



24 November 2016

Mr John Pierce
Chairman
Australian Energy Market Commission
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Via email

Dear John

Consultation Paper: Replacement Expenditure Planning Arrangements (Ref ERC0209)

AusNet Services welcomes the opportunity to make this submission to the AEMC's Consultation Paper on the Australian Energy Regulator's (AER) rule change request in relation to planning of network asset replacement expenditure.

AusNet Services supports the objective of facilitating transparency of network asset replacement decisions. The rule change request proposes an explicit requirement that Network Service Provider annual planning reports (APRs) provide information on planned asset retirements and options to address the resulting network limitations, and for the regulatory investment test (RIT) to apply to replacement expenditure where warranted.

The AER's proposal that the RIT not be required where a network asset replacement is the only viable alternative would be an important element of the regime, to ensure that the process is efficient, and does not impact timely investment and maintained network service reliability. The additional asset replacement program information (subject to the rule change) would facilitate early stakeholder engagement on potential alternatives and facilitate assessment of viability.

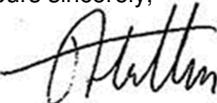
The Consultation Paper recognises that implementation for the transmission sector in Victoria must have regard to the unique service arrangements that apply. It notes that whilst the AER proposes that AusNet Services would apply the regulatory investment test for transmission (RIT-T) for replacement expenditure projects, it is not clear about which party would be responsible for the additional annual planning requirements¹ (page 14). We agree that AusNet Services is the appropriate party to conduct the RIT-T, on account of the allocation of responsibilities in Victoria, and consider that AEMO's Victorian Transmission Annual Planning Report (TAPR) is the appropriate avenue for the additional reporting requirements. This would be consistent with current practice applied in Victoria to satisfy the TAPR information requirements for replacement transmission network assets set out in the National Electricity Rules (NER).

¹ AEMC, Consultation Paper, National Electricity Amendment (Replacement expenditure planning arrangements) Rule 2016, page 14

Our attached detailed submission elaborates on these aspects. In addition AusNet Services advises its support for the responses made in the submission by Energy Networks Australia on the broader issues canvassed through the Consultation Paper.

Please contact Kelvin Gebert, our Manager Regulatory Frameworks, if we can assist you further in relation to this submission. We look forward to opportunities to provide further input into this review as it progresses.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Tom Hallam', written over a faint, light-colored watermark or background.

Tom Hallam

General Manager Regulation and Network Strategy

**AusNet Services Detailed Submission on
AEMC Consultation Paper - Replacement Expenditure Planning Arrangements
(Ref ERC0209)**

1. Introduction

This document provides AusNet Services' detailed response into the Commission's consultation on the AER's rule change request in relation to planning of network asset replacement expenditure.

AusNet Services is Victoria's largest energy service delivery service business. The company owns and operates Victoria's electricity transmission network, as well as electricity and gas distribution networks.

The rule change request, if accepted, would apply in respect of both electricity networks. AusNet Services supports the objective of facilitating transparency of network asset replacement decisions. Any Rules made to further this objective must also ensure that the asset replacement planning process remains efficient, and does not impact timely investment and maintained network service reliability.

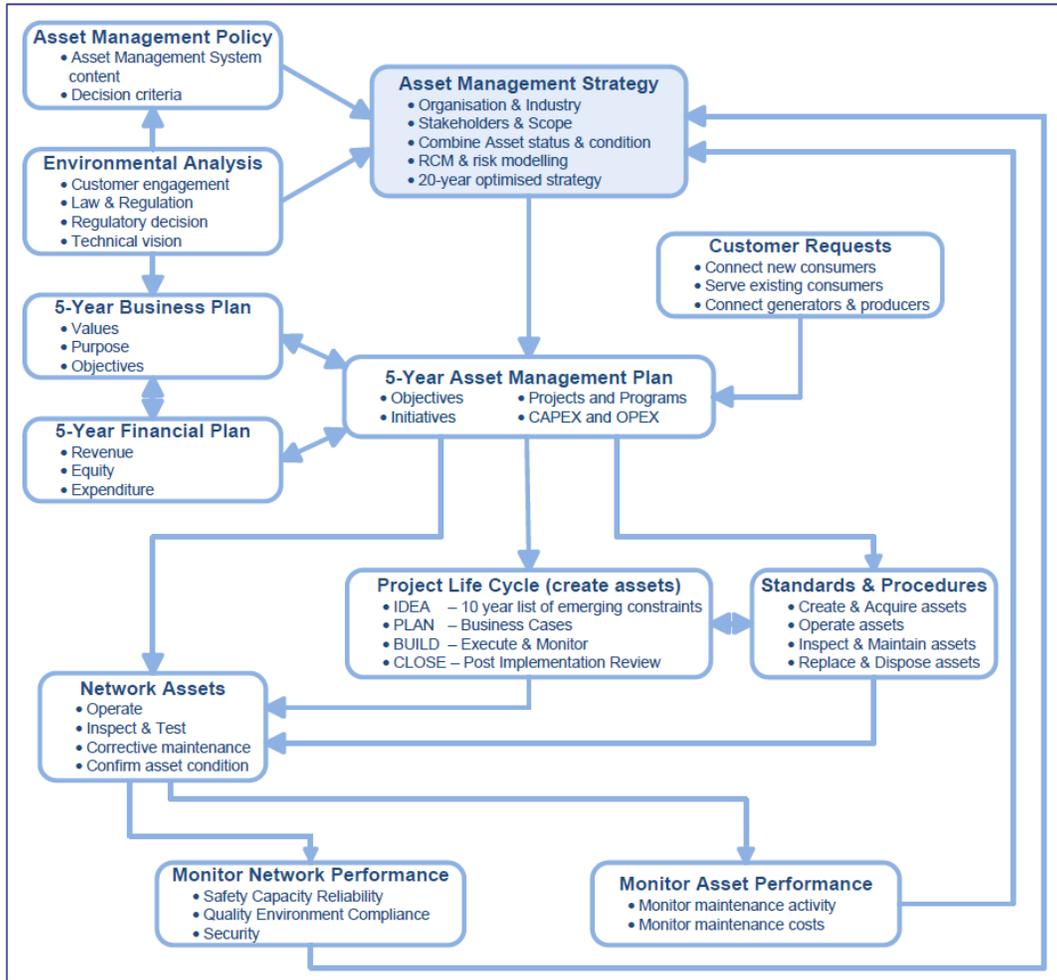
In addition, any Rules made that are applicable to transmission network asset replacement in Victoria must have regard to the unique transmission service arrangements established in the state, and needs to be practical. The Consultation Paper asks how any new obligations should be assigned in these circumstances, and this must be consistent with the allocation of responsibilities.

