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AEMC REPEX RULE CHANGE

CONSULTATION PAPER

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Total Environment Centre's National Electricity Market advocacy

Established in 1972 by pioneers of the Australian environmental movement, Total Environment Centre (TEC) is a veteran of more than 100 successful campaigns. For nearly 40 years, we have been working to protect this country's natural and urban environment, flagging the issues, driving debate, supporting community activism and pushing for better environmental policy and practice.

TEC has been involved in National Electricity Market (NEM) advocacy for ten years, arguing above all for greater utilisation of demand side participation — energy conservation and efficiency, demand management and decentralised generation — to meet Australia's electricity needs. By reforming the NEM we are working to contribute to climate change mitigation and improve other environmental outcomes of Australia's energy sector, while also constraining retail prices and improving the economic efficiency of the NEM — all in the long term interest of consumers, pursuant to the National Electricity Objective (NEO).

Introduction

TEC welcomes the opportunity to comment on the repex rule change consultation paper. In summary, we support the rule change as proposed by the AER. However, we also consider it does not go far enough, and that this process represents an opportunity to review the operation and effectiveness of regulatory investment tests (RITs) that should not be overlooked. We regard the RITs as especially important in view of the AEMC's rejection of our local generation network credit (LGNC) rule change request, as they can potentially be alternative drivers of non-network investment in decentralised generation and storage to reduce the need for network augex and repex. They are also relevant to the AER's current design of the demand management incentive scheme (DMIS), since that scheme should also incentivise networks to invest in more non-network solutions.

In this regard we are disappointed that neither the AER, as rule change proponent, nor the AEMC has taken the opportunity to review the effectiveness of the current RIT regime beyond noting the issue with regard to replacement capex in an era of low demand growth. The rule change request and consultation paper take it for granted that the current RIT regime is otherwise working effectively. As with the AER's ring-fencing guideline, small consumer advocates are again being asked to comment on a proposed reform without market bodies possessing much greater resources undertaking a proper review of the effectiveness of the current regime. This is a poor approach to stakeholder engagement that in our view reflects an "If it ain't broke" approach to regulatory reform that is unwarranted and shortsighted in an era of rapid transformation in the energy sector.

In our experience the shortcomings of the current RIT regime include

- Difficulty in accessing comparative NEM-wide data around RIT processes and outcomes – especially in regard to how often these processes have led to networks choosing non-network solutions instead of augex. While recognising that the RIT-D is relatively new and has operated in a low demand growth environment to date, we suspect that it has rarely resulted in non-network options being chosen.
- Difficulty in ascertaining how serious and effective networks' attempts to engage with proponents of non-network solutions have been, including the constraints often imposed on requests for proposals (eg, X MW of peak demand over Y months for Z years only).
- The control by networks of the RIT process, and the AER's role being limited to reviewing the process rather than the merits of outcomes.[1]

[1] See Electricity Network Regulatory Frameworks Volume 2, Productivity Commission Inquiry Report No. 62, 9 April 2013, 627-651.

- The narrow assessment criteria for market benefits.[2]
- The fact that RITs appear often to be undertaken late in the network planning process, effectively becoming a "tick the boxes" exercise rather than a genuine attempt to investigate a range of potential solutions to perceived demand growth or asset replacement needs.

Example – Kangaroo Island

The recent RIT-D for the Kangaroo Island (KI) cable replacement illustrates the weaknesses of the current RIT regime. While SA Power Networks engaged constructively to properly assess the viability of a range of non-network options, in the end the jurisdictional reliability target and the looming expiry of the current cable's rated lifespan outweighed the potential for on-island solutions, which would have been more complex and involved more community buy-in, to be preferred. And the AER is unlikely to dispute thhis outcome, given its very limited mandate.

Also, after having worked on this process for several years, in its October 2016 draft project assessment report (DPAR)[3] SAPN suddenly gave a much lower estimate of the cost of the cable replacement. This is the kind of development that makes RITs a very risky and frustrating process for non-network proponents, yet it would not be addressed by the current rule change process.

