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24 November 2016

Mr John Pierce
Chairman
Australian Energy Market Commission
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Lodged online via: www.aemc.gov.au

Dear John,

National Electricity Amendment (Replacement Expenditure Planning Arrangements) Rule 2016

TransGrid welcomes the opportunity to respond to the AEMC's Consultation Paper on the Replacement Expenditure Planning Arrangements rule change request submitted by the Australian Energy Regulator (AER).

TransGrid is the operator and manager of the high voltage transmission network connecting electricity generators, distributors and major end users in New South Wales and the Australian Capital Territory. TransGrid's network is also interconnected to Queensland and Victoria, and is instrumental to an electricity system that allows for interstate energy trading.

TransGrid understands that this rule change request seeks to extend the existing distribution and transmission network planning and regulatory investment test arrangements to replacement expenditure, with an objective of increasing the transparency of network asset replacement decisions by both distribution network service providers (DNSPs) and transmission network service providers (TNSPs). Ultimately, this transparency is expected to facilitate greater investment in non-network solutions as an alternative to network replacement.

TransGrid supports rigorous and transparent frameworks that provide appropriate oversight of the investment decisions of regulated network businesses. The existing regulatory arrangements, embedded in the current planning and investment frameworks, incentive regulation frameworks, and regulatory determination processes, provide extensive checks and transparency to the market in relation to the investment decisions of network businesses. While these arrangements incorporate some requirements in relation to the planning, and reporting of, network asset replacement decisions TransGrid would support further measures where it can be demonstrated that there is additional benefit.

However, there are a number of issues with the rule change request as proposed by the AER. These issues are outlined below for further consideration by the AEMC in its assessment of the rule change request.

The National Electricity Objective

As outlined above, TransGrid understands that the intent of this proposal is to increase the transparency of the network asset replacement decisions of TNSPs and DNSPs. It is anticipated that this transparency will encourage TNSPs and DNSPs to consider more non-network solutions.

While TransGrid supports the intent of providing more transparency with respect to the network asset replacement decisions it makes, it should be noted that increased transparency will increase regulatory burden and cost. It is also important to recognise that increased transparency may not necessarily lead to increased use of non-network solutions. The application of non-network solutions will depend on the particular circumstances leading to the need to replace an asset.

In its consideration of the rule change request, the AEMC will need to carefully balance the objective of increased transparency with the additional costs that this would likely impose to ensure that the changes enhance the National Electricity Objective.

Annual planning reporting requirements for replacement expenditure

TransGrid understands that the AER's rule change request seeks to amend the NER to require TNSPs and DNSPs to provide information in their annual planning report (APR) on:

- Planned asset retirements and de-ratings
- Options to address network limitations arising from these retirements and de-ratings.

Under the planning arrangements outlined in Chapter 5, for each proposed replacement transmission network asset, TransGrid is required to provide in its TAPR:

- a description of the new replacement transmission network asset project, including location;
- the date from which the new replacement transmission network asset will be operational;
- the purpose of the proposed new replacement transmission network asset;
- a list of the network and non-network options to the proposed new replacement transmission network asset that are being, or have been considered; and
- the total capitalised expenditure on the proposed new replacement transmission network asset.[1]

TransGrid also provides information to the AER about asset replacements in the revenue proposal. The AER's Expenditure Forecast Guideline outlines the matters that it will assess in considering a network's capital expenditure (capex) proposal. Amongst other matters, the AER outlines that it will assess the level of forecast replacement capex for TNSPs by analysing information supporting the business' building block proposal and by undertaking a detailed project review.[2] This information includes details of the need and/or opportunity for investment, network and non-network solutions to address the need or opportunity, and an economic evaluation of the investment using quantified risk.

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[1] Clause 5.12.2(7) of the NER.

[2] Section 3.1 of the AER's Better Regulation: Expenditure Forecast Assessment Guideline for Electricity Transmission, November 2013.

Despite this, TransGrid accepts that there is room to provide more information to the market in relation to network asset replacements in a form that is more digestible. The Institute of Sustainable Futures (ISF) has led an ARENA funded project for the development Network Opportunity Maps (NOMs), with TransGrid as one of the network partners supporting the development of the maps. The NOMs provide a single consistent source of information on a geographic basis allowing identification of potential multiple value streams for non-network solutions. We believe that more information about network asset replacements, provided in advance through the NOMs, will help non-network solution providers better engage with network service providers to offer non-network solutions that are better targeted to the need of the network. This would develop a more mature market for non-network solutions, increasing the level of competition between providers and driving down prices to the benefit of consumers.

