed and suited for decisions on major investments with long planning timeframes. One example of a major investment is the Kangaroo Island Undersea Cable, for which SA Power Networks is currently undertaking a RIT–D.[3] However, in determining how and if this rule change will drive material benefits in consumers' long term interests, important distinctions between network replacements and augmentations need consideration. These are set out below.

Nature of replacement works

Unlike augmentations, network replacements generally do not affect network capacity such that the network need could be viably met by a non–network alternative (e.g. a local generator or battery etc.). The vast majority of our replacements relate to low cost individual asset components such as individual poles, pole top structures and switchgear, etc.[4] Further, the generally geographically dispersed nature of this work typically renders non–network alternatives unviable. The potential for non–network alternatives is limited to more infrequent and significant asset replacements such as when a substation transformer or an entire distribution line needs replacing. Therefore, we consider that:

- the RIT-D's threshold needs to be no lower than $5 million as proposed in the rule change, to avoid capturing works with no viable alternatives to like–for–like replacements;
- given the technically specific nature of describing individual assets and components, decisions on which assets are unlikely to have alternatives to like–for–like replacements are best left with distributors rather than being prescribed in a guideline which is likely to need constant amendment; and
- there are risks of inefficiencies with prescribing in the NER or in a guideline (as proposed), the nature of replacement work that is considered to be a 'project' or a 'programme'.[5] SA Power Networks, like other distributors, typically and reasonably bundles replacement of individual components into larger work schedules. However, even if this bundle of individual works was considered to be a 'project' it would be no more suited to non–network alternatives. This aspect of the rule change appears to be unnecessarily prescriptive.

Administrative costs

The RIT-D's threshold must recognise the materiality and potential inefficiency of the administration costs involved. For example, our current RIT–D for the Kangaroo Island Undersea Cable has to date cost approximately $1.3 million to the draft report stage. For lower value projects, there is the risk that after years of consultation via the administratively complex RIT–D process, the cost difference between project options might not greatly exceed RIT–D administration costs, if at all.

Critical works

The current RIT–D excludes critical / urgent replacement work needed to avoid putting reliability and safety at risk.[6] However, the rule change proposal is unclear on the treatment of such work. Noting that the risks and costs of unreliability are borne by distributors, distributors should have flexibility to attend to urgent work, as follows:

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3 The Kangaroos Island cable is a major project that would be valued at multiples of the cost of the existing $5 million RIT-D threshold. Further information on this RIT-D is available on our website: [http: www.sapowernetworks.com.au].

4 Other examples of assets that are unlikely to have alternatives to a like–for–like replacement could include: SCADA and protection systems (e.g. zone substation relays, telecommunications devices); switchgear (zone substation switchboards, HV and LV isolators, reclosers, switches and circuit breakers); conductors and cables (sections, LV service lines).

5 The relevance is that it is the 'project' that would be subject to the RIT-D, as it would be the network need or option in question.

6 NER clause 5.17.3(a)(1).

- urgent and / or unforeseen works need to be excluded from the scope of the RIT–D and the 'exemption report'. It would be inappropriate to prevent critical replacements until the report has been consulted on for 30 days, and in the case of dispute, until that dispute is resolved;
- the replacement of assets that have failed need to be included in the definition of urgent and / or unforeseen work—even if reliability impacts are unapparent at the time of replacing;[7] and
- if the condition of the asset in question deteriorates unexpectedly during the lengthy RIT–D consultation process such that it becomes urgent and / or unforeseen work then the RIT–D process should be stopped.

Planning lead-in timeframes and scheduling

Network asset replacements are typically and appropriately subject to more varied planning approaches as compared to augmentations. Flexibility in this regard allows distributors to manage their networks in an efficient and prudent manner:

- While demand is difficult to forecast, it is easier to predict when the capacity of a network asset will be exceeded based on demand trends than it is to predict when asset defects will occur.[8] Network assets are all inspected and monitored, and scheduled for replacement according to a distributor's assessment of risks. The majority of situations are not conducive to lengthy consultation processes as required through the RIT–D.
- Some assets might be replaced immediately upon or prior to failure, upon inspection, or bundled with other works and scheduled to be replaced when prudent. For example, it might be prudent and efficient to wait to replace an asset when there is other work scheduled in the vicinity to avoid multiple site visits and multiple network outages.[9] It would be inappropriate for regulation to intrusively constrain the ability for distributors to plan and manage their networks in an efficient and prudent manner. Indeed, the premise of the incentive based regulatory framework within which the AER only approves overall allowances, and not projects, is that the day–to–day prioritisation and management of networks is left to distributors.

Reporting on network replacement information in the DAPR

We support providing network information where it is genuinely useful for third parties seeking to propose non–network alternatives and connect new devices such as demand–responsive technologies. Our preference is for such information to be identified by network businesses in partnership with stakeholders, and delivered via a more interactive and flexible platform than the DAPRs. For example, distributors have been working with academic institutions and other stakeholders to provide meaningful information via the 'Network Opportunity Maps' online tool.

This issue will need to be considered in the context of the AEMC's proposal in a separate rule change to require distributors to prepare a 'systems limitations report'.[10] If amendments to the DAPR information requirements are made, these need to target the needs of third parties wanting to provide non–network alternatives. To ensure this occurs, the following needs consideration:

- any network replacement information included in a DAPR should only pertain to projects above the RIT–D's $5 million threshold and not the current $2 million DAPR threshold[11]—so distributors are not required to report copious quantities of information on assets and asset components which are unlikely to have viable alternatives to like–for–like replacements;

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7 Such examples could be where a neighbouring asset could temporarily take on some of the extra load from a failed asset.

8 For example, with respect to poles, given the number of such assets broad predictions can be made based on pole population models but actual defects can only be confirmed upon inspection.

9 Other considerations could be: operational issues (the availability of equipment, personnel, site access issues); or customer issues (time of week or season, length of outage).

10 AEMC, *Draft rule determination—National Electricity Amendment (Local Generation Network Credits) Rule 2016.*

11 NER schedule 5.8(g).

- how information on distributors' approaches to assessing risk, asset retirements and de–ratings (as the rule change proposes), would actually be useful to third parties; and
- the greater difficulty of forecasting the deterioration of individual assets and therefore the difficulty of including such information within DAPRs.

Other issues

The rule change proposes that the AER has discretion to set principles for distributors to apply in describing their planned asset retirements or asset de–ratings within their DAPRs. Our initial position is that distributors should have flexibility to retire assets based on their chosen approach to assessing asset condition and risks. However, at this stage it is difficult to comment further on this aspect as the rule change proposal has not:

- explained the AER's concern with respect to current retirement and de–rating decisions such that these decisions need to follow approaches prescribed in regulatory guidelines; and
- it is not evident how high–level or detailed these principles are intended to be, nor if they are to be binding.

In summary, we support measures to genuinely facilitate third party involvement in network planning and we continue to be open to considering all efficient alternatives. The proposed rule change is broadly acceptable but we consider that key distinctions between replacements and augmentations need to be considered to ensure that any changes to the RIT–D and DAPR frameworks are genuinely capable of achieving material benefits.

If you wish to discuss any of our comments further, please contact Bruno Coelho on 08 8404 5676.

Yours faithfully

Wayne Lissner
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