

7 September 2018



Mr Peter Adams
General Manager, Wholesale Markets
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Mr Adams

Draft Regulatory Investment Test for Distribution Application Guidelines

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Australian Energy Regulator (AER) on its Draft Regulatory Investment Test for Distribution (RIT-D) Application Guidelines (Draft Application Guidelines). This submission is provided by Energy Queensland, on behalf of its related entities Energex Limited (Energex), Ergon Energy Corporation Limited (Ergon Energy), Ergon Energy Queensland Limited (Ergon Energy Retail) and Yurika Pty Ltd (Yurika).

Energy Queensland's purpose is to "safely deliver secure, affordable and sustainable energy solutions with our communities and customers" and is focussed on working across its portfolio of activities to deliver customers lower, more predictable power bills while maintaining a safe and reliable supply and a great customer service experience. Our distribution businesses, Energex and Ergon Energy, cover 1.7 million km² and supply 37,208 GWh of energy to 2.1 million homes and businesses. Ergon Energy Retail sells electricity to 740,000 customers.

The Energy Queensland Group also includes Yurika, an energy services business creating innovative solutions to deliver customers greater choice and control over their energy needs and access to new solutions and technologies. Yurika is a key pillar to ensure that Energy Queensland is able to meet and adapt to changes and developments in the rapidly evolving energy market.

Energy Queensland's Distribution Network Businesses (DNSPs), Ergon Energy and Energex, are both members of Energy Networks Australia (ENA), the national industry association that represents businesses operating Australia's electricity transmission and distribution and gas distribution networks. The ENA has prepared a response to the Draft Application Guidelines and we are supportive of the positions presented in their response.

Energy Queensland strongly supports efficient investment decisions that result in the highest net benefit to our customers. To that extent, we support flexibility in the RIT process to enable Network Service Providers (NSPs) to deploy innovative methods to engage with non-network alternative (NNA) providers and provide information on anticipated limitations at a sufficiently early stage. In addition to our own early engagement strategies, we support the work of the ENA's Network Opportunity Maps

project to provide readily available information to the market to enable proponents to respond in a timely manner to emerging opportunities and offer NNA solutions.

Energy Queensland broadly supports the Draft Application Guidelines and notes that it largely addresses the issues raised in our submission to the Issues Paper. Notwithstanding, we suggest that further minor amendments are warranted to align suggested positions in the Explanatory Statement with the Application Guidelines.

Projects subject to a RIT-D assessment

Energy Queensland notes that the Explanatory Statement summarises submissions to the Issues Paper along with the AER's responses to the submission. In particular, the AER has supported positions suggested by Essential Energy and South Australia Power Networks (SAPN) in regard to further clarification for asset replacement programs. Specifically, Essential Energy proposed the following text:

"Where a NSP [network business] intends replacing multiple low value assets (as described by clauses 5.12.2(c)(1B)(iv) and Schedule 5.8(b2)(4) of the NER), at multiple geographically dispersed locations, the total annual value of these works is not considered to be addressing a single identified need and therefore is not considered to meet the trigger for assessment under the RIT.

"However, where there is potential that a non-network option is, or forms a significant part of, a potential credible option in relation to a specific program, the NSP [network business] shall consider the value of the specific program as a trigger for assessment under the RIT."

Further, SAPN suggested that the only exception to an ongoing work program such as pole replacements would be where the identified need involves potentially replacing poles along an entire network line.

While the summary table suggests the AER supports Essential Energy's position, and also sees value in incorporating SAPN's suggested exception, this position does not appear to be reflected in the Draft Application Guidelines.

Rather, the Draft Application Guidelines appear to take an alternative position by clarifying that a RIT-D will apply if multiple assets of the same type are to be replaced across more than one location in the same year, if the RIT-D cost threshold is met and if these assets are addressing one identified need. It is unclear whether the replacement of assets such as poles across multiple geographically dispersed locations would be considered to be addressing one identified need or multiple identified needs.

As such, Energy Queensland suggests the AER clarify their intent and reflect their comments supporting the views expressed by Essential Energy and SAPN regarding multiple low value assets across multiple geographically dispersed locations in the Application Guidelines.

Characterising the base case

Energy Queensland suggests that a business as usual (BAU) base case for replacement projects to maintain the poor condition assets without retiring them may not always be feasible. While some assets could reasonably be considered to be 'run to failure', it is not appropriate where the primary driver is a safety risk. Despite the Draft Application Guidelines including credible BAU expenditure relating to the deteriorating asset to manage safety risk, environmental risk and equipment protection to the extent this expenditure meets legal obligations or is consistent with efficient industry practice, we consider that replacing an asset to manage the safety risk so far as is reasonably practical is a more appropriate base case. As such, we suggest the Application Guidelines allow for the inclusion of:

- minor proactive capex in a BAU base case for replacement projects where appropriate; and
- an example of an identified need driven by safety-related service standards as suggested in ENA's submission.

Should you require additional information or wish to discuss any aspect of this submission, please do not hesitate to contact either myself on (07) 3851 6416 or Trudy Fraser on (07) 3851 6787.

Yours Sincerely



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