6 June 2017

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

Dear Mr Pierce

RE: AEMC Draft Rule Determination – *National Electricity Amendment (Replacement Expenditure Planning Arrangements) Rule 2017* (Reference ERC0209)

Endeavour Energy welcomes the opportunity to provide feedback on the AEMC's draft rule determination – *National Electricity Amendment (Replacement Expenditure Planning Arrangements) Rule 2017* (the draft rule). The draft rule follows a request by the Australian Energy Regulator (AER) that sought to amend the National Electricity Rules (NER) to strengthen the reporting requirements within the distribution annual planning reports (DAPR) and broaden the scope of the Regulatory Investment Test (RIT) to include replacement expenditure.[1]

The draft rule expands on the reporting requirements proposed by the AER. In particular, the draft rule proposes to amend the NER to require each network service provider (NSP) to provide in their DAPR detailed information relating to:

- all planned asset retirement decisions;
- all planned asset de-rating decisions resulting in a network constraint; and
- investment in communications systems related to the management of the network.

It also proposes to extend the RIT to include all asset replacements above the current capital cost threshold ($5 million) without exception.

Endeavour Energy supports the intent of the draft rule to improve the information and processes relevant to network planning and investment activities to support efficient future network investment.[2] Further transparency in asset retirement decisions and options analysis may give confidence to the asset management practices of NSPs. However, we consider providing this additional visibility through information disclosure of the volume and type required by the draft rule introduces a potentially onerous compliance burden which is not likely to assist non-network options to achieve the reductions in demand required to displace like-for-like replacement as the preferred least cost option in most situations. Although we expect technological advances and lower costs will enable potential non-network alternatives to challenge like-for-like replacements in the future, Endeavour Energy considers the mechanisms in the existing regulatory framework are sufficient to allow such alternatives to arrive at a commercially viable and competitive stage without the introduction of this regulatory requirement which is unlikely to accelerate the capability of low cost non-network options.

An improved balance between robust assessment of replacement decisions and additional compliance burden could possibly be achieved through a more moderate approach to the level of transparency required from NSPs. The draft rule could better serve its objective by aiming to improve access to information which is valued rather than provide access to more information, valued or not. For instance, the draft rule requirement to provide detailed information relating to the assumptions, methodologies and reasons for each asset retirement decision will entail significant administrative effort in order to comply.[3] To evaluate the suitability of their prospective solutions, we understand non-network proponents are likely to place higher value on information of a technical nature specific to a constraint rather than inconsequential and potentially lengthy descriptions of how asset retirement decisions are determined by NSPs.

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[1] AEMC, Draft Rule Determination: National Electricity Amendment *(Replacement expenditure planning arrangements) Rule 2017*, p.7.

[2] Ibid, p.17.

[3] AEMC, Draft National Electricity Amendment *(Replacement expenditure planning arrangements) Rule 2017*, Schedule 5.8 (b1) (2), p.8.

It should be noted that industry consultation is currently taking place with the AER to develop a DAPR template following the Local Generation Network Credits final rule determination (December 2016). The template represents an effort to convey the information within the DAPR in a more consistent and useable format to enable non-network providers to identify investment opportunities across the NEM's distribution networks.[4] Endeavour Energy expects the increased reporting in the DAPR will necessitate an increase to the amount of information provided through the template. This will add significantly to the already increasing burden borne by DNSPs and possibly negate some of the benefits targeted from information provision improvements. It has not been made obvious whether the impact of the draft rule decision on the cost of additional reporting in the template (which proposes to require from DNSPs highly detailed information often beyond what is provided in the DAPR and not readily accessible) has been fully appreciated.

