



24 November 2016

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***RE: Response to Consultation Paper: National Electricity Amendment (Replacement expenditure planning arrangements - ERC0209)***

Ausgrid welcomes the opportunity to provide comments in response to the AEMC consultation paper on the Australian Energy Regulator's (AER) proposed amendments to expand the scope of network planning and reporting arrangements under the National Electricity Rules (NER or Rules) to encompass replacement expenditure.

The AER's proposed amendments to the National Electricity Rules (Rules or NER) cover two aspects of network investment:

- 1) Expanding the scope of the annual planning report (APR):** the AER proposes that network service providers (NSPs) include information about network assets that the NSP proposes to retire or de-rate, in line with new 'network retirement reporting guidelines' to be developed by the AER; and
- 2) Expanding the scope of regulatory investment tests for distribution and transmission (RIT-D and RIT-T):** the AER proposes that regulatory investment tests are undertaken for refurbishment and replacement expenditure in the same way it applies to augmentation expenditure. It also proposes that an exemption report be published if the NSP determines that the only viable credible option is 'like-for-like' replacement.

While the proposed Rule change consists of amendments to both distribution and transmission network planning and reporting arrangements, our submission only provides comments on the distribution related aspects of the proposed amendments.

Ausgrid broadly supports the policy intent for the proposed amendments and supports the AER's decision to retain the existing cost threshold of \$5million for the RIT-D. However, we consider further refinements to the AER's proposed amendments are required to ensure that the policy objectives for the amendments (providing greater transparency on replacement expenditure decisions and opportunities for consultation on network planning) are achieved in manner which avoids duplication, provides regulatory certainty, and is targeted and proportionate.

Our attached submission and responses to the consultation paper questions seek to highlight:

- aspects of the AER's proposed amendments which are problematic from a practical perspective and likely to give rise to unintended consequences and outcomes contrary to the achievement of the National Electricity Objective (NEO); and
- the need for further clarification and/or consequential changes to Rules to improve the workability of the Rule and promote outcomes consistent with the NEO.

While Ausgrid is largely supportive of the AER's Rule change we have the following key concerns that should be addressed to improve the workability of the proposed amendments. These include:

- the proposed amendments to the RIT-D do not adequately accommodate differences between augmentation and replacement expenditure, particularly in light of safety related aspects of asset replacement;
- further clarification is required to distinguish between the scope of projects captured by the RIT-D, in particular whether it is intended to capture project programs or only individual projects;
- the need for further guidance on the nature of assets likely to be captured by the AER's retirement reporting guideline as this has significant implications on the scope of distribution network service providers' (DNSPs) obligations under the proposed amendments;
- the scope of reporting obligations regarding de-ratings is potentially too broad and difficult to comply with due to the nature of de-ratings; and
- the need for further clarification on what is meant by the term 'like for like.'

Further details on these concerns are provided in our attached submission.

Lastly, we would like to note that any changes to reporting requirements will require a transitional period before compliance, given the network planning cycle. Furthermore, NSPs will not be in a position to revise their approach until the AER has published its guidelines.

We look forward to the opportunity to discuss these issues with you further during the consultation process. If you have any queries or wish to discuss this matter in further detail please contact Matt Webb, Manager Network Risk and Planning on (02) 9269 4222 or via email [mwebb@ausgrid.com.au](mailto:mwebb@ausgrid.com.au)

Yours sincerely,



Murray Chandler  
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## AUSGRID'S SUBMISSION

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While Ausgrid supports the policy intent for the Rule change we consider that further amendments are required to address issues regarding the workability of the proposed Rule.

We have sought to draw out these issues, in addition to providing comments in response to the consultation questions. Our comments below are aimed at highlighting the need for further clarification and/or amendments to the proposed Rule in order to mitigate the risk of the Rule change resulting in unintended consequences and outcomes inconsistent with the National Electricity Objective (NEO).

### **Key concerns**

Ausgrid is concerned that, as currently drafted, the proposed amendments significantly expand the scope of distribution network service providers (DNSPs) reporting obligations, and projects captured by the regulatory investment test for distribution (RIT-D). We consider that this is problematic as it has the potential to capture expenditure decisions which are not suitable for consultation and detailed reporting due to the nature of the investment. These expenditure decisions might also require short lead times and be triggered by other obligations such as duty of care, safety and environmental protection.

If appropriate amendments are not made to address these scope issues, Ausgrid is concerned that the proposed Rule will not promote outcomes consistent with the NEO due to the potential for the amendments to:

- conflict with other legislative and regulatory obligations regarding duty of care, safety and environmental protection;
- significantly expand reporting and consultation requirements, and captures projects not suited to such requirements due to the nature of the investment trigger and short lead times for replacing the assets;
- capture replacement and maintenance programs (consisting of multiple smaller projects which individually do not meet the \$5million cost threshold) under the RIT-D, which significantly increases the level of administrative burden imposed on DNSPs, adds unnecessary delay to projects, and imposes higher costs to customers; and
- may require DNSPs to provide information which is not meaningful or helpful to stakeholders in assisting them to identify and understand the driver for the network need and opportunities to offer non-network solutions.

