Review of the Application Guidelines for the regulatory investment tests

Submission to the Australian Energy Regulator

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Energy Networks Australia

Contents

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1. Summary

Energy Networks Australia welcomes the opportunity to respond to the Australian Energy Regulator's (AER) Issues Paper on the review of the Application Guidelines for its regulatory investment tests (RIT-T & RIT-D – collectively referred to as the 'RITs'), and also, to the open-discussion at the recent Public Forum organised by the AER.

Energy Networks Australia supports the AER's comments made at the public forum concerning the importance of achieve a balance in the RIT Application Guidelines. A balance should be attained that provides helpful and practical guidance to stakeholders on the AER's expectations of assessments required, under the RITs, whilst retaining flexibility for businesses to apply the RITs in the most appropriate way to individual circumstances.

Energy Networks Australia agrees with the AER's observations that the National Electricity Rules (NER) are highly prescriptive, in relation to both the quantitative cost-benefit assessment required under the RITs as well as the consultation process and documentation required. Moreover, there has been a substantial body of experience built up through the application and consultation on both the RIT-T and RIT-D to date, and the emergence of 'best practice' in many areas.

Energy Networks Australia considers that the update of the AER's RIT Application Guidelines can provide most value through practical guidance in areas that have to-date been sources of delay and potential dispute. Areas in which the current framework and practice may no longer suit emerging technologies or meet customer expectations should similarly be addressed.

These areas predominantly concern the application of the RIT-T in an environment of uncertain future National Electricity Market (NEM) development, and were identified as part of the earlier COAG Energy Council Review of the RIT-T, in particular:

- the way that uncertain future environmental policies should be reflected in the RIT-T (including jurisdictional policies and the National Energy Guarantee (NEG)); and
- the ability to weight the benefits from avoiding 'high impact, low probability' events in a way that is consistent with community expectations.

In addition, the context in which the RITs are being applied has changed since the publication of the initial RIT Application Guidelines, raising areas in which additional guidance would also be beneficial in ensuring a consistent view between the AER, businesses and other stakeholders as to how the RITs should be applied.

In particular:

- for the RIT-T, the interaction between the RIT-T and AEMO's Integrated System Plan (ISP).

- A consistent link between the ISP assessment of priority projects and any later RIT-T application by the TNSP to those projects will be important in order for proposed regulated investments identified in the ISP to be progressed in a timely fashion, and for the ISP assessment and assumptions not to be re-prosecuted as part of a later RIT-T assessment.

» for both the RIT-T and the RIT-D, the appropriate identification of the base case when the RITs are being applied to replacement expenditure, particularly expenditure relating to managing safety risk, environmental risk or equipment protection requirements in a manner consistent with good electricity practice and appropriate health and safety systems required in the electricity industry.

In relation to the stakeholder consultation processes associated with the RITs, Energy Networks Australia notes that this forms part of each businesses' wider stakeholder engagement strategy. Energy Networks Australia does not consider that separate, additional guidance would add value as part of the RIT Application Guidelines, given the existing AER Consumer Engagement Guidelines that apply to network businesses' engagement with their customers more broadly, and the constantly evolving nature of each business' engagement practices.

Practice to date across both the TNSPs and DNSPs has been to target customer engagement for particular RITs to the nature and complexity of the investments being considered. This has included extensive and transparent engagement with non-network providers for both the RIT-T and the RIT-D, where non-network options have been identified through the consultation process as potential solutions. However, notwithstanding the view that additional guidance is not required, Energy Networks Australia members would welcome individual feedback directly from stakeholders on the effectiveness of the current engagement practices, in order to inform existing approaches.

Sections 2 to 5 of this submission address the above issues further, and provide examples of additional guidance that Energy Networks Australia members consider would be helpful in the RIT Application Guidelines in order to reduce the scope for delays and facilitate more timely RIT applications.

Section 6 examines other areas of potential additional guidance raised by the AER in its Issues Paper. Section 7 provides a summary of Energy Networks Australia's responses to the AER's specific consultation questions.

2. Link with the ISP and RIT-T applications

The AER highlights in its Issues Paper the role of the RITs in promoting the long-term interests of consumers through promoting competitive neutrality and efficient decision-making.

