24 November 2016

Australian Energy Market Commission
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National Electricity Amendment (Replacement Expenditure Planning Arrangements) Rule 2016, Consultation Paper, 27 October 2016

Jemena Electricity Networks Vic Ltd (**JEN**) welcomes the opportunity to respond to the consultation paper on a rule change request which seeks to increase the transparency of network asset replacement decisions by electricity transmission and distribution network service providers (**NSP**).

Energy Networks Association has consulted JEN on the issues presented in the consultation paper and we support ENA's submission on this rule change request.

Australian Energy Regulator's (**AER**) rule change request proposes to increase the transparency of network asset replacement decisions by electricity transmission and distribution NSPs. It seeks to amend the Nation Electricity Rule (**NER**) to:

- *explicitly require NSPs to include in their annual planning reports 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; and*
- *extend the application of the regulatory investment tests to replacement projects*. [insert footnote]

As a matter of prudent and efficient asset management, JEN already applies practices to ensure efficient asset investment, nevertheless, JEN supports further arrangements that promote transparency of network planning process and asset replacement decisions as they provide NSPs opportunities to consider feasible, credible and efficient alternatives to network replacement. In taking this positon, JEN notes that any additional arrangements should balance the benefits against costs of the arrangements.

The AER proposes that NSPs would not be required to undertake the relevant regulatory test (**RIT**) where a replacement project is expected to be less than the current cost thresholds for augmentation projects ($6 million in transmission and $5 million in distribution). If the rule change extends RIT-D assessment to asset replacement projects, JEN believes the cost threshold for asset replacement projects should be no less than $5 million.

Recognising that there are some types of network assets where like-for-like replacements is the only practical option, the AER proposes that the NER include a requirement on the AER to develop a network retirement reporting guideline[1] setting out the types of assets the NSPs are required to report on thus reducing the regulatory burden. The AER proposes that the guideline would outline the principles and broad approach used to economically assess asset retirement decisions. We welcome such a guideline as it would provide clarity on what needs to be reported. It is noteworthy the consultation paper states that the NER would also set out some principles that the AER would be required to follow in developing the guideline. JEN supports the setting out the principles in the NER.[2]

Our responses to the questions posed in the consultation paper are set out in **Attachment 1**.

If you have questions in relation to the submission, please contact Siva Moorthy on (03) 9173 8774 or at siva.moorthy@jemena.com.au.

Yours sincerely

Usman Saadat
General Manager Regulation

[1] AER rule change request, 30 June 2016, pp 15-16.
[2] AEMC Consultation paper, Replacement expenditure planning arrangements, 27 October 2016, p 9.

Attachment 1

Replacement Expenditure Planning Arrangements, Consultation Paper

Questions	JEN responses
Question 1 a) Are non-network solutions a viable alternative to replacing network assets on a like-for-like basis? b) How does this differ from the potential for a non-network solution to provide a viable alternative to augmenting the network?	1a) Non-network solutions are only viable where removal of an asset results in a network constraint to customer supply, but not where the customer supply is totally removed. For example, where there are two or more transformers, one transformer could be replaced with a non-network solution; whereas circuit breaker or pole or cross-arm could not be replaced with a non-network solution. 1b) It differs in that for some asset replacement a like-for-like replacement is the only viable option.
Question 2 a) Are the current annual planning reporting requirements in the NER relevant and likely to be useful for replacement expenditure? b) If any, where are the gaps in the current annual planning reporting requirements in the NER for replacement expenditure?	2a) Committed asset replacement projects in the forward planning period are required to be reported in the DAPR. Clause S5.8(g) requires Distribution network Service Providers (**DNSP**s) to provide brief description of asset replacement, location, timing and alternative options. Additionally, forecasts of future network capacity changes in the DAPR (although complex) could also provide useful information of more opportunities to non-network solutions. 2b) We are not aware of any gaps in the current annual planning reporting requirements in the NER for replacement expenditure.
Question 3 a) What do NSPs currently do to plan for asset replacement in	3a) JEN uses asset condition monitoring to determine when the asset will likely fail and its consequence (i.e. risk based approach); then