Outlined below are the aspects of the proposed Rule change which we consider problematic. Addressing these issues would significantly improve the workability of the proposed changes and better promote the achievement of the NEO.

### ***Proposed amendments to the RIT-D do not adequately accommodate differences between augmentation and replacement expenditure***

We consider that scope issues arise as a result of the proposed amendments largely mirroring (or proposing incremental changes to) existing obligations regarding network planning reporting and regulatory investment tests in respect to augmentation. In our view, the proposed changes do not appropriately accommodate differences in the nature and drivers of augmentation and replacement expenditure. For example, while augmentation decisions focus on reliability, decisions relating to maintenance, refurbishment and replacement have duty of care, safety and environmental considerations as major drivers, in addition to reliability. This means that expenditure decisions cannot always be delayed to allow for a lengthy assessment, consultation and approval process under the RIT-D. To do so, would conflict with DNSP's legislative obligations regarding duty of care and safety.

Further, asset maintenance, refurbishment and replacement programs often involve a rolling program of asset review, with forecasts based on volumes and short lead times between location-specific identification and implementation. The investment driver for these decisions is due to the need to

mitigate the associated risk of the asset failing, as well as the need to comply with safety and duty of care obligations. In contrast, the investment driver for augmentation is the consideration of viable alternatives to supply peak loads and defer investment for shorter periods.

Ausgrid considers that consequential amendments to the AER's proposed Rule are required to accommodate the differing nature and characteristics of replacement expenditure from augmentation.

**Recommendation:**

Ausgrid recommends that the workability of the proposed Rule change could be improved by making a consequential change to clause 5.17.3(a) of the NER to expand the scope of exemptions from the RIT-D to include safety, duty of care, and environmental considerations.

*Further clarification is required to distinguish the scope of projects captured by the RIT-D*

Ausgrid is concerned that the amendments to the RIT-D have the potential to capture maintenance; refurbishment; and replacement programs. These programs typically consist of multiple individual location-specific projects. While each individual project is relatively small in value, the total value of all the individual projects that make up the program may exceed the \$5million threshold. An example of this is Ausgrid's pole replacement program, which consists of multiple individual projects to replace poles in specific locations based on the assessed condition of the pole.

Further clarification is sought by the AEMC as to whether, in expanding the scope of the RIT-D to replacement and maintenance expenditure, the policy intent is for this obligation to apply to individual projects or projects within programs.

In our view, the RIT-D should not be extended to capture programs of work, as this would undermine the effectiveness of this mechanism. It is our understanding that the RIT-D is intended to apply to material investment projects (projects over \$5million) as these types of projects typically have long planning and implementation lead times which allow DNSPs to signal opportunities for a network need to be addressed by a non-network solution. We consider that the nature of maintenance and replacement programs make them unsuitable for the RIT-D as they typically consist of multiple low value projects which have short planning and implementation lead times. Requiring DNSPs to undertake a RIT-D for replacement and maintenance programs would likely result in significant delays in the delivery of these projects by requiring consultation on projects at a very granular level of the DNSP's operations.

**Recommendation**

- 1) The AEMC clarify the intended scope and application of the RIT-D to projects rather than project programs so that DNSPS can better understand and assess the impact of the AER's proposed changes on their operations; and/or
- 2) The AEMC include a new requirement in clause 5.17.2 (c) of the NER for the AER to provide guidance on the scope of projects captured by the RIT-D.

*Further guidance is required on the type of assets that should be captured by the AER's retirement reporting guideline*

The workability and effectiveness of the proposed Rule change largely depends on the specific way it is applied, in particular the guidelines that the AER develops in relation to network retirement and exemption reporting. Until those guidelines are developed it is difficult for DNSPs to comment definitively on the impact and costs associated with complying with the proposed Rule.

Ausgrid considers that further policy guidance on the nature of assets that should be captured by the retirement reporting guideline is required to reduce regulatory uncertainty to DNSPs regarding the scope of their reporting obligations.

***The scope of reporting obligations involving retirements and asset ‘de-ratings’ is too broad***

Ausgrid considers that the proposed definition of the term ‘de-ratings’ is very broad. We consider that these obligations should be redrafted so that the obligation is in regards to “all *planned* retirements or de-ratings” outlined in the AER’s network retirement reporting guideline rather than “all proposed retirements or de-ratings”. It is important that this distinction is made as “de-ratings” encompasses both “planned de-ratings” and “reactionary de-ratings,” which differ in nature.