2. Response to Questions on Issues Specific to Victoria

The AER's rule change request and the Commission's Consultation Paper recognise the unique transmission structural arrangements in Victoria, where AEMO is responsible for the planning and augmentation of the transmission network and AusNet Services owns and operates the network and is responsible for asset replacement. These arrangements were established in 1994, when the transmission functions were separated, primarily to facilitate the introduction of contestability into the provision of new transmission services.

As asset manager for the Victorian network AusNet Services is accountable for providing a safe, efficient and reliable transmission network. The company's management of the network and provision of services is subject to economic and technical regulation, which is the responsibility of the Australian Energy Regulator and Energy Safe Victoria. Achieving regulatory obligations is a primary determinant in AusNet Services' asset management strategy.

Asset replacement decisions are made as part of holistic asset management strategy, by the asset manager. AusNet Services has ISO 55001 asset management system certification. Compliance requires the demonstration of robust and transparent asset management policies, processes, procedures, practices and a sustainable performance framework. Compliance with the ISO 55001 is recognised as an indicator of best practice in asset management. AusNet Services' asset management process is depicted in the following figure.



AusNet Services' overall approach to managing the network asset fleet is described in the Victorian Transmission Network Asset Management Strategy. This document was submitted to the AER in conjunction with the 2015-2017 Transmission Revenue Review, and can be accessed via the [AER website](#).

Asset replacement and retirement plans are developed in consultation with AEMO and DNSPs. AusNet Services advises AEMO on its asset renewal proposals, providing AEMO with the opportunity to conduct a review for consistency with its own plans. In the most recent TAPR, AEMO advises that it has assessed the extent to which proposed AusNet Services investments are required to address transmission network needs² (we note as well that AEMO conducts this independent review of emerging transmission investments in all NEM jurisdictions). AusNet Services finalises its plans having regard to AEMO's independent review and this annual plan is then published as part of the Victorian TAPR, by AEMO, and as required by the NER.

If the rule change is made, so that the RIT-T is applied to asset replacement expenditure, this will become an integral part of the asset management process outlined above. The investment test becomes a critical obligation for the asset manager, to ensure it achieves the most effective outcome in a timely manner such that safety and reliability of service are not compromised. No other party is assigned the accountabilities underpinning an obligation to apply this test for asset replacement.

² AEMO, 2016 Victorian Annual Planning Report, June 2016, page 32

In summary, for application of the RIT-T for asset replacement in Victoria, the test would be assigned to AusNet Services, as asset manager, responsible for whole of lifecycle asset management, the performance of the assets, and holding the expertise in the areas of technology, condition and risk.

AusNet Services recognises that the scenario and market modelling that may be conducted in applying the test to asset replacement planning must be consistent with AEMO's modelling for augmentation planning. We have discussed this with AEMO, and the visibility of the modelling they would desire to facilitate coordinated planning, and have identified a number of options to carry out this activity if the proposed rule comes into effect.

The process for meeting additional information requirements in relation to projected asset replacements would not change. AusNet Services and AEMO would liaise as now for the inclusion of these in the TAPR. However, as the information is specifically for informing stakeholders on asset replacement forecasts, and the feedback from stakeholders will inform the network asset manager on progressing its planning, the responsibility would be assigned to AusNet Services.