



Discussion forum

Draft regulatory investment test application guidelines

29 August 2018

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Agenda

- A consumer perspective (CCP20)
- Discussion topics:
 - Stakeholder engagement
 - Replacement expenditure
 - Treatment of external funds
 - Accounting for uncertainty
 - Using the integrated system plan (ISP)
- Open discussion
- Next steps (Jim Cox)

Consumer Challenge Panel (sub-panel 20)

A consumer perspective

Ali Hassan

Stakeholder engagement & replacement expenditure

Topic 1: Stakeholder engagement

Proposed guidance more explicitly encourages:

- Use of the AER consumer engagement guideline
- Consistent, early engagement – i.e. pre-RIT process, including through annual planning reports. NB: Draft TAPR guidelines to be published this week
- Transparency and user-friendly data – publishing modelling inputs and non-confidential submissions
- Understanding broader consumer views, recognising that consumers who actively engage may be more likely to benefit from the RIT project

Topic 2: Replacement expenditure

- Repex rule change → RITs apply to repex projects
- Draft RIT guidelines clarify:
 - ‘Business as usual’ is a reasonable base case for repex projects
 - How to treat asset replacement programs under the RITs
- There is limited additional guidance on estimating costs unique to repex projects. However, we will publish an asset replacement application note in September 2018 for comment.

