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Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney NSW 1235

Lodged online via: www.aemc.gov.au

Dear John,

National Electricity Amendment (Replacement Expenditure Planning Arrangements) Rule 2017

TransGrid welcomes the opportunity to respond to the AEMC's draft determination on the Replacement Expenditure Planning Arrangements Rule change. TransGrid understands that the intent of the draft rule is to increase transparency over network asset retirement, de-rating and replacement decisions.

TransGrid is the operator and manager of the high voltage transmission network connecting electricity generators, distributors and major end users in New South Wales and the Australian Capital Territory. TransGrid's network is also interconnected to Queensland and Victoria, and is central to interstate energy trading.

TransGrid supports transparency and appropriate oversight of regulated network investment and the measures currently in place for network augmentation. The draft Rule extends the regulatory investment test for transmission (RIT-T) to replacement investment and requires additional reporting in Transmission Annual Planning Reports (TAPRs).

This submission outlines TransGrid's views on the draft Rule and transitional provisions, including those communicated subsequent to the draft Rule's release.

Summary of TransGrid's response

TransGrid supports:

- Increased transparency on replacement expenditure, although it is not convinced that the benefits of doing a RIT-T for all network replacements outweigh the costs
- A transition date of 1 July 2018 for the application of the RIT-T to replacement expenditure as per the draft Rule Determination.

TransGrid does not support the proposal to bring the transition forward to start in September 2017. This would lead to project delays, increased risk and cost, knock-on scheduling disruption and related inefficiency across the wider replacement portfolio. Around 12 more

RIT-Ts would need to be in progress by the end of 2017 and this significant ramp up would result in higher costs than the originally published transition.

TransGrid supports new annual planning reporting and the proposed transitional arrangements for this. However, the threshold of $100,000 increases the asset retirement reporting burden without a clear benefit to stakeholders. If the threshold was increased to $300,000, the costs would be less and stakeholders would be presented with a manageable amount of data.

TransGrid's detailed response is presented below.

Application of regulatory investment tests to replacement expenditure

The draft Rule extends the regulatory investment test framework to all network replacement expenditure, subject to the cost threshold of $6 million. TransGrid supports the intent to increase transparency but is not convinced that the costs imposed by the Draft Rule will outweigh the benefits. In particular, as the 'exceptions' process was not included in the Draft Rule many replacement projects which do not have viable alternatives will be subject to RIT-Ts.

For example, more than half of TransGrid's next 15 replacement projects (or programs) relate to secondary systems and physical security, with few actual alternatives and no non-network alternatives. While project documentation exists for all of these, extra effort will be required to develop RIT-T material which is suitable for a public consultation with a different audience.

TransGrid will have to recruit and review its processes to ensure that it can perform RIT-Ts effectively and provide stakeholders with useful information.

Application of the Rule

To improve efficiency in planning and procurement, TransGrid has recently gone to significant effort to bundle up work programs into larger packages. The result of this is that program documentation is at a more consolidated level, with information on individual needs included in the detail. This bundling also facilitates procurement efficiencies and TransGrid has asset supply contracts of up to three years.

The draft Rule Determination notes that where assets of the same type are to be replaced over more than one location in a year and where these address more than one *identified need*, the RIT-T threshold may not be met.

While this is a practical position, documentation for TransGrid's existing replacement programs will need to be reviewed to identify the multiple needs within a program of work (and therefore to identify where a RIT-T is required). This exercise will create extra cost which does not benefit consumers.

Transitional arrangements for regulatory investment tests

The draft Rule determination identified a start date 1 July 2018 for extension of the regulatory investment test framework and expenditure 'committed' prior to that would not require a RIT-T. TransGrid appreciated that this start date allowed time for it to prepare for the significant increase in workload. TransGrid planned to recruit and review its processes before the first tranche of RIT-Ts were initiated, probably before the end of 2017.

TransGrid understands that other stakeholders have approached the AEMC seeking an earlier commencement date of 13 September 2017. All projects not 'committed' by 18 July 2017 will be subject to a RIT-T, where 'committed' is taken to mean broadly that a site is available and contracts are in place.

This short transition would have a significant impact. TransGrid's replacement portfolio is optimised for efficiency and deliverability, taking account of the complex interactions of:

> Project 'need dates', timelines and dependencies – some projects need to be completed in order or within particular outage windows. Delays can cascade through the program, increasing the 'risk cost'[1] and reducing efficiency.

> Resource constraints – particularly where specialist skills are in short supply and TransGrid is seeking to manage costs.

Hence, the replacement portfolio is already well defined for the next two years and there is a plan for later years which has some flexibility.

In this context, TransGrid considers that the definition of 'committed' should be wider than suggested in the draft Rule Determination. For a replacement project, 'commitment' needs to account for the significant amount of portfolio planning which takes place and that project delays impact across the portfolio, increasing costs and risk. In defining what projects are committed, the existence of contracts is not necessarily the most useful indicator, as multiple replacement projects could draw on assets procured through the one period contract.

Impact of the possible short transition

TransGrid has considered the impact of the short transition on current replacement plans (without separating out different *identified needs*) assuming that a RIT-T could take nine to twelve months. It has concluded that:

> TransGrid would need to start at least three RIT-Ts immediately - without adequate preparation, before the Final Rule is published and before the AER Guideline is updated. The start of these projects would be delayed by months, with a knock on impact of cost and risk within the program.

> To avoid further delays, around 12 RIT-Ts would need to be in progress by the end of 2017, a significant ramp up which would result in higher operating costs than the originally published transition.

TransGrid strongly supports the published transition date of 1 July 2018 as it provides an appropriate amount of time to plan for the increased workload.