Reactionary de-ratings involve equipment being de-rated as a result of the equipment suffering damage or where a routine inspection has indicated that the equipment is not performing in accordance with its design specifications. In comparison “planned de-ratings” refer to situations where the capacity of an installation can be reduced due to reducing demand, and can be planned by the DNSP.

In circumstances where ‘de-ratings’ are reactionary the reduced rating is applied as soon as the condition has been identified. Consequently, it would not be possible to include information of reactionary ‘de-ratings’ as part of the DNSP’s annual planning report, and as such the obligation should be clarified so that it is clear that it only applies to “planned de-ratings.”

**Recommendation**

Amend Schedule 5.8 clause (d1) of the proposed amendments to reflect that obligations apply to “all planned retirements or de-ratings of distribution network assets.”

***Further clarification is required on what is captured by the term ‘like for like’***

The meaning of ‘like-for-like’ replacement needs to be clarified, in terms of both technical and commercial characteristics, in order to clarify the scope of the RIT-D and the exemption reporting framework. Ausgrid suggests an alternative term such as ‘modern day equivalent’ be considered and defined. This issue could also be addressed by amending clause 5.17.2(c) to require the AER to provide further guidance on what this term means in practice.

**Qu. 1(a): *Are non-network solutions a viable alternative to replacing network assets on a like-for-like basis?***

The term 'like-for-like' needs to be carefully defined to avoid confusion, and needs to reflect technical and commercial dimensions.

From a technical view, to be 'like-for-like' or a 'modern day equivalent', a non-network solution needs to be able to offer connectivity and capability at a standard equivalent to the network. This includes the reliability of the network, safety and environmental risks, the ability to resolve any break-downs, and the integration of the project into network management.

From a commercial view, a 'like-for-like' replacement means that the commercial risks and contractual issues are neutral between non-network alternatives and network investment. This involves considering issues such as liability for non-performance and resolution issues.

Ausgrid considers it may be useful to use a term such as 'modern day equivalent' rather than 'like-for-like' to reflect the fact that currently available assets are not often identical to the assets being replaced, even though they provide the same services needed by customers.

Typically network assets have long lives – over 50 years, whereas non-network solutions typically do not have the same lifespan, particularly where they involve contracts for demand management. Consequently, generally there will be limited opportunities for non-network solutions to be considered as a viable alternative to replacing network assets on a 'like for like' basis.

However, some major projects (over \$5million) involving 'like for like' (or modern day equivalent) replacement may have a number of different credible alternatives that could be considered. In these cases we can see the value of including them within the scope of the RIT-D. Ausgrid's current planning process considers non-network alternatives for all major projects (ie, those greater than \$5million), including 'like-for-like' replacements based on asset condition. In some situations non-network solutions may be a viable alternative, provided that the function of the asset to be replaced is replicated by the non-network solution.

**Qu. 1(b): *How does this differ from the potential for a non-network solution to provide a viable alternative to augmenting the network?***

The potential for non-network solutions to provide a viable alternative differs between augmentation and like-for-like replacement. Typically augmentation projects are driven by load growth and therefore a non-network solution is required to address the forecast shortfall in capacity. Replacement programs have both the need to assure installed capacity, similarly to augmentation projects, and the need to ensure that risks to the safety of staff, customers, the public, and environment are managed.

DNSPs in NSW are obligated to demonstrate that their asset management strategies, including replacement, eliminate safety risks so far as is reasonably practicable, and where they cannot be eliminated they are reduced to as low as reasonably practicable. These requirements therefore impose an obligation on DNSPs to act on an issue via removal/replacement of equipment regardless of its obligations under the NER to consult and adhere to prescribed consultation timeframes.

Consequently, it is important that in expanding the scope of the RIT-D to replacement and maintenance that appropriate mechanisms are included to avoid conflict between obligations imposed under the NER and other legislative and regulatory obligations DNSPs have as an owner and operator of an electricity network.

Further, it is important to note that in order to be viable for asset condition replacements, non-network solutions need to provide the equivalent capacity as the asset being replaced and must be capable of operating to similar safety standards.

For example, a network support contract for the deferral of network augmentation may require demand management to be available for a summer or winter season and a dispatch capability of 40 to 50 hours during peak demand periods. By contrast, if an existing piece of network needs to be replaced, the non-network alternative may need to be available year-round and able to commit to 500 or more hours of dispatch each year. In this case an embedded generator may be more likely than demand management to offer an alternative to network replacement.

The reason for the difference between augmentation and replacement investment is that under replacement the existing asset must be retired in order to mitigate the associated risk. In the case of augmentation, viable alternatives can be used to supplement excess loads and defer investment for shorter periods. This difference is typically far greater than a simple overload due to extreme conditions when asset capacity is marginal. As a result some common types of demand management may not offer a viable or cost effective alternative for replacement expenditure.

