AEMC Draft rule on new obligations on electricity network businesses for replacement assets

Introduction

On 11 April 2017, the Australian Energy Market Commission (AEMC) published its draft rule determination in response to a rule change request submitted by the Australian Energy Regulator (AER) to extend the regulatory investment test (RIT) to replacement capital expenditure (repex) and increase transparency of investment planning information.

Key features of the draft rule

Currently there is a requirement under chapter 5 of the national electricity rules (NER) for network service providers (NSPs) to undertake a RIT, subject to some exemptions, to consider alternatives to traditional network investment when proposing to undertake augmentation (augex) above a certain threshold (currently $6m for TNSPs and $5m for DNSPs). The draft rule change extends the existing rule requirements, including the thresholds, to repex.

The proposed timeframes for the new RIT requirements is 1 July 2018 for repex projects that have not already been committed to by an NSP.

In addition to changes to the RIT, the draft rule change also proposes to increase transparency of an NSP's investment planning information including publication in annual planning reports of:

- Planned asset retirements including reasons for retirement
- Planned de-ratings of assets that result in a constraint, including the reasons
- The NSP's approach to asset management (TNSPs only)
- Investments in IT and communications technology related to management of network assets (DNSPs only).

It is proposed that these new investment planning information requirements will be imposed on NSPs when their next annual planning reports are due for publication. For DNSPs this is 31 December 2017 and 30 June 2018 for TNSPs.

Implications

The draft rule change is indicative of the changing role of NSPs in the electricity supply chain. The outcome of the draft rule change is likely to be an increase in capex opex trade-offs as NSPs consider non-network alternatives to traditional repex. For DNSPs this might mean increased opex to extend the useful life of assets, particularly in parts of the network where demand growth is uncertain. For TNSPs it will mean increased transparency of their repex programs and will require consideration of de-rating or decommissioning assets on parts of the network where demand has fallen. For both DNSPs and TNSPs, the rule change will increase the regulatory burden and associated administrative costs. The assumption is that the benefits to consumers will outweigh the cost. This balance will shift over time with technology change.

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