2 June 2017

Mr John Pierce
Chairman
Australian Energy Market Commission
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Dear Mr Pierce

RE: AEMC Draft Rule Determination - National Electricity Amendment (Replacement expenditure planning arrangements) Rule 2017

Ausgrid welcomes the opportunity to make a submission to the AEMC in relation to its draft rule determination on replacement expenditure planning arrangements. Our comments (attached) relate to the following matters in the AEMC draft determination:

- the distribution annual planning report (DAPR);
- the regulatory investment test for distribution (RIT-D); and
- transitional arrangements.

We recognise the importance of transparency and providing information to the market. We currently undertake a range of measures to provide information on the network, potential network limitations over the forward planning period, and potential opportunities for non-network providers. These include measures required by existing regulations as well as additional initiatives such as the 'network opportunity maps', which are an online mapping tool to inform the community about proposed network investments and assist in identifying opportunities for demand management to defer investment.

We endorse the intent of the rule change and support many of the amendments the AEMC has made in drafting the preferred rule. We also appreciate the consultation undertaken by the AEMC with network service providers, which has given us an opportunity to clarify some of the draft changes and how they are envisaged to operate in practice.

Nonetheless we remain concerned about a number of aspects of the draft rule. In particular, our concerns relate to:

- The proposed threshold for reporting assets together in the DAPR (clause (b2)(4)) – a threshold of $100,000 will result in over 1,000 asset replacements being individually reported in Ausgrid's DAPR;
- The treatment of some asset types, such as sections of low voltage underground cable, which are not discrete assets;

- Whether the proposed reporting of asset replacements in the DAPR will provide the most useful and easily accessed source of information for non-network service providers;
- The interaction between the DAPR and the system limitations report – given the AER's discretion to establish a template that may require very detailed information about system limitations; and
- The proposed timeframe for implementing the new rule, in particular the system limitation report that flows from the DAPR.

We submit that that the rule be modified as follows:

- Raise the threshold for reporting assets together in the DAPR (clause (b2)(4)) from $100,000 to $250,000;
- Allow for asset retirements with a replacement value greater than $250,000 to be reported as a group, provided the assets are being retired as part of a major project that is reported separately, such as via the RIT-D public process or otherwise on our website including, as a minimum, the equivalent information.

The draft rule, together with other regulatory reforms such as the system limitation report, envisage a significant increase in information provided by DNSPs. We submit that the AEMC should introduce a mechanism for the review of these information requirements in the future to monitor their effectiveness, the associated benefits and costs, and whether an alternative approach to information provision may be more effective.

Ausgrid recognises the importance of this rule change given the changing nature of electricity networks, and we look forward to continuing to work with the AEMC to provide for the most effective outcome for customers.

If you have any queries or wish to discuss any of the issues raised in this submission in further detail please contact Matthew Webb on (02) 9269 4222 or via email mwebb@ausgrid.com.au.

Yours sincerely,

RICHARD GROSS
Chief Executive Officer

Attachment – Ausgrid's Submission on the AEMC Draft Rule Determination on Replacement Expenditure Planning Arrangements

Ausgrid recognises the importance of this draft rule change, given the changing nature of electricity networks, the increasing emphasis on replacement rather than augmentation expenditure, and the increasing role and potential of non-network alternatives.

We have divided our comments into three sections:

1. The distribution annual planning report (DAPR)
2. The regulatory investment test for distribution (RIT-D)
3. Transitional arrangements

1. The Distribution Annual Planning Report (DAPR)

We note the AEMC's verbal advice that:

- Schedule 5.8(b1) is intended to capture all network retirements – both those that will not be replaced, and those that need to be replaced in order to avoid a network constraint. However, the clause is open to other interpretations and needs greater clarity.
- The rule change does not intend to capture reporting of asset replacements that are not *planned*. Where asset replacement is dependent on an assessment of the condition of the asset (conditional asset replacement), there may be a limited period of time between a decision to replace the asset, and replacement occurring. Conditional asset replacement is described further in the box below.
- For joint reporting of assets under schedule 5.8 clause (b2), the information provided may be quite summarised given that:
    - some programs (such as pole replacement) may involve the replacement of individual assets across a wide part of the network; and
    - the timing of individual asset replacements may not be known with certainty, or may change as priorities change.

We have concerns about the following aspects of the draft reporting requirements:

- The proposed threshold for reporting assets together in the DAPR (clause (b2)(4)) is too low, particularly in those cases where several assets are being retired as one group or project; and
- The information required in the DAPR may not be in the most useful format for non-network providers to assess potential opportunities.

In addition, our interpretation of the draft rules is that the information on asset retirements and de-ratings in the DAPR would not flow through to the system limitation report, given the latter focuses on *projects* to address system *limitations*. This interpretation was supported during consultation meetings with the AER. If this interpretation is *not* correct, the interaction between the DAPR and the system limitations report could result in highly detailed information being required for a large number of assets, depending on the template developed by the AER.

