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Neil Howes
Australian Energy Market Commission
PO Box A2499
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Dear Neil

ERC0209 National Electricity Amendment (Replacement expenditure planning arrangements) Rule 2016 – Submission on AEMC Consultation Paper

Powerlink is pleased to make this submission in response to the AEMC's Consultation Paper on the AER's Rule change proposal on replacement expenditure planning arrangements. The proposed Rule change seeks to increase the transparency of network asset replacement decisions by electricity transmission and distribution network service providers (NSPs) through:

- the inclusion of additional information within annual planning reports; and
- the extension of Regulatory Investment Tests (RITs) to include replacement projects¹.

Context

Powerlink acknowledges the AER's comments in relation to changes in the energy environment. In particular:

- a change in demand outlook which, in Powerlink's case, is relatively flat;
- emerging technological changes that may provide opportunities to substitute like-for-like asset replacements; and
- the significant proportion of replacement capital expenditure being forecast in regulatory proposals.

Powerlink's Revenue Proposal for the 2018-22 regulatory period included total forecast capital expenditure of \$957 million, of which approximately 83% comprised asset reinvestment/replacement expenditure. At the same time, there is significant transformation in the electricity industry with the increased uptake of renewable energy and advances in both new technology and non-network solutions. In the context of this operating environment, Powerlink continues to optimise investment through alternative practices to achieve greater flexibility in the way in which it operates and delivers its transmission services. For example, this has included greater consideration of network reconfiguration as an option to meeting network requirements. Further, Powerlink has had considerable experience in the implementation of non-network solution with over \$100m being procured to meet identified network needs in the last 10 years.

¹ <http://www.aemc.gov.au/getattachment/7cedb6a4-5e55-442c-9718-73528703f062/Consultation-paper.aspx>

Consistent with the intent of the AER's Rule change proposal, Powerlink recognises that stakeholders seek greater transparency in terms of information that can reasonably be made available to the market in relation to replacement decisions. This includes further information on the potential options – both network and non-network – that may inform such decisions.

Notwithstanding this, Powerlink is also mindful of the need to provide better value to its customers and consumers. This includes being able to deliver prudent, efficient and *timely* solutions. This suggests that there may necessarily be some trade-off in terms of the details of the Rule change as proposed, and what may be a practical solution.

Opportunities for refinement

While Powerlink broadly supports the intent of the AER's Rule change proposal, Powerlink would also welcome the opportunity to provide further input to the AEMC's considerations. At this stage, Powerlink considers that some of the areas that require further clarification and/or investigation include:

- inclusion of provisions to ensure that reinvestment decisions can be made in a timely manner and have the flexibility to incorporate new and emerging technologies;
- the practicalities of including maintenance and refurbishments in RIT-T (being mindful of different capitalisation policies across NSPs);
- greater clarity around the level of information to be provided in the exemption report; and
- consideration of a balanced approach whereby the level of consultation required is proportionate to the level of reinvestment and benefits which may be realised.

Multiple reviews underway

As noted in the AEMC's Consultation Paper, there are a number of reviews underway, each at different stages, which are considering different issues in relation to the current planning arrangements. Powerlink understands that the AEMC will be mindful of these other consultations and will seek to ensure that the requirements are considered in a coordinated and holistic manner. This is particularly important to minimise the potential for overlapping, inefficient, unnecessary or unintentional requirements being imposed on NSPs.

Powerlink's existing stakeholder engagement activities

In 2014 Powerlink established a Non-network Engagement Stakeholder Register (NNESR) to improve communication with, and expand its use of, non-network solutions by advanced consultation with stakeholders who may have the potential to provide non-network services. Non-network solution providers are encouraged to register via a variety of platforms such as the Transmission Annual Planning Report, at Powerlink's annual Transmission Network Forum and also on Powerlink's website.

In particular, the NNESR is intended as a communication tool to inform interested parties in relation to:

- network augmentation investments which fall below regulatory costs thresholds;
- advanced information prior to formal consultation under the RIT-T;
- network reinvestments with the potential for non-network solutions; or
- the inclusion of non-network solutions as part of an integrated solution to complement an overall network reconfiguration strategy.

In conjunction with the establishment of the NNESR, Powerlink has been proactive and implemented a Non-Network Solution Feasibility Study process as a means to actively seek and expand its use of non-network solutions.

This process was initiated in March 2016 with a Feasibility Study² to assess the viability of obtaining a non-network solution as an alternative to the replacement of both of the 132/66kV transformers at the Garbutt substation. In this case, the information received as a result of discussions and exchange of information with possible non-network solution providers supported the replacement of both 132/66kV transformers at Garbutt as the lowest cost solution to address the need and delivers the lowest long run cost to consumers. Powerlink will continue to engage with potential non-network solution providers through avenues such as this.

Powerlink received positive feedback from stakeholders on the principles of the Non-network Solution Feasibility Study process during a break-out session on non-network solutions at the 2016 Transmission Network Forum³. In particular, as noted in the Transmission Network Forum Summary Report, both non-network providers and Powerlink acknowledged that they are on a learning journey together. It was also recognized that "sharing expertise and knowledge will encourage participation, improve relationships, build trust, facilitate joint benefits and optimise solutions". Powerlink will continue to focus on and strengthen these relationships into the future.

Powerlink is committed to the delivery of a safe, reliable and cost effective transmission services for the benefit of its customers and consumers. This includes increased stakeholder engagement as well as a more holistic approach to future network investment that is focused on integrated solutions to meet demand.

Powerlink looks forward to working with the AEMC and AER on this matter to ensure that the final Rule change is reasonable, proportionate and can be implemented in a practical manner.

If you have any questions with respect to this submission please call Stewart Bell on (07) 3860 2374.

Yours sincerely,



for

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² https://www.powerlink.com.au/Network/Network_Planning_and_Development/Non-network_solutions.aspx

³ https://www.powerlink.com.au/About_Powerlink/Stakeholder_Engagement/Engagement_Forum.aspx