



INFORMATION

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Replacement expenditure planning arrangements draft rule

Stakeholder submissions invited on draft rule determination

The Australian Energy Market Commission (AEMC) has made a draft rule to increase the transparency of electricity network service provider decisions on investment in network assets. Submissions are due by Tuesday 6 June.

Draft rule

The draft rule makes a number of amendments to the existing planning and investment framework with the aim of creating a set of requirements that will apply equally to all potential network investments regardless of the reason for the investment. The draft rule:

- specifies that information on all planned asset retirements in distribution and transmission networks, including the reasons for the retirements, is to be included in the distribution and transmission annual planning reports
- specifies that information on planned de-ratings that result in a constraint on a network, including the reasons for these, is to be included in the annual planning reports
- aligns reporting requirements on transmission network needs and options to address these in a replacement context with those required in an augmentation context
- extends the distribution and transmission regulatory investment tests to network replacement expenditure decisions
- requires asset management reporting to be included in the transmission annual planning reports
- clarifies that the regulatory investment test for transmission is to be retaken where there is a material change in circumstances (however, a network service provider can seek an exemption from the Australian Energy Regulator)
- specifies that distribution annual planning reports will need to include information on investments in information technology and communications systems related to the management of network assets.

The draft rule determination also sets out how the draft rule (if made) should be implemented.

Reasons for draft rule

Significant changes in the national electricity market have spurred on a change in network planning and investment patterns resulting in a greater focus on managing existing network assets compared to the historical focus of expanding a network. At the same time, technological changes have emerged that suggest non-network solutions are becoming more viable alternatives to replacing network assets. As a result, it is important to increase the transparency on network asset retirement, de-rating and replacement decisions by network service providers.

The draft rule improves the transparency of retirement, de-rating and replacement decisions by network service providers to assist non-network providers engage in the planning process and help them to identify efficient alternative solutions to address network needs. The transparency of information is also likely to assist the Australian Energy Regulator in making revenue determinations. Other stakeholders such as consumer groups may also find the information useful for the purpose of revenue determination processes.

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In making the draft rule, the Commission considered the primary purpose of annual planning reports and regulatory investment tests is to support the planning of, and decisions on, investment in a network by:

- creating incentives for network service providers to consider potential non-network solutions to network constraints or limitations
- establishing a clearly defined planning and decision-making processes to assist network service providers in identifying the solutions to network issues in a timely manner
- providing transparency on network planning activities to enable stakeholder engagement with those activities in order to support efficient investment in the network.

The purpose of the planning framework is not to regulate or direct which plans or decisions should be made, nor to determine what investment costs should be recoverable from regulated prices and revenues.

However, the planning and investment framework accompanies an incentive-based economic regulatory framework. In this context, the planning information and investment decision-making process is likely to enable the Australian Energy Regulator and other stakeholders to be more fully informed on the efficiency of network investment decisions.

It should be noted that the AER is not dependent on the planning and investment framework to obtain information on the activities and decisions of network service providers. The NEL provides extensive information gathering powers to the AER in the form of regulatory information notices and regulatory information orders. These are the appropriate instruments for the AER to obtain information it requires for making revenue determinations for network service providers.

The rule change request

The draft rule is the result of a rule change request from the Australian Energy Regulator. While the draft rule is a more preferable rule, it incorporates many of the elements proposed by the Australian Energy Regulator. The key difference between the draft rule and the proposed rule is the approach taken to achieve the desired outcomes.

Consultation

The AEMC invites submissions on the draft rule determination, including the draft rule, by Tuesday 6 June 2017.

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