A further key factor for the AER to consider is the role of the RIT-T in facilitating efficient regulated investment in line with the Integrated System Plan (ISP) being developed by AEMO as a key recommendation of the Finkel Review.[1] The ISP will only deliver genuine change if its objectives are supported by the regulatory framework, including the RIT-T. The AER's review of the RIT Application Guidelines therefore needs to incorporate updated guidance that integrates and streamlines the ISP and RIT-T processes.

Finkel concluded that a long-term, integrated grid plan is required to establish an optimal transmission network design to enable the connection of new renewable resources.[2] AEMO's inaugural ISP, to be published by June 2018, is intended:[3]

> to deliver a strategic infrastructure development plan, based on sound engineering and economics, which can facilitate an orderly energy system transition under a range of scenarios.

The Finkel recommendations envisaged that regulated augmentations in line with the ISP would be evaluated using the existing RIT-T, applied by the relevant TNSP (or AEMO in its system planning role for Victoria).

Delays in the RIT-T process will delay investment in those regulated projects identified in the ISP as being part of the optimal NEM development path, resulting in foregone market benefits. Delays in the RIT-T regulatory process may also result in sub-optimal developments, which do not require a RIT-T proceeding in the interim, potentially displacing the investments identified in the ISP. The consequence of this is a sub-optimal transition path that results in higher overall costs to consumers, and would undermine the Finkel recommendations.

The AER raises the linkage between the RIT-T and the ISP in its Issues Paper (Question 16). This was also one of the four topics discussed at the Public Forum.

The delays and difficulties in applying the RIT-T to date, particularly for interconnectors, largely stem from it being an assessment under uncertainty – which affects both the NEM modelling assumptions used, as well as the assumptions about what other investments (generation and transmission) should be assumed to be undertaken in the counterfactual (the 'base case').

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[1] Independent Review into the Future Security of the National Electricity Market ('the Finkel Review'), June 2017, Recommendation 5.1, p. 264.
[2] The Finkel Review, June 2017, p. 34.
[3] AEMO, Integrated System Plan Consultation, December 2017, p.3.

Energy Networks Australia considers that the ISP and the RIT-T Application Guidelines have a key role to play in acting as a 'circuit breaker' in this regard, and providing a consistent set of assumptions around how to treat uncertain future variables 'at this point in time', that can be adopted for RIT-T applications.

2.1 Role of the AER RIT-T Application Guideline

Energy Networks Australia considers that the AER's review of the RIT-T Application Guidelines can play a significant role in delivering sensible and pragmatic reforms within the current Rules to streamline the application of the RIT-T, making effective use of the ISP and help facilitate regulated investment that is in consumers' interests. A consistent link between the ISP's assessment of priority projects and any later RIT-T application by the relevant TNSP will be important to facilitate regulated investment identified in the ISP being progressed in a timely manner, and to avoid duplication of analysis.

Applying the RIT-T to date has highlighted that the assumptions used in the market modelling (such as technology costs and gas prices), and around uncertain climate policies are contentious, even where these mirror those adopted by AEMO.

In applying the RIT-T, TNSPs should be able to rely on the analysis, assumptions and consultation in the ISP, rather than duplicating work and stakeholder consultation already undertaken by AEMO. Analysis and assumptions regarding an ISP identified project may also provide more focus to the identified need for a subsequent RIT-T application.

It would therefore assist with minimising the scope for delay in the RIT-T process for the AER to provide clear statements in the revised RIT-T Application Guideline that it is appropriate for TNSPs to adopt the same assumptions for a RIT-T assessment as adopted by AEMO in the ISP. That is, unless external circumstances have changed sufficiently to justify a departure from the ISP assumptions in which case the TNSP would have to substantiate the rationale for departing from the ISP assumptions.

Energy Networks Australia recognises that this linkage is likely to strengthen over time, as the ISP consultation process and modelling becomes 'bedded down'. Given the limited timeframe in which the inaugural ISP is being prepared, there may need to be more flexibility in reflecting the assumptions and scenarios in the 2018 ISP in subsequent RIT-T assessments of specific investments. As the ISP process matures, Energy Networks Australia would expect that there would be a presumptive linkage between the assumptions and outcomes in the ISP, and those adopted in subsequent RIT-T assessments.