Group discussion

Stakeholder engagement & replacement expenditure

Lisa Beckmann

External funds, uncertainty & the integrated system plan

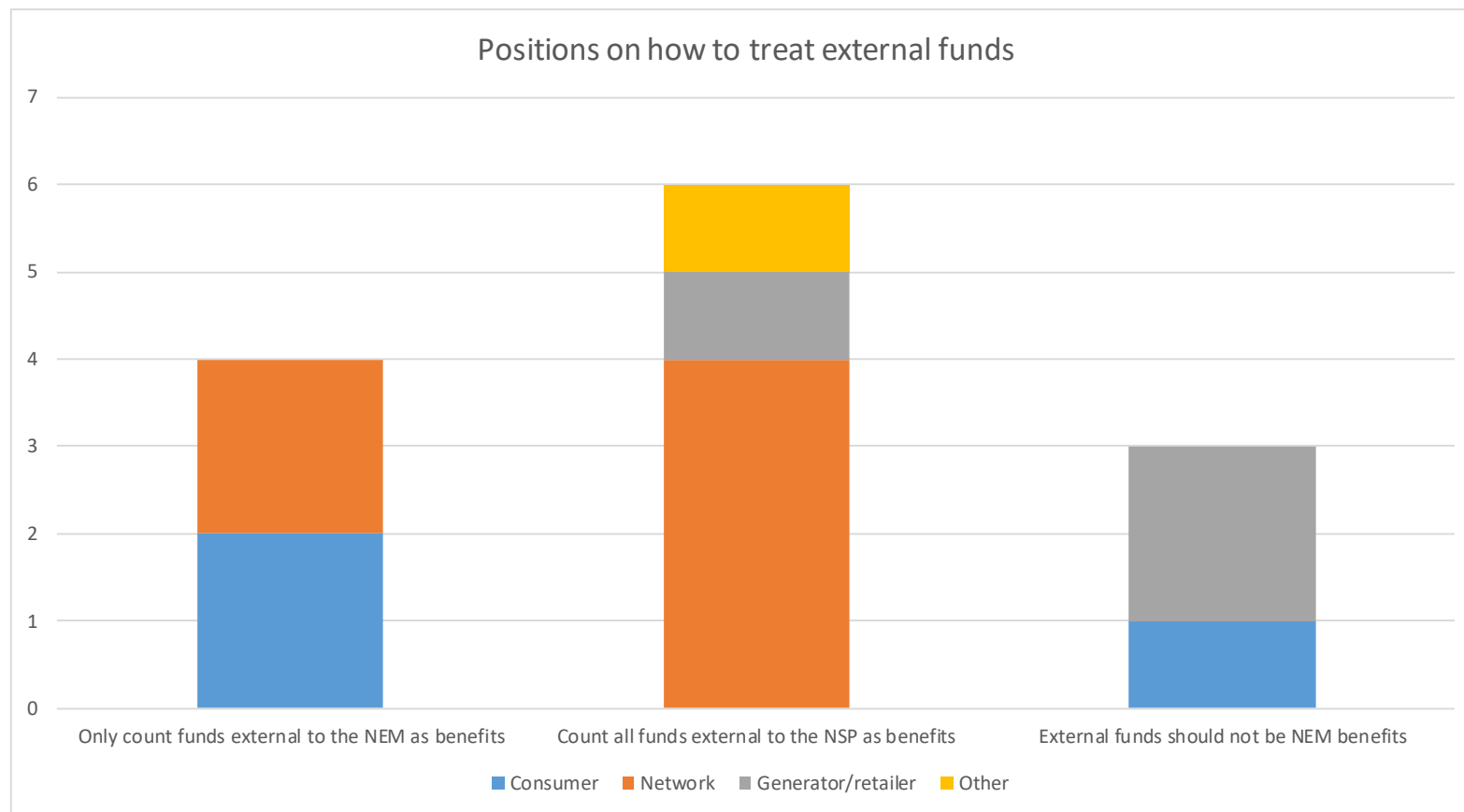
Topic 3: Treatment of external funds

If external capital contribution \rightarrow remaining capital cost $<$ RIT cost threshold, there's no RIT.

Where a RIT still applies, and a contribution comes:

1. from outside the market, this is counted as a increase in the net benefit
2. from inside the market, this is counted as a wealth transfer between market participants

Topic 3: Treatment of external funds



Topic 4: Accounting for uncertainty

More or new guidance on:

- Capturing option value
- Treating high impact low probability events. This still supports probability weighting scenarios. It also draws on new VCR guidance
- Performing scenario analysis, including using information from AEMO's ISP
- Using sensitivity analysis, including exploring boundary values for important inputs, such as the discount rate and VCR

Topic 5: Using the ISP (scope of discussion)

Two ways to approach this question:

1. Under the current Rules, how should the ISP inform the RITs? (Assume ISP comes into effect via the NTNDP)
2. How should the RITs/Rules (not just the guidelines) change for the ISP to have its 'ideal' effect? (out of this review's scope)

Worth noting COAG EC 10 August communique:

'The ESB should identify a work program (including possible changes to the RIT-T) and convert the ISP to an actionable strategic plan. The ESB Chair should take the lead on its delivery and report back to the December 2018 meeting. Council notes that all market bodies will be closely involved in this work.'

Topic 5: Using the ISP (position in draft guideline)

A RIT analysis should use the ISP:

- As a ‘starting point’* for inputs and assumptions, which should then be evaluated and may require updating
- To inform scenarios and sensitivities analysis they explore
- To inform its assessment of inter-regional benefits, helping it maximise NEM-wide net benefits (as the RIT requires)

* we’d support this being a ‘default’ if the ISP is formalised and requires full consultation

Topic 5: Using the ISP (examples)

For the RIT–D, how a RIT–D proponent might account for the preferred ISP network development path.

For the RIT–T, examples of how to apply the RIT–T:

- to a REZ, clarifying that a RIT proponent:
 - May use the ISP as a basis for articulating an identified need.
 - May use investments identified in the ISP to form the basis for a credible option to meet an identified need.
 - Should not, as a practice, treat the network development pathway as a series of projects that will occur across all reasonable scenarios.
- to support a 'whole of network' perspective in planning

Group discussion

External funds, uncertainty & the integrated system plan

Other topics?

Next steps

- Publish slides and discussion summary from today on AER website
- Submissions on draft RIT guidelines close COB Friday 7 September 2018
- Publish final RIT guidelines late November 2018

Related consultations to watch:

- THIS WEEK: Draft TAPR guideline
- EARLY SEPTEMBER:
 - Draft industry application note for asset replacement gets published for comment
 - Draft decision: Cost threshold review