**Qu. 2(a): *Are the current annual planning reporting requirements in the NER relevant and likely to be useful for replacement expenditure?***

**Qu. 2(b): *If any, where are the gaps in the current annual planning reporting requirements in the NER for replacement expenditure?***

Ausgrid reports on its future expenditure plans through a range of different mechanisms, as outlined below. We concur with the principle that information should be available in a timely manner and in a form that is useful for those offering non-network solutions.

However, we are concerned that the AER's proposed amendments may give rise to a proliferation of different reporting documents, resulting in a heavy compliance burden on DNSPs, and which is unhelpful to stakeholders seeking useful, concise information about the network and the potential opportunities to provide non-network alternatives.

We consider that further analysis is required to identify where information gaps currently arise between the annual planning report and other information mechanisms contained both within, and external to, the Rules to avoid duplication and ensure that obligations are well targeted and proportionate. Ausgrid also considers that it would be useful for the AEMC to provide guidance on how various existing reporting arrangements (including the proposed system limitation report), fit together in a complementary and effective manner with the information reporting obligations proposed by this Rule change.

To assist the AEMC in identifying any gaps in existing planning reporting requirements we have sought to provide a summary of the nature of information already captured by existing mechanisms within the regulatory framework, as well as externally.

#### Existing regulatory mechanisms

Ausgrid already reports on major replacement projects in its APR, both in terms of those undertaken in the previous year, and those included in the planning horizon (though not necessarily to the level of detail that could be required under the proposed Rule). As part of the APR, DNSPs are also currently required to report on the following items:

- Their asset management approach, including a summary of any asset management strategy they employ; a summary of any issues that may impact on the system limitations that have been identified; and information about where further information on the asset management strategy and methodology may be obtained.
- Their demand management activities, including a summary of non-network options that have been considered in the past year; actions taken to promote non-network proposals in the preceding year; and plans for demand management and embedded generation over the forward planning period.
- A regional development plan which identifies any system limitations that are forecast to occur in the forward planning period, including overloaded primary distribution feeders.

Further, clause 5.13.1 of the NER requires DNSPs to develop and publish a strategy for engaging with non-network providers and considering non-network options. Where their annual planning identifies limitations on their network, including those caused by asset refurbishment or replacement, they must engage with non-network providers in accordance with their demand side engagement document.

In addition, we note that the AEMC has recently published a draft Rule determination on local generation network credits.<sup>1</sup> If confirmed, the draft Rule will require that DNSPs publish a 'system limitations report' on an annual basis, which aims to provide key information about systems limitations in a consistent and accessible manner, and allow providers of non-network solutions to focus on locations where their services could defer or reduce network investment.

### External mechanisms

Ausgrid also provides information via other channels, such as the 'network opportunity maps' which have been developed by Ausgrid together with 15 other electricity networks, and the Institute of Sustainable Futures at University of Technology Sydney<sup>2</sup>. These maps are an online mapping tool to inform the community about proposed network investments and assist in identifying opportunities for demand management to defer investment.

### **Qu. 3(a): What do NSPs currently do to plan for asset replacement in practice?**

Ausgrid currently develops its asset replacement plans based on a combination of asset condition assessments, asset failure risk assessments, and demand for the asset.

Ausgrid's asset replacement strategy is separated into two distinct elements:

1. Asset replacement **programs** – which involve a rolling program of review of particular asset classes (eg, poles) and renewal where needed. The individual replacement projects within these programs tend to be relatively small in cost and require replacement over a short timeframe.
2. Major asset replacement **projects** – which involve larger site-specific investments, generally on sub-transmission assets, that require significant planning, lead time and are relatively high cost.

Ausgrid's investment governance process covers both major projects and programs and involves the identification of needs; the identification of options; and an evaluation of options. For each major project and program Ausgrid identifies and considers a range of potential options to address the risks associated with the asset requiring replacement, including the 'do-nothing' option, and non-network options.

Major replacement projects and some programs also use an economic cost-benefit process to evaluate the preferred option and inform the timing of the investment. This involves consideration of the probability of failure of an asset, the value of customer reliability, the cost of repairing or replacing the asset, and additional risks including safety and environmental concerns. Following this process enables Ausgrid to manage the 'whole of life' cost of the asset in the most efficient way.

For a large part of Ausgrid's program decisions, preventative maintenance is used to monitor the condition of assets to assess remaining life. When an asset is approaching the end of its life, a repair or replace (retire) decision is made. Ausgrid applies a risk framework consistent with the requirements of the Electricity Supply Act 1995, (Safety and Network Management) Regulation 2014 ES(SNM) & (General) Regulation 2014 (NSW) Electricity Supply Regulation and WHS legislation, to prioritise and mitigate risk in an appropriate timeframe. These legislative instruments require Ausgrid to mitigate risk "so far as is reasonably practicable" (SFAIRP).