In particular, the RIT-T Application Guidelines should provide a presumptive link to the modelling assumptions adopted by AEMO in the most recent ISP or NTNDP.[4] This includes assumptions in relation to:

[4] Energy Networks Australia understands that in future years AEMO may combine updates to the ISP with the NTNDP.

- future emissions policies (including jurisdictional policies) and the National Energy Guarantee (NEG) (see section 3.1);
- technology costs;
- the uptake of Distributed Energy Resources (DER);
- wind generation capacity factors and solar irradiation assumptions; and
- timing of generator retirements.

AEMO has been consulting on the assumptions it intends to adopt for the 2018 ISP, and can be expected to adopt a similar consultation process around the modelling assumptions used for future ISP updates. This consultation process provides an opportunity for stakeholders to provide input on the assumptions. However, once AEMO has considered this input and finalised its assumptions, there is little value in re-visiting the assumptions for subsequent RIT-T assessments, unless there has been a change in circumstance, or where there are unique, localised concerns.

The broad scenarios used in the ISP are also likely to be relevant for subsequent RIT-T applications to regulated investments identified in the ISP. However, specific RIT-Ts may need to include additional scenarios or variants on these scenarios, where relevant for those specific circumstances.

Finally, the overall 'strategic development plan' set out in the ISP should inform the base case for subsequent RIT-T assessments of individual components of that plan. Energy Networks Australia understands that AEMO currently envisages that its ISP will identify a common set of developments across scenarios in the 'near term', with developments further into the future varying across the different ISP scenarios.

The presumptions should be that individual RIT-T assessments will take all other projects included in the ISP as forming the base case (such as complementary interconnector projects, intra-regional transmission network augmentations and transmission extensions to priority REZs), and assess the net benefit of adding in alternative options relating to the specific investment being considered for that RIT-T.

For example, if the ISP identifies interconnector projects between South Australia and NSW, Queensland and NSW and Tasmania and Victoria as all forming part of the optimal ISP development, a subsequent RIT-T assessment of options for additional Queensland-NSW interconnection should presumptively take as its base case a 'state of the world' where SA-NSW interconnection and Tasmania-Victoria interconnection are upgraded on the basis of the MW and timing identified in the ISP. However, where an expansion of NSW-Queensland interconnector capacity does not take place, the RIT-T assessment would then consider alternative options for the NSW-Queensland upgrade.

This would act as an important 'circuit breaker', and enable the subsequent RIT-T assessments to proceed in a more timely fashion, as individual TNSPs are not having to model iterations of all potential developments across the NEM. It would remain the case that the RIT-T would model the benefit to the NEM as a whole, with the difference, being that this NEM-wide assessment would take the other ISP developments as given.

Finally, as recognised by the AER and anticipated by the Finkel review, generation development is increasingly the driver for transmission augmentation. In the context of the energy sector transformation taking place, a central purpose of the ISP is to ensure that appropriately sized transmission projects, supported by distribution investment, are provided ahead of new generation capacity.

It is important that AEMO, in identifying priority REZs in the ISP, has confidence that the REZ will be well supported by generators, in order to manage the risk to customers associated with building transmission ahead of generation. However, having made this assessment, it is likely to be appropriate for TNSPs to rely on AEMO's assumptions relating to future generation capacity at REZs, and the transmission extensions associated with the REZ, for the purposes of subsequent RIT-T assessments of regulated extensions to connect REZs.

Energy Networks Australia intends to develop examples of the interaction between the ISP and subsequent RIT-T applications to highlight the additional guidance that would be helpful as part of the updated RIT-T Application Guideline.

The changes proposed to the RIT-T Application Guidelines to recognise the interaction between the ISP and subsequent RIT-T applications (particularly in the longer term once the ISP process is bedded down) are:

- establishing a presumptive link between the modelling assumptions adopted by AEMO in the ISP, and those used by TNSPs in subsequent RIT-T assessments,
- recognition that the scenarios adopted in the ISP are likely to be relevant for individual RIT-T assessments on regulated investments included in the ISP, but may need to include additional scenarios or variants on these scenarios to reflect more local considerations, or more up-to-date information;
- commentary that the overall 'strategic development plan' set out in the ISP should inform the base case adopted for RIT-T assessments of investments included in the ISP.