Finally, SAPN's DAPN correctly notes that numerous elements of non-network proponents' proposals cannot be considered under the current RIT regime, including greenhouse gas emissions, other environmental impacts and changes in consumer access to retail markets. In our view the current assessment framework is unnecessarily narrow, especially in view of the need to transition the energy sector to comply with Australia's climate change mitigation targets and the economic efficiency inherent in a speedy transition.

The remainder of this submission addresses only those questions to which we consider we can add value by responding.

Question 1

a) Are non-network solutions a viable alternative to replacing network assets on a like-for-like basis?

b) How does this differ from the potential for a non-network solution to provide a viable alternative to augmenting the network?

In some circumstances, yes, as the AER observes:

> For example, if a small embedded generator is used to defer network reinvestment in light of uncertain demand and the expected demand does not eventuate, the generator can readily be moved to another location. However, had a network solution been utilised, the investment is sunk, resulting in stranded or underutilised assets.[4]

Consumer-side energy storage is another example of a potential non-network solution where, say, a network is faced with the need to replace poles and wires in isolated rural areas, and providing consumers with batteries while disconnecting them from the grid may be a more economically efficient option. The

[2] For instance, according to the Institute for Sustainable Futures (ISF), in the KI DPAR (see below) SAPN did not consider the costs of electricity supplied by the various options (pers. comm.).

[3] Draft Project Assessment Report (DPAR), Kangaroo Island Submarine Cable 2 November 2016, SA Power Networks.

[4] AER repex rule change request, June 2016, 7.

problem arises, though, that repex is often undertaken incrementally and therefore appears cheaper on an annualised or 5-yearly basis. The time horizon for and spatial aggregation of repex spending may therefore be important, with 10 years and zone substation level suggested as appropriate parameters.

Question 10

Will extending the regulatory investment tests to replacement capital expenditure benefit energy market stakeholders, including non-network service providers, network service providers and the AER, and why?

Yes, but only if the materiality threshold is significantly reduced. Energy storage is becoming affordable and useful on both sides of the meter to provide the following services to a range of stakeholders:

- Managing peak demand
- Providing backup for isolated feeders
- Maintaining power system security
- Selling ancillary services into wholesale market
- Arbitraging energy sales[5]

However, no known current energy storage project has a capital value of over $5 million, so batteries could be effectively excluded from consideration under an expanded RIT regime without a lowering of the threshold.

Beyond this issue, there was some scepticism in the last round of revenue determinations that lower network augex spending was offset to some extent by higher repex spending, which has been largely unscrutinised by the AER. Extending the RITs to repex may help to address this concern.

Question 12

Should the cost thresholds for asset replacement projects be the same as cost thresholds for network augmentation projects?

In our view consideration of non-network options should be required for all planned repex and augex projects with a capital value of $1 million or more. We cannot predict the number of projects this would capture, but expect that many more repex than augex projects are under $5 million and thus would be captured.

However, should reducing the threshold to $1 million for the normal RIT process be too onerous for it to be a practical option, the AEMC should consider the viability of a "mini-RIT" process, with less onerous requirements, for projects in the $1-5 million range. In the absence of a change to the materiality threshold, many opportunities for the rollout of energy storage will be missed because networks have instead chosen augex or repex solutions which they can add to their asset bases.[6]

Recommendations

1. The AEMC should do more to educate stakeholders about the effectiveness and limitations of the current RIT process.
2. The AER should develop and maintain a central register of all RIT processes.

[5] It is acknowledged that not all of these services are directly relevant to networks.

[6] Here it is assumed that energy storage includes consumer-side batteries which networks cannot add to their RABs, and grid-side batteries which networks may not in future be allowed to add to their RABs.

3. The rule change should be expanded to include giving more power to the AER to review the merits of chosen solutions.
4. The rule change should be expanded to reduce the materiality threshold from $5 million to $1 million for all projects.
5. Should #4 be too onerous, the AER and AEMC should consider creating a “mini-RIT” process for projects in the $1-5 million range.

Should these recommendations be acted upon, we look forward to engaging with the AER and AEMC on their more detailed consideration for the remainder of this process.

Yours sincerely,

Jeff Angel
Executive Director

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