



Replacement expenditure planning arrangements rule

The Australian Energy Market Commission (AEMC) has made a rule to increase the transparency of electricity network service provider decisions to retire, de-rate and replace network assets.

Final rule

The 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 network replacement and augmentation investments. In particular, the 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 asset de-ratings that result in a system limitation or constraint on a network, including the reasons for these, is to be included in the annual planning reports
- allows two or more asset retirements or de-ratings to be reported together where the assets, of the same type, are to be retired or de-rated across more than one location in the same calendar year and where the replacement cost of each asset is less than \$200,000
- aligns reporting requirements on transmission network needs and options to address these in a replacement context with those required in an augmentation context (these requirements are already aligned for distribution networks)
- 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 (this requirement already exists for distribution networks)
- specifies that the regulatory investment test for transmission is to be retaken where there is a material change in circumstances unless otherwise determined by the Australian Energy Regulator (this requirement already exists in distribution)
- clarifies 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 (no equivalent requirement in transmission).

The rule also makes a number of ancillary changes to the National Electricity Rules.

Reasons for rule

Significant changes in the national electricity market have spurred 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 of network asset retirement, de-rating and replacement decisions by network service providers.

The rule improves the transparency of retirement, de-rating and replacement decisions by network service providers to assist non-network providers identify efficient alternative solutions to address network needs and network users to make decisions about where best to connect to the network. 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.

The rule improves the transparency of retirement, de-rating and replacement decisions by network service providers.

In making the rule, the Commission considered the primary purpose of annual planning reports and regulatory investment tests. This is to support the planning of, and decisions on, investment in an electricity 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 Australian Energy Regulator is not dependent on the planning and investment framework to obtain information on the activities and decisions of network service providers. The National Electricity Law provides extensive information gathering powers to the Australian Energy Regulator in the form of regulatory information notices and regulatory information orders. These are the appropriate instruments for the Australian Energy Regulator to obtain information it requires for making revenue determinations for network service providers.

Commencement of the rule

The final rule includes an implementation approach for the new requirements.

The new reporting requirements will commence immediately for all service providers except Ergon and Energex. To accommodate jurisdictional requirements, Energex and Ergon, the new reporting requirements will commence on 1 January 2018.

The new requirements to undertake a regulatory investment test for replacement expenditure will commence on 18 September 2017. This is also the date that the AER must complete any updates to the regulatory investment tests and regulatory investment test application guidelines required as a result of the rule.

The commencement date for the regulatory investment tests is subject to two exemption mechanisms. First, replacement projects that have reached a "committed" stage before 30 January 2018 are exempt from the new regulatory investment test process. Second, the rule also exempts replacement projects relating to the second stage of a program to install rapid earth fault current limiters under the Electricity Safety (Bushfire Mitigation) Regulations 2013 (Vic).

The rule change request

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

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