

AER regulatory investment test stakeholder forum: Discussion summary

Matter name:	Review of the application guidelines for the regulatory investment tests (RITs)
Date:	Wednesday 29 August 2018
Time:	09:30 am to 12:30 pm (AEST)
Location:	ACCC/AER offices across Adelaide, Brisbane, Canberra, Hobart, Melbourne, Sydney and Townsville
Chair:	Jim Cox, AER Board Member

Note: This document provides an overview of the main points discussed during the AER Stakeholder Forum on proposed amendments to the RIT application guidelines. Its use is purely informative.

The Australian Energy Regulator (AER) held a stakeholder forum on 29th August 2018, which was during the submission period for its draft RIT application guidelines. The AER’s Consumer Challenge Panel (CCP) commenced by giving a short presentation, which provided a consumer perspective on the draft RIT application guidelines. This was followed by two sessions, each of which started with a presentation from the AER, which was followed by facilitated discussion. These presentations are available on the project page.

CCP20 presentation: A consumer perspective

CCP20 welcomed the improved alignment of RIT–T and RIT–D processes. The CCP stressed the importance of articulating identified need and other aspects of the RIT process from a consumer perspective—that is, to treat it as a ‘proposal to consumers’. The CCP noted that the AER had supported its recommendation to put a ‘hold point’ on the RIT processes where the RIT proponent had poorly articulated the identified need. They were also concerned that the AER would not have the powers to enforce such a measure.

The CCP agreed with the AER’s position that the integrated system plan’s (ISP’s) results and assumptions should be critical inputs to RIT–Ts, and doing this could help make the existing RIT process faster. However, they did not agree with some stakeholders who argue that that the RIT process is a barrier to efficient investment in a reasonable timeframe. Further, the CCP highlighted the need to learn from RITs now underway and how best practice can be identified and promoted.

First tranche of discussion topics: Key changes to guidance on stakeholder engagement and replacement projects

Stakeholder engagement

Stakeholders were generally supportive of the guidance provided in the draft RIT application guidelines. They agreed that this guidance struck a good balance between providing

practical guidance and being principles-based. However, stakeholders recognised that consumer representatives face the challenge of determining how to prioritise their efforts, particularly as there will be a significant number of smaller replacement projects. Stakeholders considered that early engagement (i.e. pre-RIT process, including through annual planning reports) is valuable in addressing this challenge, whilst also promoting transparency and efficiency of investments. The CCP suggested the AER could also help with regular monitoring to provide stakeholders with confidence in the RIT process. A network business representative cautioned against 'engagement for engagement's sake', because engaging on areas that stakeholders are unable to influence can cause fatigue.

Replacement projects

The ENA and network businesses suggested that the base case for replacement expenditure needs further clarification. They suggested that the base case for some replacement projects undergoing RITs should include the minimum capital expenditure required to keep the asset in service. Network representatives requested further clarification on the characterisation of the 'business as usual' (BAU) base case, noting that BAU may entail replacement upon retirement. Network representatives were pleased that the AER had acknowledged safety-driven risks, and indicated they would provide a worked example in their submission on how this might be done.

Second tranche of discussion topics: Key changes to guidance on treating external funds, accounting for uncertainty and using the integrated system plan

External funds

Stakeholders had differing views on this issue. The AER explained that external funds from market participants should count as a wealth transfer. However, external funds towards a RIT project from outside the market would increase the net economic benefits to all those that consume, produce and transport electricity in the market. A consumer representative agreed with this view on the basis that external funds from market participants would still be passed through to electricity consumers via higher retail/generation costs, whereas non-market contributions would not be recovered through electricity charges.

A non-network industry representative cautioned against using external funds to prop-up inefficient investment. In contrast, network representatives considered that all external funds, including those provided by market participants, should be treated as offsetting the cost of the project. Network representatives advised that their position is consistent with how external funds are treated when determining whether a project has met the RIT cost threshold (that is, what matters is the capital costs to be recovered through network charges).

Accounting for uncertainty

Stakeholders supported the AER's extended guidance on calculating option value. A network representative raised the potential to use decision rules to avoid the need to repeat RITs when there is a material change in circumstances. There was little discussion on scenario or sensitivity analysis, with the discussion mainly focussing on the treatment of high impact low probability (HILP) events.

The AER's proposed guidance on HILP events clarified/tailored the previous guidance, rather than providing new guidance. The predominant position among network representatives was that applying a higher value of customer reliability to HILP events would not sufficiently capture their value, and that the AER should consider alternative methods of weighting HILP events, including methods consistent with regret theory. Other stakeholders advised there should be caution in valuing these events. The CCP stated that if the probabilities attached to HILP events are modified, consumers will need to know why. Stakeholders generally agreed that the ability for lower cost control schemes to address HILP events should be explored, so as not to bias towards large network solutions.

Using the integrated system plan

Network representatives argued that the pathway of AEMO's ISP should be the base case in all scenarios, and noted that this would reduce uncertainty and the risk of delays in the RIT process, although there still needs to be flexibility. In contrast, a non-network stakeholder cautioned against using the pathway in the ISP as the 'base case'.

Additional issues raised

A network representative requested more detail around the treatment of land purchases within the RIT. The AER advised that it had applied the guidance around easements currently in the RIT-D application guidelines to the RIT-T application guidelines. It was noted that this guidance related to the appropriate treatment of sunk costs, and the AER would provide better reasoning for this guidance in its final explanatory statement.

The draft RIT application guidelines requested RIT proponents to submit new classes of market benefits for AER approval. The value of this approval step was questioned given the AER already recognises that the RIT-T specific market benefit classes are increasingly relevant at the distribution-level.