Annual planning reporting requirements for replacement expenditure

Information requirements

Under the draft Rule, all planned network asset retirements over a 10 year period and all planned asset de-ratings which result in a network constraint over a one, three and five year period must be reported on in the transmission annual planning report, with no exemption.

TransGrid is broadly supportive of the changes to the TAPR requirements. Much of the information required already exists, albeit at different levels of detail depending on asset size and timescale.

[1] Where 'risk cost' includes the economic cost of reduced reliability, safety and other impacts.

Consultation with the AEMC suggests that businesses will have some discretion on asset reporting, in line with asset management information which exists at a point in time. TransGrid will provide information about planned asset retirements over the forward planning period but specific details about a particular asset that may be retired in 10 years will not always be available. For example, information on lower value assets like current transformers which may be replaced in eight years will likely be based on a population analysis (similar to the 'Repex model' used by the AER). Information about the specific assets that TransGrid plans to retire will improve as the decision point approaches.

Including more information in the TAPR will require additional effort but TransGrid does not expect this to be significant if available information can be used.

TransGrid notes that asset de-rating decisions are generally not planned – they are normally a result of an asset problem which emerges unexpectedly. TransGrid will provide planned de-rating information where possible but notes that this may not be significant.

Asset retirement / de-rating reporting threshold

The draft Rule enables the grouping of asset types for reporting future retirements and de-ratings in the TAPR, where:

> Assets are of the same type

> Assets are to be replaced across more than one location in a single calendar year

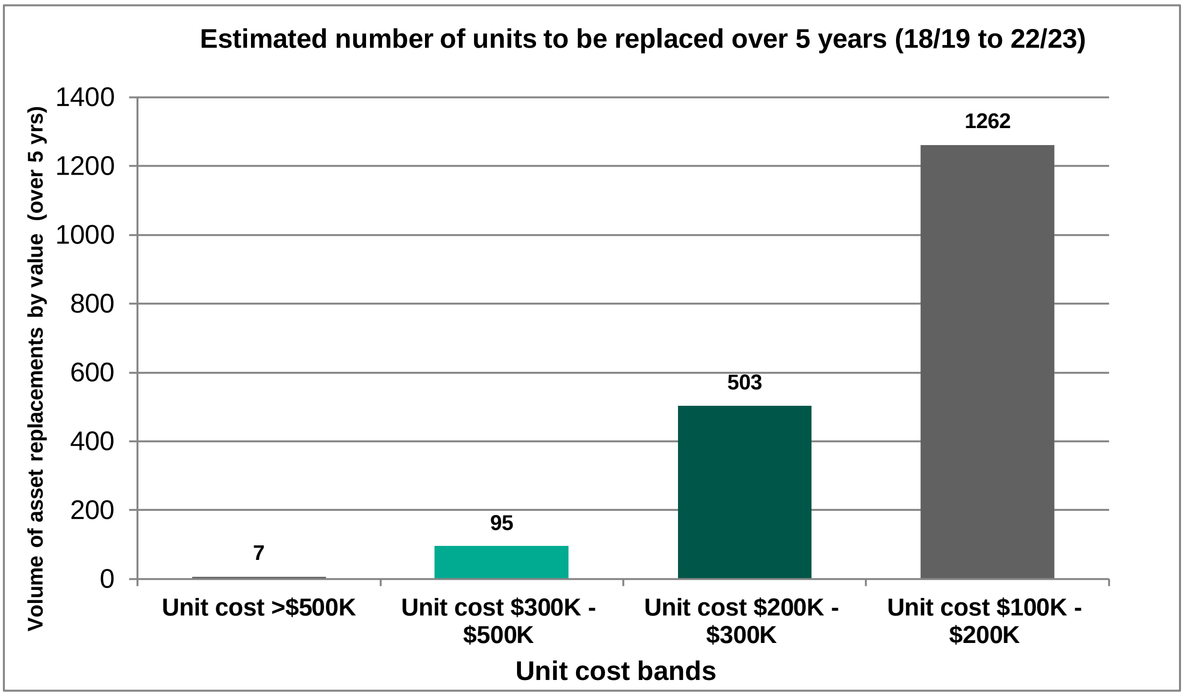
> The replacement cost of each individual asset is expected to have a capital cost of $100,000 or less.

This grouping provision will help keep the reporting requirements manageable and ensure that stakeholders can focus on more important assets[2].

[2] There is a risk that making too much information available will make it even harder for non-network providers to identify opportunities for non-network solutions.

Figure 1 shows an analysis of TransGrid's possible volumes of asset retirements over a five year period, grouped by asset values. For this example, 'assets' are defined as units used in the 'Repex model'. It is evident that the $100,000 to $200,000 asset value band has the highest volume of forecast retirements.

Figure 1: Asset replacement volumes by unit cost



Sources: TransGrid replacement modelling and RIN data

TransGrid considers that the utility of reported information will improved if the asset value reporting threshold is increased, to focus on larger assets. For the five year period in the example, an increase from $100,000 to $200,000 would reduce the number of assets individually reported on by 1,262 to 605. TransGrid suggests that a small increase in the reporting threshold will streamline the information without diminishing its usefulness.

Transitional arrangements for annual planning reporting requirements

Changes to TAPR requirements are to apply for the next scheduled report on 30 June 2018. This timeframe is not an issue for TransGrid.

TransGrid appreciates the opportunity to comment on this Rule change. If you would like to discuss any matter raised in this submission, please contact Stuart McGrow on 02 9284 3615. We look forward to engaging further with the AEMC and other stakeholders on this Rule change.

Yours faithfully

Anthony Meehan
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