Conditional Asset Replacement

Ausgrid has a number of large investment programs which it considers to be conditional in nature. These programs include, for example, poles, transformers and 11kV circuit breaker replacements.

These conditional programs involve undertaking routine testing of assets to determine asset condition and comparing this against serviceability criteria, to determine when an individual asset needs to be replaced. This comparison determines the length of time from testing that the asset can remain in service before replacement is required.

For example, a pole that has been found to be in poor condition may be considered to have conditionally ("serviceably") failed. Depending on the condition, the pole may need to be replaced in a short timeframe, ie, weeks or months. Based on current serviceability criteria, Ausgrid will not leave serviceably failed poles in service for longer than 12 months without undertaking mitigation. This is driven by the inherent public safety risk from poles falling and live conductor being within clearance of contact.

While programs such as poles are not considered "reactive" because the work program is planned, the locations and timing of replacement are not known until the risk has been identified, at which time replacement cannot be delayed.

a) Threshold for joint reporting of assets

The proposed threshold for joint reporting of assets is $100,000. This would lead to a very large increase in the number of assets reported in Ausgrid's DAPR.

In the current DAPR Ausgrid reports on around 70 projects, and we anticipate this would increase to about 100 next year under the existing NER requirements.

We have reviewed our forward plans and estimate that if asset replacements with an individual value of $100,000 are to be reported separately, we will be required to report individually on over 1,000 asset replacements planned over the five year forward planning period. The nature of the assets being reported would include;

- 11kV Zone Switchboards (400)
- 33kV Circuit Breakers (137)
- Sub-transmission Poles (170)

The majority of these asset retirements will also be reported as part of major projects. As a result, it is suggested that the rule could be modified as follows:

- Raise the threshold for reporting assets together in the DAPR (clause (b2)(4)) from $100,000 to $250,000;
- Allow for asset retirements with a replacement value greater than $250,000 to be reported as a group, provided the assets are being retired as part of a major project that is reported separately, such as via the RIT-D public process or otherwise on our website including, as a minimum, the equivalent information.

In addition, Ausgrid is planning to retire 110km of low voltage underground cable. These replacements are generally done in 500m sections. It is not clear from the draft rule how this type of network replacement would be reported since they are not discrete assets.

b) Format of the information provided

We note that the draft rule may not achieve the transparency desired to enable non-network providers to pinpoint upcoming opportunities.

The draft rule change proposes that DNSPs report on asset replacements on an individual asset basis (or jointly for the same type of assets). This can be distinguished from reporting on asset replacement on a project basis, which is the focus of the RIT-D. An asset replacement project may involve replacing a number of individual assets. These individual assets may have a relatively low value and may not be prospects for non-network alternatives on their own.

In order to see an asset replacement project in its entirety, a non-network proponent may have to link up a number of individual asset replacements reported in separate parts of the DAPR, some of which may be reported jointly with other assets of the same type. It could be difficult to get a clear overview of the project as a whole.

As discussed with the AEMC, Ausgrid will consider ways in which the DAPR can provide the most useful information to the market, for example potentially flagging individual assets that are linked to one replacement project or site.

c) Interaction between the DAPR and the system limitation report

Clause 5.13.3(a) requires the AER to develop and publish a system limitation template. Clause 5.13.3(c)(1) requires detailed information regarding the identified system limitations. The AER has discretion regarding the level of detail of the information provided which could extend, for example, to information on a half-hourly basis over the 5 year planning period.

Our understanding - supported in consultation meetings with the AER - is that the system limitation template does not incorporate the information on asset retirements and de-ratings reported under schedule 5.8, clauses (b1) and (b2).

If this interpretation is *not* correct, we would have significant concerns about the interaction of the DAPR and the system limitation report. We note that provision of detailed information for individual asset retirements and de-ratings would be extremely onerous and of limited value to non-network proponents.

2. The Regulatory Investment Test for Distribution (RIT-D)

We note the verbal advice from the AEMC that the RIT-D will continue to focus on 'projects' (as set out in clause 5.17.3) that address an 'identified need' where the most expensive option exceeds $5m. We note that this means that asset retirements which are jointly reported in the DAPR, and which jointly exceed $5m, may belong to separate projects, meeting separate 'identified needs' for the purposes of the RIT-D. We support this interpretation of the RIT-D in relation to asset replacement projects.

3. Transitional arrangements

The AEMC has proposed that the DAPR requirements be introduced by 31 December 2017 (assuming the rule change is finalised in June 2017), and that the new RIT-D requirements apply from 1 July 2018 for those projects that have not yet been committed to.

Ausgrid does not foresee any difficulty with meeting the proposed timeframe of 1 July 2018 for the changes to the RIT-D. However, bringing it any further forward would present challenges.

Similarly, we are comfortable with the proposed timeframe of 31 December 2017 for the new DAPR reporting requirements, given our understanding that the asset retirement and de-rating information does not flow through into the system limitation report.

However, we are concerned about the potential challenges involved in meeting a 31 December 2017 timeframe for the system limitation report, and we are consulting with the AER on this matter separately.