Given that TransGrid already provides this information to the AER in the TAPR and the revenue proposal, we do not expected that extension of the annual planning requirements to network asset replacement decisions would result in significant additional burden.

In relation to the proposal that the APR include information on planned de-ratings, TransGrid notes that generally the de-rating of network elements is not planned but follows from careful analysis of data and information relating to the performance of the element. This may occur outside the annual planning cycle. To give effect to this proposed change, the AEMC may wish to consider whether the rules could instead enable a network business to report on the de-rating of a network element in the next APR due to be published after the de-rating event occurred.

TransGrid notes that the AER proposes to develop a guideline that would exempt certain assets from these reporting requirements where they can only be replaced on a like-for-like basis. TransGrid's views on this are outlined further below.

Application of regulatory investment tests to replacement expenditure

The rule change request seeks to extend the application of the RIT-T to replacement expenditure above the existing cost thresholds ($6 million for transmission). The AER proposes that projects with no alternative but a like for like replacement be exempt from this requirement.

TransGrid supports the extension of the RIT-T to network asset replacement decisions in principle. However, the RIT-T should only be extended to high value network asset replacement projects that would likely result in some change in the market or on competition.

To give effect to this, TransGrid recommends that the AEMC consider:

- a gateway test that delineates projects that are likely to impact on the market or on competition from those that will not;
- raising the cost threshold; and/or
- limiting the extension of the RIT-T to assets on major flow paths, consistent with the identified flow paths outlined in the Australian Energy Market Operator's National Transmission Network Development Plan.

TransGrid considers that there is limited value in applying the RIT-T to network asset replacement decisions that would not have a material impact on the market or on competition. Application of the RIT-T to these projects would result in delays to project commencement and may send false signals to the market in relation to opportunities to provide non-network solutions. Further, under the rule change request, more information would be provided in relation to these network asset replacement decisions in the APR process. This provides opportunity for non-network solution providers to approach a network business with a non-network solution if one is identified.

Where a RIT-T is undertaken for a network asset replacement decision, and through that process a non-network solution is identified as the preferred option, A network business should not be prevented from supplying the non-network solution where it is cost effective to do so. TransGrid acknowledges that this issue may be beyond the scope of this rule change request, but is subject to a number of other rule change requests being, or due to be, considered by the AEMC. TransGrid supports and reiterates Energy Network Australia's call for a holistic assessment of these rule change requests.

Exemption framework

The rule change request proposes that the AER develop a guideline setting out the type of assets that a TNSP or DNSP would be required to report on in the APR. Amongst other matters, TransGrid understands that the proposed guideline would exempt assets that can only be replaced with like-for-like assets from the annual reporting requirements.

Similarly, it is proposed that an exemption be extended to the proposed RIT-T obligations where a transmission or distribution business considers that an asset can only be replaced on a like-for-like basis. In this instance, the rule change request proposes that a transmission or distribution business publish an "exemption report" that outlines the reasons why only a like-for-like replacement is feasible. Interested parties would then be able to raise a formal dispute on the conclusions of the exemption report that would be considered by the AER under the existing dispute processes for regulatory investment tests.

An exemption framework is essential to minimise unnecessary regulatory burden and cost where an asset can only be replaced on a like-for-like basis. However, TransGrid does not consider it necessary to introduce two separate exemption frameworks for network replacement asset decisions. TransGrid encourages the AEMC to consider whether a single exemption framework could be adapted to both annual planning reporting and regulatory investment test arrangements.

The AEMC could consider a model in which a transmission or distribution network business identifies the assets which should be exempt from the arrangements in the regulatory determination process. The AER could then assess and seek stakeholder views on whether this exemption be granted as part of its assessment of the regulatory proposal. If there is a material change in circumstances later in the regulatory control period, this could be flagged through the APR process. This would minimise the complexity and cost of seeking an exemption for like-for-like replacements, while maintaining a similar level of transparency and oversight as is proposed in the rule change request.

If you would like to discuss any matter raised in this submission, please contact TransGrid's Miyuru Ediriweera (02 9620 0417). We look forward to engaging further with the AEMC and other stakeholders on this rule change request.

Yours faithfully

Anthony Meehan
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