Questions	JEN responses
practice? b) To what extent does this address the perceived problems identified by the AER?	assess a variety of controls to mitigate the impact of asset failure, which includes like-for-like replacement, augmentation, procurement of asset spares, load transfers, non-network solutions, etc. determined on a case by case basis. 3b) Some of the perceived problems identified by the AER as addressed (see our response to 2a). However, the NER does not address the transparency issue because there is no explicit requirement for the DNSP to include information on the process a DNSP undertakes to select the best asset replacement option in the DAPR.
Question 4 To what extent would the proposed information to be reported in the APRs be useful for energy market stakeholders, including non-network service providers, network service providers, connection applicants and the AER, and why?	4) The proposed information to be reported may benefit non-network service providers to identify more projects where there may be alternative non-network solutions; and the AER for determining appropriate capex/opex allowances in regulatory price reset proposals.
Question 5 a) Is it appropriate that the scope of the new reporting requirements include planned asset de-ratings as well as planned retirements? b) To what extent does this add to the administrative burden for NSPs?	5a) Yes. It is noteworthy the current reporting requirements require DNSPs to report this information in the DAPR. JEN includes planned asset de-rating in the capacity forecast and the planned retirements are reported under clause S5.8(g). 5b) Given that we already provide this information, the new reporting requirements would not cause additional administrative burden provided they are not too onerous and do not duplicate existing requirements. The extent to which this would add to the administrative burden for DNSPs will very much depend on the AER's guideline and

Questions	JEN responses
	if the reporting requirements in S5.8 are materially expanded.
Question 6 a) Should all assets be reported on by NSPs in their annual planning report or are only certain asset types relevant? b) What types of asset should be subject to reporting requirements by NSPs and what should not?	6a) Only asset types where there may alternatives to like-for-like replacement should be reported in the annual planning report (**APR**). 6b) Only zone substation transformers should be subject to reporting. Related zone substation secondary assets (e.g. protection and comms), IT assets, poles, pole-tops, switchgear, etc., should not be subject to these reporting requirements.
Question 7 a) Is the proposed AER network retirement reporting guideline the appropriate means of requiring NSPs to report on certain asset types and not others or would an alternative mechanism be more appropriate? b) If an AER guideline is appropriate, what should it contain and how should the AER be guided in its development? c) In addition, what would be the appropriate process be to make and review an AER guideline?	7a) Yes. The AER proposes that the guideline would outline the principles and broad approach used to economically assess asset retirement decisions. We welcome such a guideline as it would reduce the regulatory burden. However, we note the NER should also set out some principles that the AER must have regard to in developing the guideline. We support those principles set in the consultation paper and repeated below: *"•whether a type of network asset is likely to be retired individually or part of a broader asset replacement program;* *• the ability of an NSP to provide the information and whether the costs of providing the information outweigh the benefits of the information being reported on in the APRs; and* *• whether there are likely to be alternatives to like-for-like replacement"*[3] .

[3] AEMC consultation paper, p 9.

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	7b) The AER guideline would need to include: • asset types that are excluded for reporting • worked examples of RIT-D for replacement assets (similar to that provided for network augmentation). We believe all other matters relating to annual planning reporting requirements, except for network retirement reporting, should be in the NER. 7c) JEN suggests that the AER undertake a public consultation process, including engaging directly with NSPs to develop the guideline, and set a review period for the guideline of every five years
Question 8 a) Should the AER guideline also set out principles and a broad approach that NSPs must follow in deciding whether to plan to retire assets? b) What should these principles and the broad approach be?	8a) This would be useful, however, the principles and any broad approach would have to be set at very high level as NSPs to accommodate various approach to best asset management practices. 8b) Because of the different NSP strategies for asset replacement, the high level principles and broad approach would best be formulated through the AER's consultation process for guideline development.
Question 9 Compared to the current arrangements, how much additional reporting by NSPs would be required under the AER's proposal? What would be the impact on NSPs?	9) Compared to the current arrangements, the AER's proposal would increase JEN's DAPR—and related retirement—reporting effort by approximately 20%.
Question 10 Will extending the regulatory investment tests to replacement capital	10) Based on our experience, we believe extending the RIT-D assessment to include replacement expenditure is unlikely to benefit

