Mr Peter Adams

General Manager, Wholesale Markets

Australian Energy Regulator

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MELBOURNE VIC 3001

Submitted via email: RIT@aer.gov.au

Dear Mr Adams,

**Draft Regulatory Investment Test for Transmission Application Guidelines**

**AER Reference: 63054**

Delta Electricity appreciates the opportunity to provide input on the Draft RIT-T Application Guidelines. Delta Electricity owns and operates the 1320MW Vales Point power station in NSW and has recently obtained retail licences from the Australian Energy Regulator and the Essential Services Commission of Victoria to sell electricity to large customers across the National Electricity Market. Delta has operated coal and gas fired generating plant in the NEM since its start in 1998 and is an active participant in both the electricity and gas trading markets.

**Capital Cost Thresholds and External Contributions**

Delta supports the RIT-T being applied to all transmission and distribution investments over the capital cost threshold irrespective of the source of funding for the investments. Any transmission or distribution project funded externally should be required to recover costs on a merchant basis. This would ensure that only transmission assets that provide an economic benefit are constructed. The alternative is to expose the market to distortions that could result in more costly outcomes for consumers.

Delta disagrees that external funds should contribute to the net benefit of the project. External funds are not a benefit to the market unless they increase the consumer and producer surplus under a range of scenarios.

**High Impact Low Probability Events**

High impact, low probability events are by their nature very difficult to quantify in economic terms and subject to a wide range of disputable assumptions. The net benefit for these types of events should be treated very carefully. Delta notes that transmission assets may not be the best solution for avoiding the consequences of these events. It is much more likely that cost effective mitigation of these types of events will be provided by control schemes or robust operational practices. Appropriate incentives should be put in place so that non-network solutions can compete to provide security services under the circumstances identified.

**RIT-T Interaction with AEMO’s ISP**

Delta does not support the inclusion of benefits from projects identified in AEMO’s Integrated System Plan in a RIT-T assessment without rigorous independent assessment under the RIT-T process. The example identified in the Draft Guidelines[[1]](#footnote-1) contemplates a project that accrues benefits from enabling a Renewable Energy Zone. The AEMO ISP is a high-level examination of potential future NEM development based on a limited number of scenarios. Further, any potential REZ transmission project is not a committed project and typically has little detail around technical parameters or costs. Any avoided capital outlay must therefore be excluded from the assessed project benefits.

Delta questions the validity of incorporating a benefit to a transmission project from connecting a REZ zone based on modelling that is inconsistent with the underlying RIT-T modelling. The project proponent must undertake its own assessment of the REZ benefits using assumptions consistent with its own models along with rigorous evaluation of the benefit of enabling renewables to connect in the identified region by comparison to other geographical locations.

Peter Wormald

Manager Regulation, Risk and Strategy

1. Page 19 [↑](#footnote-ref-1)