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<sup>1</sup> Australian Energy Market Commission, *Draft Rule Determination, National Electricity Amendment (Local Generation Network Credits) Rue 2016*, 22 September 2016.

<sup>2</sup> See <https://www.ausgrid.com.au/Common/Industry/Demand-management/Network-opportunity-maps.aspx>.



In assessing the need for replacement, the focus is not just on system reliability, but also on the continued safety of workers and the general public. Where safety concerns arise, the lead-time before replacement may be very short.

For example, Ausgrid's single largest replacement program is the replacement of wood poles. Poles are conditionally assessed on a routine cycle to determine their condition and remaining life. When a pole approaches end of life, a further assessment is undertaken and a replacement or reinforcement is initiated. Ausgrid's defect framework is used to determine the appropriate rectification timeframe given the poles remaining life and the known risks in the event a pole was to functionally fail. These timeframes are generally short (immediate to 6 months) and are supported by Ausgrid's asset management approach to maximising the life of its assets. The functional failure of a wood pole exposes the community to live electrical equipment which, if contacted, will lead to significant and serious injury or worse. A primary intent of the pole replacement program is to reduce the safety risk, in line with the requirements of legislation and so far as is reasonably practical.

**Qu. 3(b): To what extent does this address the perceived problems identified by the AER?**

The AER raises the following concerns:

- 1) There is no clear, transparent, consistent and timely planning process for the replacement of assets;
- 2) There are limited requirements for NSPs to consider and assess alternatives for like-for-like replacement and engage with non-network proponents;
- 3) Network users may not be aware of how the timing and location of their connections might affect network replacement decisions; and
- 4) It is difficult for policy-makers to understand and assess the impact of the changing operating environment on NSPs' asset management practices.

Ausgrid believes that our expenditure decisions already incorporate many of the elements identified by the AEMC and the AER as drivers of efficient infrastructure development. As noted previously, the regulatory framework already provides mechanisms and incentives which provide transparency and limit unnecessary expenditure.

We have also noted the many channels through which Ausgrid already provides information on its planning process and expenditure plans, including major replacement projects. In addition, Ausgrid already considers non-network options as part of its assessment of major replacement projects, an example of this is the joint Ausgrid and Transgrid RIT-T on transmission cable replacements in the Sydney CBD.

Nonetheless, we recognise the AER's desire to increase transparency around DNSPs consideration of alternatives to network investment, and the need for assurance that this is being properly considered by DNSPs. As a result we support the proposal to increase transparency in this area, as long as this reflects a balance of potential benefits, with the compliance burden it imposes.

**Qu. 4: To what extent would the proposed information to be reported in the APRs be useful for energy market stakeholders, including non-network service providers, network service providers, connection applicants and the AER, and why?**

As discussed above, Ausgrid supports the release of information which will assist the providers of non-network alternatives in recognising where their services may be of most benefit to the network. However, we are concerned there is a proliferation of different overlapping requirements. Multiple reporting requirements increase the regulatory burden on DNSPs and are also likely to increase the burden on non-network suppliers who must sift through a range of documents to find the information they need.

For this reason we encourage the AEMC to consider the mechanisms that already exist within the Rules and the broader regulatory framework before introducing further requirements. There is a need to consider from first principles the purpose of information requirements, and the most effective means of providing that information.

We also note that Ausgrid often changes the priority of programs and projects due to various drivers, including safety or unforeseen circumstances. This reflects an effective and flexible approach to asset management. Any information provided in the APR would need to be couched in terms of potential changes to the program or projects as circumstances change.

**Qu. 5(a): *Is it appropriate that the scope of the new reporting requirements include planned asset de-ratings as well as planned retirements?***

**Qu. 5(b): *To what extent does this add to the administrative burden for NSPs?***

Ausgrid recognises that planned asset de-ratings and planned retirements may be relevant to participants where they have implications for system limitations and future expenditure on the network (or non-network alternatives). We submit that the scope be limited to higher value major network assets such as zone substation switchboards, major power transformers and feeders (33kV and above) and limited to “planned retirements and de-ratings.”

Information regarding asset de-ratings should not extend to “reactionary de-ratings” which are made in response to equipment suffering damage or where routine testing indicates that the equipment is not performing to its design specifications. Similarly, while it is appropriate to expect DNSPs to plan and report on aged assets it is not possible for DNSPs to forward report on assets that have been retired as a result of an unexpected failure. Therefore, we consider that the scope of the obligation be redefined to reflect these limitations on DNSPs, as DNSPs are not able to define exact quantities or locations of all asset de-ratings and retirements at the start of each year.

