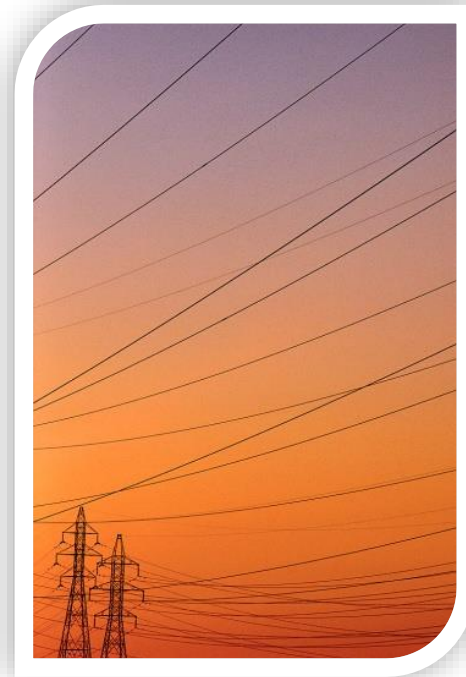


CCP 20 – Regulatory Investment Test Guidelines Presentation – 29 August 2018

Bev Hughson
Mike Swanston
Andrew Nance



Outline

1. Draft Guidelines
2. Consumer Engagement
3. ISP
4. Live Examples
5. Policy Changes?
6. Discussion and Questions

Draft Guidelines

- Acknowledge that the relevant parts of the rules have **not** changed – this has been about improving guidance
- Overall, Draft Guidelines appear to materially advance the long term interests of consumers
- Improved alignment of Transmission and Distribution RIT processes is welcomed
- ‘Identified Need’ articulated from a consumer perspective remains critical. Welcome AER commitment to a ‘hold point’ (Explanatory Doc p 55) but concerned AER does not have any enforcement powers to make it happen
- There is a lot to learn from RITs underway – how can best practice be identified and promoted?

Consumer Engagement

- Agree with Draft Guidelines referring to existing AER CE guidance – and emphasise the need to consider RIT engagement in any future iterations
- Effective engagement with Non-Network Stakeholders **is** in the consumer interest
- Encourage NSPs to think of RITs as a ‘proposal to consumers’ e.g.:
 1. *We have identified that we may need to make a substantial investment (above the RIT thresholds) in the network in order to meet our XYZ obligations And this is due to the deterioration of performance and/or changing nature of the market etc; or*
 2. *We have identified an opportunity where expanding the network will likely increase access to lower cost generation and reduce the overall cost of electricity for consumers (net market benefits); or*
 3. *We have identified a way of addressing 1. that we expect will also provide substantial net market benefits as in 2.; and ...*
 4. *This RIT process is our opportunity to identify the option that delivers the maximum benefit to electricity consumers. We will demonstrate this by ...*

Integrated System Plan

- Released in July 2018
- Agree with AER position that ISP results and assumptions should be critical **inputs** to RIT-Ts. Summary of submissions at Table 15 of Explanatory Statement.
- Understand AEMO desire to ‘fast track’ projects through RIT but **do not agree** with the broader view that the RIT process is a barrier to efficient investment in reasonable timeframes
- Consider ElectraNet's SA Electricity Transformation RIT-T a good example of the complementary roles of the ISP and the RIT process
- The challenge is not necessarily about whether a project identified in the ISP should proceed, rather the RIT discipline ensures the best option for addressing the need is selected using ISP inputs.
- Future iterations of the ISP might provide the evidence that allows RITs to follow the existing process ... but faster

Live Examples

- ElectraNet's SAET RIT-T aka the ISP's RiverLink
 - ISP Identifies SA-NSW Interconnection as a Group 2 Priority Project
 - The ElectraNet RIT however analyses the net market benefits of 5 separate sub-options of SA-NSW Interconnection ... and allows for consideration of the impacts of other projects – such as AEMO's own Western Victoria Renewable Integration RIT-T.
- TasNetworks has released the PSCR for Marinus Link ... and intends to challenge the assumptions behind the 2018 ISP.
- Numerous RIT-D projects – many Repex based – are progressing
- A lot could be learned from these projects. How will the Guidelines capture and promote best practice in the long term?

Policy Changes? Rule Changes?

- COAG Energy Council 10 August 2018

“Ministers also asked that in addition to the consultation on the current ISP that is underway, 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.”

- The relevant parts of the rules have **not** changed – this has been about improving guidance. However, if Rules are to change there is an opportunity to better define the relationship between the RITs and the NEO.
- Arguably, the dispute mechanism is the only formal opportunity for consumers to influence the outcome and it only appears at the end of the process.
- Should the RIT process more closely follow the ‘propose-respond’, draft then final decision process of a revenue reset?

Open Questions and Discussion

- Defining and implementing RIT's for repex projects?
- How will the Guidelines capture and promote best practice in the long term?
- RIT-T currently avoids valid consumer questions around the regional allocation of costs and benefits in interconnector projects
- If a key risk to 'net market benefits' is policy risk then an efficient allocation of costs would see co-contributions from Governments
- Renewable Energy Zones (REZs) can deliver 'net market benefits' but represent a 'build it and they will come' investment risk for consumers. An efficient allocation of costs would see co-contributions from Generators ...
- Thank you!