The draft rule expands the scope of the reporting obligations proposed in the AER's rule change request by requiring DNSPs to include details on all asset retirements, regardless of their value, to be included in the DAPR. Endeavour Energy agrees with the AEMC that allowing grouped reporting of individual assets that form part of a wider replacement program would reduce regulatory burden.[5] However, the draft rule proposes to limit group reporting within the DAPR where the replacement cost of each individual asset is expected to be less than $100,000. Although this threshold value would alleviate some administrative burden, we consider DNSPs retiring more expensive assets attached to sub-transmission networks will continue to be particularly burdened. Our analysis suggests the threshold should be adjusted upwards to better balance this burden with the expected benefits arising from the additional reporting requirements. The table below provides a brief summary of some of Endeavour Energy's replacement programs planned for in the forward planning period.

Table 1: Replacement programs with individual assets above $100,000.

Replacement Program	Typical Unit Cost ($)	Typical Annual Volume
Substation SCADA Remote Terminal Units (RTU) replacement	150,000 - 250,000	9-10 units
Distribution Steel Mains replacement	90% are less than 250,000, 60% less than 100,000	30-50 locations
132kV Circuit Breaker replacement	190,000	5-6 units
33kV Circuit Breaker replacement	150,000	20-30 units
66kV Circuit Breaker replacement	170,000	3-5 units
Auxiliary Switchgear replacement	250,000	4-5 units
Instrument Transformers replacement	110,000 (for 132kV)	6-7 units

Whilst final replacement volumes will depend on detailed asset condition analysis, it is apparent the current proposed threshold will still impose a significant level of regulatory burden on Endeavour Energy. It is noteworthy that several of these programs involve the replacement of switchgear – an asset class identified by the AER and AGL as not likely to have a viable alternative for like-for-like replacement.[6,7] This suggests that an increase to the threshold to achieve a more manageable level of reporting would not likely have an adverse impact on the consideration of non-network options. Endeavour Energy proposes an individual asset threshold value in the vicinity of $250,000 would better balance these competing considerations. It is worth noting that the draft rule would require individual reporting of a large number of low value replacement assets that do not form part of a wider replacement program. We consider a cost materiality threshold for

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[4] AER, Consultation Paper: Draft Distribution Annual Planning Report Template, May 2017, p.3.

[5] AEMC, Draft Rule Determination: National Electricity Amendment *(Replacement expenditure planning arrangements) Rule 2017*, p. 36.

[6] Ibid, p.25.

[7] Ibid, p.32.

individual assets should also be introduced to improve the workability of the draft rule and avoid turning the DAPR into a considerably larger than necessary document.

Endeavour Energy believes the RIT has been an effective tool in identifying potential non-network solutions for growth related system limitations and consider extending the RIT to asset replacement would address any perceived information gaps. Demonstrating robust options analysis through the RIT for replacements may enhance confidence in network planning processes. The value attached to this outcome may offset the cost of providing this increased level of transparency. We largely agree with comments from the AEMC which suggest in several instances, applying the RIT would not be disproportionately burdensome.[8]

> *The regulatory burden of undertaking a regulatory investment test would not be significant where multiple assets across more than one location are replaced. This is because there is only likely to be one viable option for these replacements. Assets that may be replaced in this way include poles, protection systems and instrument transformers for example.*
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> *In addition, if a network service provider plans to replace multiple assets of the same type across more than one location in the same year it may not trigger the capital cost threshold if these assets are addressing more than one identified need.*

Our support for extending the RIT is contingent on continuing to allow NSPs to determine the definition of 'identified need'. Attempts to further narrow the definition may result in excessive RIT processes that are not likely to yield any material benefit and create cause to reconsider support for adopting the AER's proposed 'exemption report' for like-for-like replacements.

Endeavour Energy supports a transitional process that reflects the arrangements adopted when the RIT was initially introduced. Allowing NSPs to nominate for exemption, replacement projects which have commenced assessment under the current regulatory arrangements would provide familiarity to the process and maintains a level of balance and consistency that underlies other aspects of the rule change. We consider a commencement date no earlier than July 1, 2018 provides us with sufficient time to enable necessary process and system changes to occur and will better facilitate effective consultation between the AER and NSPs prior to implementation.

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) 9853 4386 or via email at jon.hocking@endeavourenergy.com.au.

Yours sincerely

Rod Howard
Acting Chief Executive Officer

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[8] Ibid, p.55.