**Qu. 6(a): *Should all assets be reported on by NSPs in their annual planning report or are only certain asset types relevant?***

**Qu. 6(b): *What types of asset should be subject to reporting requirements by NSPs and what should not?***

Only those assets which are of higher value and have longer planning lead times should be included in a forward looking planning report. Furthermore, Ausgrid does not see any benefit in reporting on non-electrical and support equipment and support equipment in the APR. For example, we would expect asset categories such as protection systems, communication systems, fire systems, buildings and grounds to be excluded.

We consider that only higher value electrical assets should be reported, such as:

- Zone and sub-transmission power transformers (where there is a sufficient planning horizon);
- Zone substation switchboards (11kV and above); and
- Sub-transmission lines (33kV and above).

We are also concerned that the APR does not become a cumbersome detailed reporting document, which would reduce its worth to network users and the suppliers of non-network alternatives. More detailed information is provided in other documentation where relevant, such as the RIT-D, in tendering documents, or by request.

**Qu. 7(a): *Is the proposed AER network retirement reporting guideline the appropriate means of requiring NSPs to report on certain asset types and not others or would an alternative mechanism be more appropriate?***

**Qu. 7(b): *If an AER guideline is appropriate, what should it contain and how should the AER be guided in its development?***

**Qu. 7(c): *In addition, what would be the appropriate process be to make and review an AER guideline?***

The Rules should clarify the intent and scope of the network retirement reporting guideline, and specify clear principles to guide the AER. In addition, there should be clear definitions of expenditure categories, so that DNSPs are able to implement and comply with the new arrangements, and to provide consistency across DNSPs.

If the Rules are vague it will increase regulatory uncertainty and the compliance burden.

The guideline should be subject to the NER distribution consultation procedures similar to other AER guidelines.

**Qu. 8(a): *Should the AER guideline also set out principles and a broad approach that NSPs must follow in deciding whether to plan to retire assets?***

**Qu. 8(b): *What should these principles and the broad approach be?***

Ausgrid does not support the extension of the retirement reporting framework to include the principles and approach that NSPs must follow in deciding whether to plan to retire assets. This would imply quite a different purpose for the reporting guideline, changing it from an information reporting mechanism to a regulatory tool governing asset management decisions.

Ausgrid considers that there are already sufficient incentives within the regulatory framework under Chapter 6 of the NER to encourage efficient asset management strategies, and to manage the risks inherent in electricity network assets. Ausgrid also has obligations under WHS and Environmental legislation, as well as the NSW Electricity Supply (Safety and Network Management) Regulation and other legislative instruments.

**Qu. 9: *Compared to the current arrangements, how much additional reporting by NSPs would be required under the AER's proposal? What would be the impact on NSPs?***

The AER's proposal would impose significant additional reporting requirements on DNSPS, with the magnitude of the impact dependant on the precise form of the requirements. To avoid an excessive regulatory burden we advise that any additional reporting requirements should:

- Focus on individual projects rather than asset replacement programs;
- Retain the threshold of \$5million;
- Recognise that circumstances may change during the year as a result of safety or other concerns which may lead to a reprioritisation of projects.

**Qu. 10: *Will extending the regulatory investment tests to replacement capital expenditure benefit energy market stakeholders, including non-network service providers, network service providers and the AER, and why?***

Ausgrid understands the AER's concern to ensure that investment in the network is efficient, and that this lies behind the proposal to extend the regulatory investment test to replacement expenditure. While we support this principle, we have a number of concerns about the scope of the test, and the need for clarity in the way it is applied, to ensure that the regulatory burden is proportionate.

The RIT-D currently covers augmentation decisions, which primarily relate to the delivery of electricity with the required levels of reliability. By contrast, decisions regarding maintenance, refurbishment and replacement must consider reliability and the safety of customers, workers, and the public, in a complex operating environment. The risk of asset failure has both reliability implications and safety implications which would generally not be evident under a pure augmentation scenario.

There would be some scenarios where Ausgrid would be required to carry out refurbishment or replacement to meet duty of care requirements related to safety and the environment regardless of whether supported by a RIT-D test or similar. Any investment test framework should also ensure that Ausgrid is not penalised in those cases where such investment is required.

Furthermore, Ausgrid considers that it is preferable to use a combination of information provision and commercial incentives to drive decision-making. There are already a range of incentives within the regulatory framework which encourage efficient capital and operating expenditure decisions. As noted in the AEMC's recent draft rule determination on local generation network credits<sup>3</sup>,

*“the NER now contain a number of mechanisms to incentivise efficient investment in and use of distributed energy resources (including embedded generation). These include:*

- *Cost-reflective distribution network tariffs;*
- *Network support payments and avoided transmission use of system charges;*
- *The regulatory investment tests for distribution and transmission (RIT-D/T);*
- *The capital expenditure sharing scheme (CESS) and the efficiency benefit sharing scheme (EBSS); and*
- *The demand management incentive scheme (DMIS) and demand management incentive allowance (DMIA).”*

Ausgrid is committed to maximising the value of non-network projects and has a number of initiatives in its network planning and investment procedures focusing on demand management solutions.

