



PO Box 4136  
East Richmond VIC 3121  
T 131 806  
F 1300 661 086  
W redenergy.com.au

PO Box 632  
Collins St West VIC 8007  
T 1300 115 866  
F 1300 136 891  
W lumoenergy.com.au



24 November 2016

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

Submitted electronically

Dear Neil,

### **Re: Replacement Expenditure Planning Arrangements**

Red Energy (Red) and Lumo Energy (Lumo) welcome the opportunity to respond to the Australian Energy Market Commission (the Commission) on the Australian Energy Regulator's (AER) rule change regarding electricity transmission and distribution network replacement expenditure planning arrangements.

Under the proposed rule change, Network Service Providers (NSPs) would be required to include planned asset retirements and deratings in their Annual Planning Reviews (APRs). It would also require NSPs to extend the application of the Regulatory Investment Tests (RIT) to replacement projects.

Red and Lumo have reviewed the rule change and support it for the following reasons:

- The RIT should be expanded to apply to replacement expenditure as it may be more common than augmentation in the future. This would ensure that NSPs only make investments that deliver the greatest net benefit, consistent with the National Electricity Objective.
- Energy storage and distributed generation options are consistently becoming more cost competitive when compared to traditional network augmentations. As such, for replacement expenditure it is appropriate to assess the economic value of market based investment options against traditional network augmentations.
- The application of the RIT to NSP replacement projects will increase the transparency of the investment process. As a result, we support the AER's proposal to apply the RIT to replacement projects. Nevertheless, there are strong reasons why the investment thresholds (of >\$5 million or above) that currently apply to augmentation projects should be reduced further for both replacement projects and augmentations projects. This issue will be the subject of a further rule change<sup>1</sup> and we will comment further on that proposal when it is initiated.

---

<sup>1</sup> See: Australian Energy Council Rule Change Request as published: <http://www.aemc.gov.au/Rule-Changes/Contestability-of-energy-services-demand-response#>. Note: we are not recommending that this rule change is combined, but are noting their interrelatedness.

- The transparency of the NSPs' investment process will improve if NSPs have an explicit requirement to notify any affected registered participants and AEMO of limitations of any planned asset retirements and deratings. This change will allow market based solutions from the broader energy community to put forward alternative market based investment solutions. As such, we support the proposed amendments to clause 5.11.2 of the NER.

In summary, we consider that this rule change will improve the efficiency of the NSP investment process delivering more efficient distribution and transmission investment in the NEM and therefore meeting the National Electricity Objective.

We welcome the opportunity for further discussions regarding this rule change with the AEMC. For any further enquiries regarding this submission, please call Con Noutso, Regulatory Manager on 03 9976 5701.

Yours sincerely

A handwritten signature in black ink, appearing to be "Ramy Soussou", written over a horizontal line.

**Ramy Soussou**  
General Manager Regulatory Affairs & Stakeholder Relations  
**Red Energy Pty Ltd**  
**Lumo Energy Australia Pty Ltd**