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Total Environment Centre

AEMC

Repex rule change draft determination

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Total Environment Centre's National Electricity Market advocacy

Established in 1972 by pioneers of the Australian environmental movement, Total Environment Centre (TEC) is a veteran of more than 100 successful campaigns. For nearly 40 years, we have been working to protect this country's natural and urban environments: flagging the issues, driving debate, supporting community activism and pushing for better environmental policy and practice.

TEC has been involved in National Electricity Market (NEM) advocacy for ten years, arguing above all for greater utilisation of demand side participation — energy conservation and efficiency, demand management and decentralised generation — to meet Australia's electricity needs. By reforming the NEM we are working to contribute to climate change mitigation and improve other environmental outcomes of Australia's energy sector, while also constraining retail prices and improving the economic efficiency of the NEM — all in the long term interest of consumers, pursuant to the National Electricity Objective (NEO).

Introduction

TEC considers the draft determination to be reasonable and appropriate as far as it goes. We also agree that by broadening the scope of application the draft determination is preferable to the AER's rule change request. Finally, we agree with the AEMC's decision to exlude the AER's proposed exemptions process for like-for-like repex.

On the other hand, the draft determination does not address the fundamental flaws in the planning and investment framework – particularly the shortcomings of the current RIT regime – that we have previously highlighted. While we do not see any appetite on the part of the AEMC to address these issues, so this submssion focuses on one outstanding flaw.

We also note that the draft determination was bereft of real-world examples or quantifications of the impact of the proposed reforms, making it difficult to ascertain their impacts. For instance, it is not clear how many investment decisions would be affected by the move to include repex in RITs, and thus the likely material impact of the rule change.

Cost threshold

We agree with the AEMC and other stakeholders tha the same cost threshold should apply to augex and repex projects. However, the AEMC has rejected the proposal from TEC, PIAC, CUAC and the AEC to reduce the cost threshold to $500,000 or $1 million with "mini-RITs" for projects over these new thresholds but under the current threshold of $5 million. We note that the AEMC justifies this position on the basis that

> …the cost threshold for augmentation is out of scope of this rule change request process given the framing of the request and its intent to focus on the inclusion of replacement expenditure in the planning and investment frameworks.

In TEC's view there is no obvious legal impediment to the scope of the rule change being expanded to include a change to the cost threshold for all RITs. Even if there were, the AEMC could have expressed a view regarding the merits of such a change and invited a rule change request to make it happen. We suggest that the AEMC should express a view on the threshold in its final determination to guide potential rule change proponents.

The fact that sub-$5 million projects would in future be included in networks' annual DAPRs does not mean either that the information provided would be sufficient to meet the needs of non-network proponents, or that networks would thereby be required to seriously consider non-network options – especially in view of the cursory nature of some networks' demand side engagement strategies. That is, the publication of an intention does not guarantee that equal weight will be given to non-poles and wires options. This was recognised by RES and EnerNOC in their respective submissions to the consultation paper:

> With the information presently available, it is difficult for proponents to undertake an efficient review to identify opportunities to meet identified needs with non-network technologies.
>
> Non-network service providers have no insight into [an] NSP's network (and any forthcoming constraints, augmentations, replacements, etc) beyond the information that an NSP publishes. It is a difficult proposition for non-network service providers to commit resources to reading APRs for all NSPs in the NEM (and analysing those APRs further, and developing proposals, etc) if those APRs don't contain sufficient information on upcoming network investment.

Unfortunately, the current cursory treatment of demand side engagement and demand management strategies by some networks in their DAPRs does not give us much confidence that the AER will require a sufficient level of scrutiny and performance to reporting on repex and de-ratings programs to be of much help to non-network proponents.

Our main concern about the potential impact of this retention of the status quo concerns the burgeoning market for grid-scale batteries. As CUAC illustrated in its submission to the consultation paper, all known network-initiated battery projects have a capital cost of $5 million or less. Where they are proposed as augex as cheaper alternatives to traditional kit, there will continue to be no mechanism to require networks to publicly consider:

- Whether battery storage represents a superior long term solution for consumers.
- Non-network alternatives such as demand management.
- Whether batteries should be owned and operated by networks or third parties.

The other problem with retaining the current threshold is that networks may replace their assets incrementally, in stages or by replacing parts of the asset, which may mean the reporting requirement is not triggered. In an era when repex – which is often incremental in nature – is replacing capex as the major source of capex spending, this effectively lowers the overall level of scrutiny of network spending.

Conversely, a network more interested in longer lifespan assets like traditional poles and wires could use the current high threshold as cover to avoid considering batteries as a lower cost or shorter term solution.

Implementation process

It is not clear why the new RIT requirements should not apply from the same date as the DAPR reform – ie 31 December 2017. The interim period could be used by networks to commit to a range of new projects to prevent the need for additional scrutiny via the RIT process.

Conclusion

The improved transparency around network planning decisions provides no guarantee that more network investment plans and decisions will be opened to third party DER proponents. Indeed, the draft determination arguably entrenches and potentially reinforces the control networks have over new investments in the energy system at a time when market bodies should be taking steps to open it up to competition and new technologies.

Yours sincerely,

Jeff Angel
Executive Director