AGL Energy Limited
ABN: 74 115 061 375
Level 24, 200 George St
Sydney NSW 2000
Locked Bag 1837
St Leonards NSW 2065
t: 02 9921 2999
f: 02 9921 2552
agl.com.au

Meredith Mayes

Director

Australian Energy Market Commission

Submitted online: www.aemc.gov.au

5 June 2017

Dear Ms Mayes,

National Electricity Amendment (Replacement expenditure planning arrangements) Rule 2017, Draft Rule Determination

AGL Energy (**AGL**) welcomes the opportunity to respond to the Australian Energy Market Commission's (**Commission**) National Electricity Amendment (Replacement expenditure planning arrangements) Rule 2017, Draft Rule Determination (**Draft Rule Determination**).

AGL is one of Australia's leading integrated energy companies and largest ASX listed owner, operator and developer of renewable generation. Our diverse power generation portfolio includes base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources. AGL is also a significant retailer of energy, providing energy solutions to over 3.7 million customers throughout eastern Australia.

AGL is continually innovating our suite of distributed energy services and solutions for customers of all sizes (residential, business and networks). These 'beyond the meter' energy solutions involve new and emerging technologies such as energy storage, electric vehicles, solar PV systems, digital meters, and home energy management services delivered through digital applications.

AGL strongly supports the Commission's Draft Rule Determination as an important market reform to improve the transparency of network planning and the efficiency of network investment decisions, and thereby the costs passed onto consumers. By improving transparency in network services providers' (**NSPs**) investment decisions regarding network assets, the reforms articulated in the Draft Rule Determination will assist competitive non-network solution providers to develop feasible non-network alternatives and facilitate a well-functioning market in grid-services enabled by distributed energy resources (**DER**). As AGL noted in its previous submission[1], network capital expenditure is increasingly related to the replacement or refurbishment of aging infrastructure and it is therefore important that non-network solutions are assessed alongside network options.

AGL believes that rapid technological advancements, increased availability and declining costs associated with DER may mean that, over time, non-network solutions increasingly become more suitable investments than further network investments. Indeed, the market inception of DER-related services and solutions will make future patterns of network demand uncertain. As such, it is important that the network planning and

[1] AGL, Submission on replacement expenditure planning arrangements consultation, 7 December 2016, Available at http://aglblog.com.au/2016/12/submission-on-replacement-expenditure-planning-arrangements-consultation/.

investment framework be flexible enough to accommodate these changing patterns in energy demand and the availability of new technologies.

Whilst some stakeholders have expressed caution about the potential for non-network solutions to deliver results, AGL believes that opening the competitive market to competitive non-network solutions will enable non-network service providers to demonstrate their increasing value to the market in a transparent manner.

Expansion of annual planning reporting

AGL strongly supports the expansion of annual planning reporting requirements to include all planned network asset retirements and asset de-ratings which result in a network constraint over the forward planning period. This will better position non-network service providers to engage with NSPs and to design and deliver non-network solutions in a wider range of circumstances that are a reliable and lower-cost alternative to a network option.

AGL believes that this reform is consistent with the need to transition investment planning and decision making towards a more forward-looking model. Whilst some NSPs have noted that they are not yet able to define exact quantities or locations of all asset retirements and de-ratings, a more forward-looking approach is needed to ensure the most cost-efficient outcomes for consumers.

Extension of the regulatory investment test (RIT)

AGL is also highly supportive of the extension of the RIT to cover replacement capital expenditure and refurbishment expenditure. Extending the RIT to replacement capital expenditure will ultimately benefit electricity consumers. It will promote the consideration of and investment in non-network solutions where that would be a more efficient solution (than a traditional network solution) to a network constraint arising from a need to replace a network asset. Non-network solutions may be particularly well suited in the context of replacement decisions as there will already be established customers on the relevant part of the network who can be engaged in the design and delivery of a non-network solution.

AGL agrees with the Commission's view that all replacement expenditure above the existing capital cost thresholds should be subject to the current regulatory investment test processes with no exception. As noted in AGL's previous submission, a NSP may not have sufficient knowledge of relevant technological developments or evolution in customer demand management capabilities to be able to determine without error that there is no non-network solution capable of being deployed instead of a particular like-for-like replacement. AGL agrees with the Commission's reasoning that the regulatory burden of undertaking a RIT where a like-for-like replacement is the only viable solution is unlikely to be significant, whereas the use of an exemption report would create an unnecessary additional regulatory burden.

Secondary amendments and implementation arrangements

AGL supports the additional secondary amendments set out in the Draft Rule Determination. The introduction of a requirement that NSPs provide information on their asset management practices is consistent with the broader policy objective of improving transparency in network investment decisions regarding network assets.

AGL agrees with the Commission's proposed implementation arrangements, which ensure the timely implementation of these important reforms.

Further reform needed to revise the RIT cost threshold for augmentation and replacement

AGL notes that the Commission found the RIT cost threshold for augmentation (and replacement) to be beyond the scope of this rule change request, given the framing of the request and its intent to focus on the inclusion of replacement expenditure in the planning and investment frameworks. AGL regards this issue as an ongoing concern to ensure the development of a vibrant market to in DER-related products and services, including the provision of competitive non-network services and solutions to support networks.

The current RIT cost threshold for augmentation and proposed RIT cost threshold for replacement will capture very few projects in a regulatory period, given the current environment of flat demand growth and historical network overbuild. As noted in AGL's previous submission, many projects that fall below these thresholds would still be significant enough to support a robust demand management program. Moreover, non-network solutions are very well suited to small, bespoke demand management programs impacting network assets as far down as the kiosk transformer level.

AGL strongly encourages further regulatory reform to reduce the RIT thresholds both for augmentation and replacement to enable greater opportunity for non-network service providers to participate in the competitive delivery of services.

Should you have any questions in relation to this submission, please contact Kurt Winter, Policy Advisor, on 03 8633 7204 or myself on 03 8633 6836.

Yours sincerely,

Stephanie Bashir

Senior Director, Public Policy