

RIT-D

Public Forum—draft RIT-D

Summary of Sydney workshop—27 June 2013

Separate workshops on the draft regulatory investment test—distribution (RIT-D) and draft RIT-D application guidelines (application guidelines) were held in the Australian Energy Regulator's (AER) Melbourne and Sydney offices. Some participants were able to connect via teleconference.

Mr John Skinner, Director of the project, chaired the workshops. A full attendee list can be found in Attachment A. This summary outlines the key topics discussed at the workshops, including views expressed at the workshop, without ascribing particular comments to any one individual or organisation.

1 Introduction

The AER's purpose in holding workshops in Melbourne and Sydney was to consult on the draft RIT-D and the application guidelines.

These workshops did not cover any other Power of Choice related matters, such as demand management incentives or development of more cost reflective or flexible pricing frameworks. These are still subject to further rule changes by the Australian Energy Market Commission (AEMC).

The workshops provided distribution businesses and other stakeholders an opportunity to discuss the draft RIT-D and application guidelines, released for public consultation on 5 June 2013.

2 Issues discussed at the workshop

a) Market benefits

Participants queried whether shared benefits applied across all recipients. They also queried whether RIT-D was a minimalist model and if there was scope to facilitate growth.

Staff noted that the rules governing the RIT-D are clear. The quantification of market benefits under the RIT-D is only mandatory for non-reliability driven projects.

b) Base case

The issue of the base case was discussed by the participants.

c) Deemed values

NSPs noted that an AEMC study revealed value of consumer reliability (VCR) rates being higher in NSW than in Victoria.

Staff noted that when conducting a RIT-D assessment, the RIT-D proponent should use a reputable source for these values.

d) *Lead party*

Distribution network service providers (DNSP)s noted that it can resolve issues amongst each other and therefore it did not have any concerns of the treatment of this issue in the draft RIT-D.

e) *Sensitivity analysis*

Staff noted the use of probabilities set out in examples is not intended to be deterministic. The probabilities utilised are a judgement call in the assessment by the business. Staff will review the wording in the application guidelines.

Participants noted that if an option has a relatively low probability, assigning weights will not be a good option. They also noted that NSPs should explain why it is required to undertake that project.

NSPs noted that applying a sensitivity analysis to demand options is more practical. The testing of these approaches should be based on scenarios, not probabilities. It should have the option to undertake a decision tree type approach. NSPs noted that sensitivity based analyses are used in determining capital and operating expenditure as opposed to the nature of the project to undertake. NSPs queried whether the application guidelines will make a distinction between:

- uncertainty—where scenario based analysis would be undertaken and
- risk—where a sensitivity probability would be undertaken.

NSPs also noted that where there are a lot of greenfield sites on its network, there is uncertainty in demand. It would therefore be forced to undertake sensitivity analyses. When undertaking these analyses, it will interpret the relationship between analysis and sensitivity. It will also incorporate the consequences of the weights ascribed.

f) *Treatment of land*

Participants supported the view that a value of land should be included in a RIT-D. The issues discussed included:

- what value to ascribe to land for the purposes of a RIT-D assessment
- whether the strategic purchase of land should trigger a RIT-D. It was recognised by participants that land often needs to be purchased as soon it becomes available.
- any purchase of land will be rolled into the regulated asset base (RAB) and reviewed during the next reset.

3 *Concluding comments*

Mr Skinner thanked all attendees for their participation. He requested that submissions be made on time and where possible, it would be appreciated for it to be received ahead of the deadline.

Attachment A: Attendee list

<i>Name</i>	<i>Organisation</i>
John Hele	Ausgrid
Robin Jong	Ausgrid
Deepak Sahay	Endeavour Energy
Jason Lu	Endeavour Energy
Rick Wallace	Endeavour Energy
Chris Barrett	City of Sydney
Trudy Fraser	Ergon Energy
Jim Bain	ENA
Felipe Kovacic	Origin Energy /Cogent Energy
Samantha Christie	Transgrid
John Skinner	AER
Shalini Prasad	AER

Telephone hook in

<i>Name</i>	<i>Organisation</i>
Heather l'Anson	Brotherhood of St Laurence
Bruno Coelho	AER