**Qu. 11: *Should the regulatory investment tests also apply to maintenance and refurbishment expenditure or should these categories of expenditure continue to be exempt from the tests?***

Ausgrid does not support inclusion of maintenance and refurbishment expenditure within the scope of the RIT-D, unless it involves a major project exceeding the \$5million threshold. Where maintenance or refurbishment is no longer cost effective, asset replacement is considered - this is already within the scope of the proposed amendments.

The focus of Ausgrid's maintenance strategy is to ensure that our assets continue to provide their necessary functions, by preserving them in a safe and reliable condition in order to meet our responsibilities as an asset owner and service provider. We have legislative obligations in relation to both safety and environmental issues, and these are significant drivers of our maintenance and refurbishment expenditure.

We use a dynamic process to refine the planned maintenance tasks in response to the performance and/or condition degradation over the life of an asset. The trade-off between the costs required to undertake certain planned maintenance tasks, and the potential cost of failure are examined in order to determine an optimised package of task and timing requirements.

Similar to programs, Ausgrid's maintenance is predominantly based on a rolling program on condition-based assessment and corrective maintenance with short corrective timeframes, applying a defect framework consistent with that used for asset replacement programs.

Ausgrid believes it has appropriate processes in place to ensure an efficient level of maintenance and refurbishment expenditure. Furthermore, the incentive-based regulatory framework already provides incentives to encourage efficient maintenance expenditure. Additional RIT-D processes would not assist in delivering further value for the consumer, but would add significantly to the regulatory costs of compliance.

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<sup>3</sup> AEMC, *Draft Rule determination, National Electricity Amendment (Local Generation Networks Credit) Rule 2016*, 22 September 2016, piii.

**Qu. 12: *Should the cost thresholds for asset replacement projects be the same as cost thresholds for network augmentation projects?***

Ausgrid supports maintaining the current threshold of \$5million for the RIT-D. The compliance costs associated with undertaking an RIT-D process are significant and cannot be justified for smaller projects. Below this threshold DNSPs should have discretion to structure their consultation and assessment in line with a range of factors beyond project cost alone, including the nature of the asset, its level of integration within the network, the operational aspects of carrying out the work and the potential opportunities for non-network alternatives to meet the identified need.

The absence of an RIT-D process for smaller projects does not mean that non-network alternatives will not be adopted. Ausgrid's approach to making expenditure decisions (the demand engagement strategy; the asset management strategy) already incorporates a balancing of different options, from maintenance and refurbishment to asset replacement, and non-network as well as network alternatives.

We note that under the current \$5million threshold (and excluding projects which begin prior to 2018-19), Ausgrid would need to issue about 5 RIT-Ds per year for projects currently in the planning horizon up to 2024.

**Qu. 13: *Is it appropriate for a regulatory investment test to not be required where an NSP considers a like-for-like replacement of the asset is the only option to address the problem?***

The objective of the RIT-D is to ensure that DNSPs undertake investment to meet reliability standards, as well as safety and other risk drivers, using the most cost-effective credible option. If there are no credible alternatives to like-for-like replacement of assets it makes no sense to require an RIT-D to be undertaken, given the significant compliance costs of this process.

To provide confidence in the process and to minimise compliance costs it is important that there is clarity regarding the meaning of different terms, including 'like-for-like'. We consider that a term such as 'modern day equivalent' may be more appropriate.

Sometimes major projects (over \$5million) involving 'like-for-like' (or modern day equivalent) replacement do have a number of different credible alternatives that could be considered. In these cases we can see the value of including it within the scope of the expanded RIT-D.

**Qu. 14(a): *Is the proposed requirement for NSPs to publish an exemption report where there is no alternative to like-for-like replacement appropriate?***

The proposed exemption reporting requirements would only be appropriate for planned replacements associated with major projects greater than the \$5million threshold. For smaller projects any benefit is likely to be outweighed by the cost of compliance.

Ausgrid is concerned that the proposed exemption reporting and associated appeals process could lead to uncertainty and unnecessary delay in undertaking necessary replacement expenditure. For example, in the event of an asset failure causing a large unplanned outage or placing the network or public at significant risk, it would not be appropriate to delay replacement of an asset where like-for-like is the only option. Ultimately there is a material risk that a DNSP could be required to proceed with an investment to comply with safety legislation while there is an on-going dispute. In such circumstances, the DNSP would be forced to proceed with the investment, and the AEMC needs to consider how such circumstances will be resolved under the proposed arrangements.

