United Energy Distribution Pty Limited
ABN 70 064 651 029

United Energy
6 Nexus Court
Mulgrave VIC3170
PO Box 449
Mt Waverley VIC 3149
T 03 8846 9900
F 03 8846 9999
www.ue.com.au

6 June 2017

Neil Howes
Australian Energy Market Commission
PO Box A2449
Sydney South, NSW 1235

Dear Neil,

RE: ERC0209: Draft Rule Determination Replacement expenditure planning arrangements
United Energy (UE) appreciates the opportunity to comment on the AEMC's draft rule determination relating to Transmission and Distribution business's replacement expenditure planning arrangements. The draft determination is aimed at the amending the rules relating to the electricity networks planning arrangements in Chapter 5 of the National Electricity Rules (NER) for the purpose of improved transparency to enable non-network solutions to be considered against the traditional network solutions when undertaking capital expenditure decisions for the replacement of assets.

UE is concerned with the draft determination from the following perspectives:

1. Reporting Thresholds for retirement of asset classes
2. Transitional period for business to undertake RIT for Replacement Expenditure

UE supports the ENA's submission on this matter on behalf of NSPs in the NEM.

If you have any further queries regarding this submission, please do not hesitate to contact me on (03) 8846 9758.

Kind Regards,

Mathew Abraham
Regulatory

UNITED ENERGY

Appendix A: UE's submission.

The AER's rule change proposal calls for the extension of the RIT-D to capital expenditure decisions relating to assets being replaced. The AER argues that this rule change will enable the consideration of non-traditional solutions for replacement capex and instil transparency in the distribution business's decision making process.

<u>Reporting Thresholds for Capital Assets</u>

The AEMC draft determination imposes broad reporting requirements on United Energy.

UE currently reports all major replacement projects with estimated capital cost of more than $2.0M in the DAPR. This typically applies to major asset classes such as power transformers and switchgear replacements. Replacement of power transformers and switchgear are based on a multitude of criteria such as age, condition and different failure modes. Consequently UE does not consider it to be more onerous in reporting replacement projects on major asset classes.

In the case of assets such as distribution transformers, switches and other minor asset classes the replacements are not predictive. Rather, replacements in these asset classes are mainly reactive. Forecasts are based on historical trending with age as an additional consideration. Replacement programs are also forecast on a network wide basis rather than based on any specific area of supply.

UE's position is that reporting of all forecast asset replacements without any cost threshold with the intent of displaying transparency, particularly to potential non-network proponents is problematic. Our forecast of reactive replacement (the bulk of our forecast amount) is not location specific. The only location specific forecast is for planned replacement works – this makes up less than 15% of our forecast amount in any one year. Any forecast will be predominately dollar based and therefore not meet the objectives of the rule change. Put simply at the time of our forecasting process we do not have location specific assets to provide. Our forecast is simply a holding amount for the purposes of budget approval.

Based on Category Analysis RINs, UE considers prudent that a cost of $200k would be an appropriate threshold for reporting purposes since projects/programs falling above this threshold would normally be location specific and serve as useful information to non-network proponents.

It should also be noted that the AER is preparing a system limitations template, in parallel to AEMC's determination, which could only apply to capacity-related major asset replacement projects. Therefore UE considers that AEMC should restrict replacement projects reporting in the system limitations template to only major asset classes above $200k. The inclusion of other asset replacement classes, including those relating to safety (e.g. CBs, Switchboards, Instrument Transformers, Poles, etc.), would impose extensive costs on UE without any reasonable prospect of a non-network solution being available.

<u>Transitional period for compliance</u>

The draft decision has suggested that the businesses have six months to comply with the reporting requirements of the RIT. With the final decision on the RIT for Replacement expenditure expected in July and the UE DAPR due in Dec, UE does not believe that it has enough time to implement these changes. UE would therefore urge the AEMC to consider delaying reporting requirements for the next DAPR.

UE would therefore support a 1 year transition for the commencement of the RIT for replacement expenditure.