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CLEAN ENERGY COUNCIL

John Pierce, Commissioner
Australian Energy Market Commission
PO Box A2449
Sydney South,
NSW 1235

Lodged Electronically

Dear John,

RE: Draft rule on new planning arrangements for replacement assets by electricity network businesses

The Clean Energy Council (CEC) is the peak body for the clean energy industry in Australia. We represent and work with hundreds of leading businesses operating in solar, wind, energy efficiency, hydro, and bioenergy, energy storage, geothermal and marine along with more than 4,000 solar installers. We are committed to accelerating the transformation of Australia's energy system to one that is smarter and cleaner.

The CEC supports the proposed rule change (ERC0209) to require network businesses to provide more information on their plans for retirement and replacement of electricity network assets. The change will encourage efficient network investment outcomes, improve transparency around network service provider decisions and provide an incentive for non-network alternatives to traditional network solutions. This change will improve the efficiency of the NEM and accelerate the use of non-network alternatives.

The current network planning frameworks do not provide sufficient transparency on network asset replacement decisions by network providers. The Australian Energy Market Operator (AEMO) in its 2015 National Transmission Network Development Plan (NTNDP) highlights the transition from augmentation to the replacement of transmission network assets. Furthermore, the AER in its transmission and distribution determinations show that replacement expenditure accounts for a larger share of capital expenditure. Energy storage options are also increasing with major the interest growing in large-scale battery storage technologies and aggregated small-scale energy storage.

The changing electricity market

At the time of its inception, the NEM was experiencing demand growth and the rules of the NEM were formulated in that context. At that time, augmentation costs far outweighed the cost of asset replacement and non-network alternatives were either economically or technologically unfeasible.

In recent years demand growth has declined and replacement expenditure represents a larger proportion of total capital expenditure than in the past. With technological developments and the emergence of energy storage technologies, embedded generation and demand management there is an opportunity to deliver more efficient market outcomes through non-network solutions for traditional like-for-like network replacement options.

The emergence of embedded generation, energy storage, and other non-network solutions have made the previous assumptions redundant. This requires a rethink to better integrate these new developments. This may be in the form of;

- Non-network alternatives on their own,
- A hybrid solution of non-network alternatives combined with network options, or
- A more efficient network configuration.

However, there are instances where network solutions may be the only option for asset replacement. Deeply embedded network or operational equipment such as switch gear are instances where network solutions are the only option for asset replacement with non-network alternatives not being a feasible option at present.

The proposed changes to the planning arrangements for replacement assets will provide benefits in terms of economic efficiency and increased competition from non-network alternatives.

Undue regulatory burden on transmission and distribution businesses

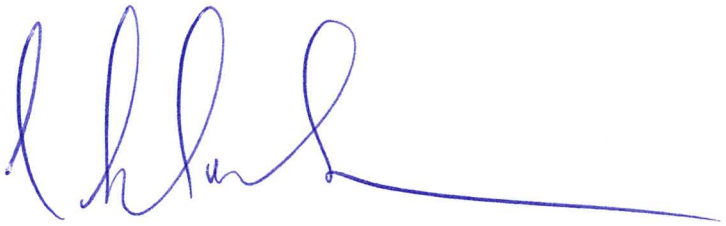
Currently, annual planning reporting information requirements on replacement capital expenditure are minimal compared to augmentation information requirements. Replacement capital expenditure has been excluded from RIT-T and RIT-D. Including replacement alongside augmentation costs in the RIT-T and RIT-D processes is a welcomed step. Regulatory investment tests represent a transparent process in which the most efficient network planning process can be determined.

The removal of exceptions to this requirement provides clarity and uniformity to all stakeholders and reduces the regulatory burden that may arise from challenges to an exemption report.

Summary

The proposed new planning arrangements for replacement assets by electricity network businesses will enable networks to better integrate new technologies. By encouraging competition from non-network alternatives this rule change will stimulate efficient investment and flexibility in markets and networks.

Sincerely,



Darren Gladman
Director, Smart Energy
Clean Energy Council