**Qu. 14(b): Do the benefits of this mechanism outweigh the administrative costs that it may impose?**

Any extension of the RIT-D, including the exemption report, should only be considered for projects which exceed the threshold of \$5million, where the potential benefits are more likely to outweigh the costs of implementation.

**Qu. 14(c): Is there an alternative mechanism which would be more appropriate?**

In addition to maintaining the minimum threshold of \$5million, the regulatory burden of the exemption reporting framework could be minimised by defining 'categories' of assets which are exempt from RIT-D requirements. This will provide greater regulatory certainty, reduce compliance costs and avoid extensive disputes.

**Qu. 15(a): What information should NSPs be required to provide in an exemption report?**

**Qu. 15(b): Is it appropriate that an NSP has to provide a summary of an exemption report to AEMO within five business days and to interested parties, on request, within three business days?**

**Qu. 15(c): Do stakeholders agree that AEMO must publish the exemption report on its website within three business days?**

As noted, the regulatory burden of the reporting framework should be minimised as far as possible. For that reason exemption reports should provide information about the assets being replaced and the reasons Ausgrid believes they meet the criteria for exemption.

**Qu. 16(a): Is it appropriate that parties can raise a formal dispute with the AER on the conclusions of an exemption report published by an NSP?**

**Qu. 16(b): Is 30 business days, as proposed, the appropriate timeframe for allowing interested parties to raise a dispute with the AER**

**Qu. 16(c): Is 31 business days after publication of an exemption report the appropriate timeframe for an NSP to wait to undertake a like-for-like replacement where no dispute is raised?**

**Qu. 16(d): If an exemption report is determined by the AER to be non-compliant, should the NER explicitly exclude an NSP from being relying on the report to carry out a like-for-like replacement?**

The AER's proposed role is unclear in relation to adjudicating decisions on like-for-like replacement – is it to decide whether an RIT-D needs to be undertaken, or are they taking a de facto role in relation to network planning decisions?

For planned replacements greater than \$5million, NSPs should be given the opportunity to address and provide feedback to the consultation prior to a dispute being raised with the AER. The scope of potential disputes needs to be defined, and suitable controls put in place to avoid unnecessary delays. The justification for the replacement of an asset should not be a basis for parties to raise a formal dispute, as this would limit management's ability to manage its asset risks. The scope of the appeal should be limited to whether there are alternatives that should be considered via a RIT-D framework.

Ausgrid would not support this process being applied to replacements that are required to address urgent and unforeseen network issues (currently exempted under clause 5.17.3(a)(1), because it could lead to substantial delays to necessary expenditure. DNSPs are responsible for managing their assets to mitigate risks to staff, customers, the public and the environment in line with their legislative responsibilities. This will at times require decisions for like-for-like replacement before this proposed timeframe can elapse.

**Qu. 17(a):** *Would AEMO or AusNet Services be the most appropriate body to report on the proposed additional annual reporting requirements at the transmission level in Victoria and why?*

No comment

**Qu. 17(b):** *Would AEMO or AusNet Services be the most appropriate body to apply the RIT-T for replacement expenditure in Victoria and why?*

No comment

**Qu. 18(a):** *Are the additional changes proposed by the AER appropriate and useful to stakeholders?*

**Qu. 18(b):** *What compliance burden would arise for NSPs?*

**Qu. 18(c):** *As these requirements currently apply in a limited way in the NER, how useful have they been to date?*

Ausgrid accepts that information on potential system limitations arising from planned asset retirements and de-ratings may be useful for registered participants. This information is already available via other mechanisms, as noted in response to question 2 above. Furthermore, the 'system limitations report' proposed by the AEMC in their draft rule determination on local generation network credits will, if implemented, also provide this information.

Notwithstanding these points, if the AEMC considers that increased reporting requirements are justified in relation to system limitations arising from planned asset retirements and de-ratings, these changes should be limited to more significant assets such as the sub-transmission network (33kV and above) and zone substation assets (for example 11kV zone substation switchboards). It would not be practical to take this approach for the 11kV or low voltage parts of the network due to the compliance burden imposed, and the limited benefit derived.

**Qu. 19:** *What transitional arrangements should be put in place to allow NSPs and the AER to be able to comply with the proposed rule if it were to be made?*

DNSPs have a planning cycle for replacement projects with programs extending out several years in advance. Any changes to reporting requirements will require a transitional period before compliance. Furthermore, NSPs will not be able to revise their approach until the AER has published its guidelines.

Transitional arrangements relating to Rule changes for the 2014-19 regulatory period were highly disruptive to Ausgrid's business processes and capital program. Planning for Ausgrid's regulatory submission for the 2019-24 period is well advanced and does not cater for the proposed Rule change.

Any Rule changes that would require a significant amount of work, such as those proposed, should allow for a period of adjustment to determine the resourcing implications and associated cost. A minimum lead-time of 18 months should be provided, including the foreshadowed guideline documentation.