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expenditure benefit energy market stakeholders, including non-network service providers, network service providers and the AER, and why?	the industry/market as the existing RIT-D assessment for augmentation projects appears to provide little to no benefit in identifying non-network solutions. It is noteworthy RIT-D assessments take significant amount of time and has not yielded any benefits to JEN's customers since its implementation.
Question 11 Should the regulatory investment tests also apply to maintenance and refurbishment expenditure or should these categories of expenditure continue to be exempt from the tests?	11) When comparing asset replacement options the operating and maintenance costs need to be included. However reviewing maintenance and *refurbishment* projects in isolation (which are opex in nature) is inappropriate and inefficient. Accordingly, we consider maintenance and *refurbishment* projects should be exempt from regulatory investment tests.
Question 12 Should the cost thresholds for asset replacement projects be the same as cost thresholds for network augmentation projects?	12) Yes.
Question 13 Is it appropriate for a regulatory investment test to not be required where an NSP considers a like-for-like replacement of the asset is the only option to address the problem?	13) JEN considers it is inappropriate to require a NSP to undertake RIT if a NSP considers a like-for-like replacement of the asset is the only option to address the problem. A requirement to publish an 'exemption report' setting out the reasons for not undertaking a RIT together with right of interested parties to raise a formal dispute on the exemption report, would ensure efficient investment.

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Question 14 a) Is the proposed requirement for NSPs to publish an exemption report where there is no alternative to like-for-like replacement appropriate? b) Do the benefits of this mechanism outweigh the administrative costs that it may impose? c) Is there an alternative mechanism which would be more appropriate?	14a) Yes. It reduces regulatory burden of undertaking a RIT where there is no alternative to like-for-like replacement. 14b) Yes. 14c) None that we are aware.
Question 15 a) What information should NSPs be required to provide in an exemption report? b) Is it appropriate that an NSP has to provide a summary of an exemption report to AEMO within five business days and to interested parties, on request, within three business days? c) Do stakeholders agree that AEMO must publish the exemption report on its website within three business days?	15a) The NSP needs to explain why a non-network alternative is not a suitable solution. 15b) Typically the NSP would send the report to AEMO at the same time as it is published by the NSP. 15c) Yes, as it would provide a convenient location for interested stakeholder to go to.
Question 16 a) Is it appropriate that parties can raise a formal dispute with the AER on the conclusions of an exemption report published by an NSP? b) Is 30 business days, as proposed, the appropriate timeframe for	16a) Yes, there needs to be a mechanism for interested parties to challenge the conclusions in the exemption report. The existing dispute processes for RIT in the NER should apply. 16b) Yes, we consider 30 business days is appropriate.

Questions	JEN responses
allowing interested parties to raise a dispute with the AER? c) Is 31 business days after publication of an exemption report the appropriate timeframe for an NSP to wait to undertake a like-for-like replacement where no dispute is raised? d) If an exemption report is determined by the AER to be non-compliant, should the NER explicitly exclude an NSP from being relying on the report to carry out a like-for-like replacement?	16c) Yes. 16d) Yes, there needs to be a mechanism for handling this situation.
Question 17 a) Would AEMO or AusNet Services be the most appropriate body to report on the proposed additional annual reporting requirements at the transmission level in Victoria and why? b) Would AEMO or AusNet Services be the most appropriate body to apply the RIT-T for replacement expenditure in Victoria and why?	17a) AEMO would be appropriate body to report on the proposed additional annual reporting requirements at the transmission level in Victoria because they published the Transmission Annual Planning Report for Victoria. 17b) The most appropriate body to apply the RIT-T for replacement expenditure is the transmission network planner. In Victoria, the likely process would be for AusNet Services to advise AEMO of asset retirement date (e.g. capacity withdrawal) and AEMO would then assess the best solution to meet supply requirements.
Question 18 a) Are the additional changes proposed by the AER appropriate and useful to stakeholders? b) What compliance burden would arise for NSPs?	18a) We believe it is reasonable to include explicit requirements on NSPs to notify affected registered participants and AEMO of any limitations arising from planned asset retirements or de-ratings. JEN has no comments on the changes that affect transmission network service providers.

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c) As these requirements currently apply in a limited way in the NER, how useful have they been to date?	18b) Minimal impact to DNSPs. 18c) No comments.
Question 19 What transitional arrangements should be put in place to allow NSPs and the AER to be able to comply with the proposed rule if it were to be made?	19) Transition arrangements need to ensure committed investments on asset replacements that are scheduled to occur over the next 2 years are excluded from any rule change that arises from the AER's rule change request. The DNSPs would need time to implement the proposed new annual information reporting requirements. Accordingly, the new annual information reporting requirements should only commence one year after the AER has published the guideline.