

24 November 2016

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

Dear Mr Pierce

RE: CONSULTATION PAPER - NATIONAL ELECTRICITY AMENDMENT (REPLACEMENT EXPENDITURE PLANNING ARRANGEMENTS) RULE 2016

Endeavour Energy welcomes the opportunity to provide feedback on the AEMC's Consultation Paper – *National Electricity Amendment (National Electricity Amendment (Replacement Expenditure Planning Arrangements) Rule 2016)* (the Consultation Paper).

Endeavour Energy understands that the AER rule change request proposes to amend the National Electricity Rules (NERs) to:

- Explicitly require Network Service Providers (NSPs) to include in their annual planning reports (APRs) information on:
 - Planned asset retirements and de-ratings (with guidelines to be prepared by the AER to determine the class of assets required to be reported on); and
 - Options to address network limitations arising from these retirements and de-ratings;
- Extend the application of the regulatory investment tests to replacement projects.

The AEMC advises that it will assess the proposed rule change against the following criteria to determine if it would be likely to promote the National Electricity Objective (NEO):

- **Transparency** in terms of whether sufficient and relevant information about the network is available to enable non-network providers to propose feasible and credible alternatives to address network problems.
- **Stakeholder engagement** in terms of generating greater non-network provider involvement in the strategic assessment of the planning process for replacement expenditure.
- **Investment certainty** in terms of a more consistent framework for the planning of replacement expenditure to assist energy market stakeholders to provide non-network alternatives.
- **Regulatory and administrative burden** in terms of whether any likely benefits of the proposed rule will be balanced against any additional costs that may arise as a result of the proposed rule.¹

Endeavour Energy understands that a key factor for the AER's proposed rule change is its view that electricity network planning laws do not adequately focus, nor provide sufficient transparency on network asset replacement decisions by NSPs in the current environment of low electricity demand growth.²

¹ Australian Energy Market Commission 2016, National Electricity Amendment (Replacement Expenditure Planning Arrangements) Rule 2016, p. 6

² Australian Energy Regulator 2016, *National Electricity Rules Proposal to introduce new replacement expenditure reporting and planning arrangements to the Chapter 5 planning framework*, pp.13-19

Such a view is based on the premise that NSPs withhold capital replacement information and / or exclude interested stakeholders from engaging in the planning process. This is contrary to commercial drivers and is not in NSPs' self-interest. NSPs publish significant information on replacement planning decisions in various forms. For example, Endeavour Energy submitted its Strategic Asset Management Plan and Strategic Asset Renewal Plan as part of its 2014-19 AER regulatory determination. Together, these documents provided 527 pages detailing Endeavour Energy's 10 year asset management and renewal program.

It is noted the AER acknowledges that NSPs provide sufficient detail on their renewal programs, with their rule change proposal stating,

*The proposed Annual Planning Requirements (APR) reporting requirements are **not seeking any additional information** beyond what is **typically provided in a revenue proposal to support proposed replacement expenditure** [emphasis added].³*

Endeavour Energy acknowledges that NSPs can improve stakeholder engagement by making the information more accessible to a non-technical audience. To this end, The Institute for Sustainable Future (ISF), University of Technology Sydney (UTS) has developed an interactive set of maps to consolidate information on the current and planned capacity constraints in the electricity network infrastructure across Australia, based on network planning report data. The maps are proposed to make it easier for NSPs, their customers, and proponents of non-network alternatives to develop a common understanding of the potential value of reducing peak electricity demand in different parts of the network.

Going forward, Energy Networks Australia is developing an industry-led proposal to host this tool into the future, which includes data collection, storage and map production. Endeavour Energy recommends that the AEMC and other industry stakeholders participate in developing this and other tools as a mechanism to increase investment certainty via the creation of a consistent, yet dynamic replacement planning framework. Such an approach is also consistent with minimising the regulatory administrative burden, compared with the AER's rule change proposal.

It is acknowledged that these communication tools are still in the design phase. As an interim measure, the current reporting mechanisms could be utilised by NSPs to communicate non-network opportunities for replacement projects valued at over \$5 million in the one location and thus elicit third party solutions. For example, utilising the RIT-D analysis framework to determine the most cost-effective option and have third party stakeholders submit non-network proposals via responding to the Distribution Annual Planning Report (DAPR). If no alternative proposals are received then the NSP should be allowed to proceed with the project without the need to produce a Draft Project Assessment Report (DPAR) or a Final Project Assessment Report (FPAR).

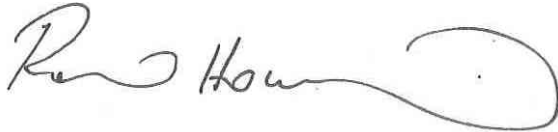
It is important to note that it may be appropriate to investigate non-network options for replacement projects valued at over \$5 million in the one location, however, adopting the full RIT-D process for all replacement works will introduce an onerous administration burden and is likely to provide limited opportunities for non-network solutions. This is because replacement projects generally impact on large blocks of load and therefore require substantial demand reduction to avoid replacement works. Augmentation projects on the other hand generally address incrementally increasing demand and therefore provide scope for cost-effective demand reduction projects that address the load growth for a time. As a result, non-network options are generally more feasible for augmentation projects but challenging for replacement projects.

³ Australian Energy Regulator 2016, *National Electricity Rules Proposal to introduce new replacement expenditure reporting and planning arrangements to the Chapter 5 planning framework*, p.14

In conclusion, Endeavour Energy 's view is that the NEO is more likely to be achieved in the long term by industry-led capital replacement expenditure communication tools, rather than the static approach of rule changes that mandates NSPs must reproduce the same information in other regulatory planning and reporting documents. Notwithstanding, it is acknowledged that these communication tools are still in the design phase and the current reporting mechanisms could be used in the interim for high value replacement projects and to promote transparency and confidence in network investment decisions.

If you have any queries or wish to discuss this matter further please contact Jon Hocking, Manager of Network Regulation at Endeavour Energy on (02) 9583 4386 or via email at jon.hocking@endeavourenergy.com.au.

Yours sincerely



Rod Howard
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Endeavour Energy