



Draft- for Consultation only

Regulatory investment test for distribution

Application Guidelines

This indicative version of the regulatory investment test for distribution application guidelines only contains marked-up extracts of relevant sections of this guideline which are amended to reflect changes in lieu of the AEMC's final rule for the Replacement expenditure planning arrangements rule change request.

11 August 2017

The circumstances where a RIT-D proponent does not need to apply the RIT-D include where the:

- RIT-D project is required to address an urgent and unforeseen network issue that would otherwise put at risk the reliability of the distribution network or a significant part of that network
- estimated cost to the Network Service Providers (NSPs) affected by the RIT-D project of the most expensive potential credible option to address the identified need is less than \$5 million (as varied in accordance with a cost threshold determination)
- cost of addressing identified need is to be fully recovered through charges other than charges in respect of standard control services or prescribed transmission services
- identified need can only be addressed by expenditure on a connection asset which provides services other than standard control services or prescribed transmission services
- RIT-D project is related to the ~~refurbishment or replacement~~ maintenance of existing assets and is not intended to augment a network ~~or replace network assets~~.
- ~~▪ refurbishment or replacement expenditure also results in an augmentation to the network, and the estimated capital cost of the most expensive credible option to address the identified need in respect of the augmentation component is under \$5 million (as varied in accordance with a cost threshold determination).~~

A RIT-D proponent must not treat different parts of an integrated solution to an identified need as distinct and separate options for the purposes of determining whether the RIT-D applies to each of those parts.⁸

With the exception of negotiated distribution services and negotiated transmission services, the NSP affected by the RIT-D project must ensure, acting reasonably, that the investment required to address the identified need is planned and developed at the lowest cost over the life of the investment.⁹

~~Example 1.1: Incidental augmentation associated with an asset replacement project~~

~~A RIT-D proponent has identified a 40-year-old, 10 megavolt amperes (MVA) zone substation transformer~~

⁸ NER, cl. 5.17.3(e).

⁹ NER, cl. 5.17.3(d).

~~to be at the end of its serviceable life. There are no emerging capacity constraints at the substation. The lowest available standard transformer size of sufficient capacity is 15MVA. 'Like for like' replacement through the procurement of 10MVA transformer is likely to be more costly as it is a non-standard size.~~

~~Replacement with the 15MVA transformer results in an incidental increase in substation capacity. However, as the identified need is an asset condition and not an augmentation to the network, the RIT-D proponent is not required to apply the RIT-D.~~

~~Example 1.2: Calculating the augmentation component of a credible option addressing asset condition and capacity needs~~

~~A RIT-D proponent identified aged assets and an emerging capacity constraint at a 33/11kV zone substation. A credible option to address these identified needs is to rebuild the zone substation (with an additional transformer) and decommission the existing zone substation. This will cost the RIT-D proponent \$20 million.~~

~~The cost of addressing the asset condition will be to rebuild the zone substation without the additional transformer. This will cost the RIT-D proponent \$16 million. The augmentation component of the initial credible option is its incremental cost above the 'like for like' replacement, in this case, \$4 million (\$20 million - \$16 million). Since this is below the \$5 million threshold, the RIT-D proponent is not required to apply the RIT-D.~~

1.2.1 Urgent and unforeseen investments

As outlined in cl. 5.17.3(a)(1) of the NER, a RIT-D proponent does not need to apply the RIT-D to a proposed RIT-D project to address an urgent and unforeseen network issue that would otherwise put at risk the reliability of the distribution network. Under cl. 5.17.3(c) of the NER, a proposed RIT-D investment is only subject to this exemption if:

- it is necessary that the assets or services to address the issue be operational within six months of the RIT-D proponent identifying the issue

- the event or circumstances causing the identified need was not reasonably foreseeable by, and was beyond the reasonable control of, the NSP/s that identified the need
- a failure to address the identified need is likely to materially adversely affect the reliability and secure operating state of the distribution network or a significant part of that network.

1.2.2 Commencement of the RIT-D:

Clause of the NER 11.50.5(b) sets out that:

After the RIT-D commencement date:

- (1) new rules 5.15 and 5.17 have no effect in relation to RIT-D projects that are regulatory test projects;
- (2) old clause 5.6.5A continues to apply to regulatory test projects; and
- 3) *Registered Participants* must comply with old clauses 5.6.2(e1) to (k) to the extent those provisions are relevant to the application of the regulatory test.

Clause 11.50.2 of the NER defines the RIT-D commencement date as the date that is one year from the commencement date. The commencement date is the amendment date of the relevant rule in the NER. Therefore, the commencement date is 1 January 2013, and the RIT-D commencement date is 1 January 2014.

After 1 January 2014, projects will be assessed under the RIT-D instead of the Regulatory Test, unless by 31 December 2013:

- a NSP has commenced assessing the projects under the Regulatory Test; and
- the NSP has submitted a list of those projects to the AER.¹⁰

Under cl. 11.50.5(e) of the NER, we may determine that project/s have not commenced assessment under the Regulatory Test. We consider that an NSP has commenced assessing a project under the Regulatory Test if, before 1 January 2014, it has:

- published a project evaluation under the former regulations; or

¹⁰ NER, cl. 11.50.5(c).

- identified the project in a published Distribution Annual Planning Report (DAPR); or
- released a Request for Information; or
- commenced an option analysis for the project under the Regulatory Test.