

# Better Regulation: Regulatory investment test for distribution

23 August 2013

The Australian Energy Regulator (AER) commenced the Better Regulation program in December 2012. Today marks the release of the Regulatory Investment Test for Distribution (RIT-D) and accompanying RIT-D application guidelines. The RIT-D establishes consistent, clear and efficient planning processes for distribution network investments in the national electricity market (NEM).

## What is the Better Regulation program?

The AER initiated the Better Regulation program following changes to the electricity and gas rules in late 2012. The program brings together improvements to our regulatory approach with other important reforms announced by the Prime Minister in December 2012.

The Better Regulation program delivers an improved regulatory framework focused on the long term interests of electricity consumers.

The Better Regulation program involves:

- extensive consultation on seven new guidelines that outline our revised approach to determining electricity network revenues and prices
- establishing a consumer reference group for our guideline development work
- forming an ongoing Consumer Challenge Panel
- improving our internal technical expertise and systems.

## What is the RIT-D?

The RIT-D establishes clearly defined and efficient processes for distribution network investment in the NEM.

Distribution network businesses invest in network infrastructure in order to provide a safe and reliable supply of electricity. Investment addresses a range of needs, including:

- the replacement and renewal of aging assets
- changing consumer energy usage patterns that drive increased peak demand for power
- government standards for reliable electricity services.

The RIT-D is a cost-benefit test that electricity distribution network businesses must apply when assessing the economic efficiency of different investment options.

Where electricity distribution network businesses identify a need to invest in the network, they have a range of options to choose from. The RIT-D requires distribution network businesses to consider all credible network and non-network options. For example, a network option might be to build electricity infrastructure, while a non-network option might be a demand-side management project.

The preferred option is the one which maximises the economic benefit to all those who produce, consume and transport electricity in the NEM.

## What is the purpose of the RIT-D application guidelines?

The application guidelines provide specific guidance to businesses applying the RIT-D, in terms of:

- which distribution network investments are subject to the RIT-D
- how to assess credible options addressing identified network needs
- when and how market benefits should be quantified.

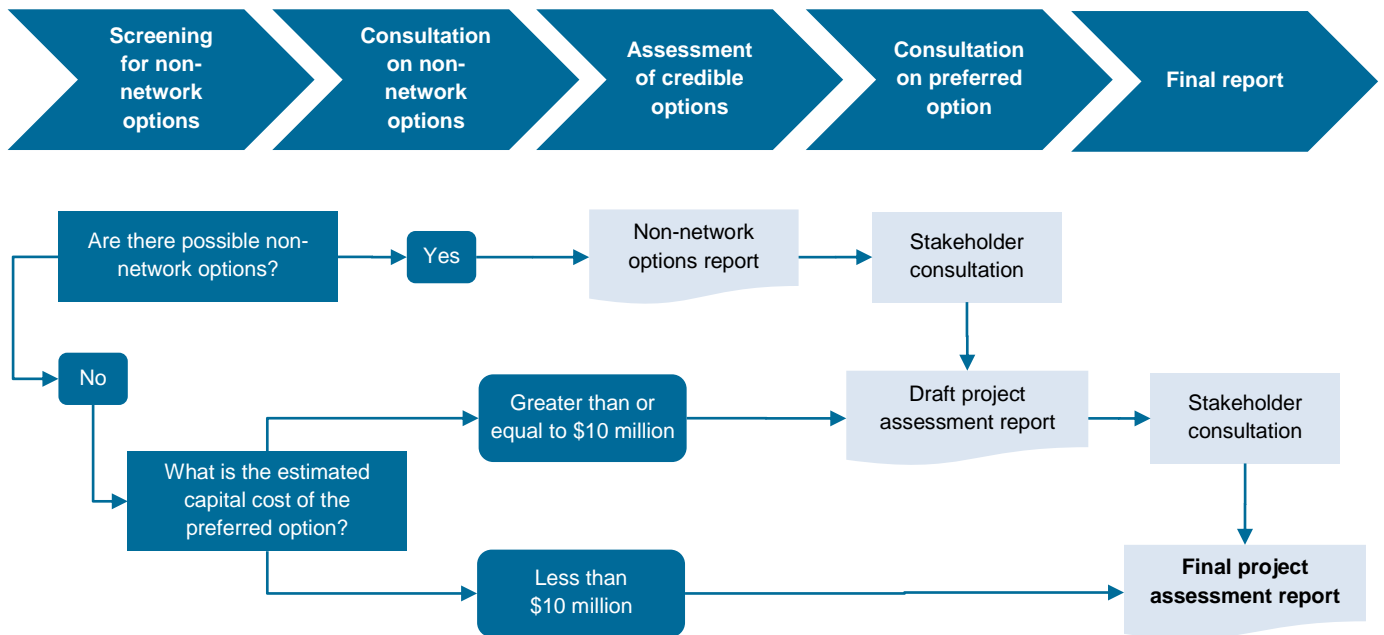
## What does the RIT-D mean for consumers?

The RIT-D promotes efficient distribution network investment in the NEM for the long term interests of consumers. It does this by enhancing consistency, transparency and predictability in planning processes.

The RIT-D requires distribution network businesses to:

- consult with community stakeholders throughout the RIT-D process
- consider all credible network and non-network options as part of their planning processes

## Overview of the RIT-D process



- explicitly consider the wider market benefits of their investment decisions
- fairly assess non-network options, such as demand-side management, against network options.

### What do distribution network businesses need to do?

From 1 January 2014, distribution network businesses must apply the RIT-D when making network investment planning decisions when the estimated cost of the most expensive credible option exceeds \$5 million. The RIT-D replaces the former Regulatory Test for distribution investments.

The National Electricity Rules set out the process and public consultation obligations distribution network businesses must follow when applying the RIT-D. As illustrated in the diagram above, the distribution business must:

- screen for non-network options and publish a non-network options report for consultation, detailing the need for the proposed investment and outlining feasible network and non-network solutions
- publish a draft project assessment report for public consultation, setting out a cost-benefit analysis of all credible options and details of the proposed preferred option
- publish a final project assessment report addressing stakeholder submissions to the draft project assessment report.

A draft project assessment report isn't required if there are no feasible non-network solutions or if the estimated capital cost of the preferred option is less than \$10 million.

### How does the RIT-D fit with the overall network planning reform agenda?

The RIT-D is one component of the new national framework for electricity distribution network planning and expansion, introduced by the Australian Energy Market Commission in October 2012.

Under this framework, network businesses are required to follow a nationally consistent annual planning and reporting cycle and project assessment process. The key components are:

- a distribution annual planning review
- a distribution annual planning report
- demand side engagement obligations on distribution businesses
- joint planning arrangements
- the RIT-D
- a dispute resolution process for the RIT-D.

### For more information

For more information on the RIT-D please visit our website <http://www.aer.gov.au/node/19146>. The RIT-D is part of the Power of Choice workstream in our Better Regulation program. For more information on the Better Regulation program and its workstreams, please visit our website [www.aer.gov.au/better-regulation-reform-program](http://www.aer.gov.au/better-regulation-reform-program) or email us at [betterregulation@aer.gov.au](mailto:betterregulation@ aer.gov.au).