Making the AER's recognition of the role of the ISP in informing a TNSP's application of the RIT-T explicit in the RIT-T Application Guidelines will help in minimising unnecessary delays/disputes.

3. Incorporating uncertainty into the RIT

Uncertainty over the future development of the NEM provides the scope for prolonged debate, and ultimately potential dispute, of the assumptions underpinning the RIT analysis, particularly for RIT-T assessments. Since there are likely to be parties that both benefit and are adversely affected from any particular RIT-T assessment, this scope for prolonged debate can prevent RIT-T assessments being concluded in a timely manner, and delay investment.

As noted above, the ISP has the potential to play a key role in enabling the uncertainty associated with future NEM development to be addressed within the RIT-T in a tractable manner.

Energy Networks Australia provides responses below to several of the more detailed issues raised in the AER's Issues Paper relating to the treatment of uncertainty.

3.1 Treatment of environmental policies and the NEG

The COAG Energy Council review of the RIT-T confirmed that environmental policies can be included within the RIT-T assessment.[5] However, the COAG Energy Council tasked the AER with providing further guidance and clarity on the treatment of uncertain environmental policies in the RIT-T Application Guidelines, in the light of 'the uncertainty about long-term policy' and a consequent 'lack of consistency in the incorporation of future carbon and renewable energy policy assumptions' in RIT-Ts.[6]

The AER Issues Paper comments that the effects of environmental policies can be taken into account in the RIT-T 'provided the policy is reasonably understood and predictable'. Similarly, the AER comments that if the NEG is implemented, then it will provide updated guidance on how this policy should be treated in the RIT-T assessments.

However, the additional guidance that was requested by the COAG Energy Council is in relation to the treatment under the RIT-T of currently uncertain environmental policies (including the NEG and jurisdictional renewable energy targets).

Long-term environmental policies have been, and continue to be, uncertain. However, the prospect of either the NEG or another environmental policy being implemented is important for the outcome of RIT-T assessments being conducted now and in the near future, i.e. ahead of policies becoming clearer.

The AER comments in its Issues Paper that at a broad level the current Guidelines already provide guidance that environmental policy uncertainty should be captured

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[5] COAG Energy Council, *Review of the Regulatory Investment Test for Transmission*, 6 February 2017, p. 26.
[6] COAG Energy Council, *Review of the Regulatory Investment Test for Transmission*, 6 February 2017, p. 28.

through the use of scenarios. However, the underlying issue is that stakeholders can debate which scenarios should be used, and the RIT-T outcome can differ between scenarios, and will therefore depend on the weights being given to different scenarios, which are themselves subjective. Energy Networks Australia therefore does not consider that the AER's discussion of the treatment of *uncertain* environmental policies to date adequately reflects the COAG Energy Council's request, which included the relatively specific observation that:[7]

> *...there is benefit in the AER providing guidance as to the best way to model carbon reduction into future scenarios in light of the uncertainty about long-term policy*

Energy Networks Australia notes that this was one of the key drivers behind the COAG Energy Council's request for the AER to review its current RIT Application Guidelines.

The further guidance that would be useful in practice (as highlighted in the previous section) is:

- an explicit acknowledgement that TNSPs should adopt the same environmental policy scenarios and approach to incorporating these in the wholesale market modelling as used by AEMO for the ISP (unless there is more up-to-date information that makes these inappropriate, in which case the TNSP would need to make this case).
- Prior to implementation of the NEG, this implies that RIT-T assessments should adopt a constraint on carbon emissions as part of any wholesale market modelling – which is expected to be delivered by whatever policy is ultimately implemented, as well as assumptions on the VRET and QRET in line with AEMO's ISP scenarios.

3.2 Treatment of 'high impact low probability' events

The COAG Energy Council recommended the AER revisit how best to account for 'high impact low probability' (HILP) events as part of its RIT-T review. Relevantly, the COAG Energy Council referred to the ability to 'better weight' these events, to better reflect public expectations.[8]

Energy Networks Australia recognises that the current RIT Guidelines already discuss incorporating HILP events on the basis of 'extreme' scenarios that are then weighted by their (low) probability of occurrence. Energy Networks Australia does not consider that additional guidance o on how to treat HILP events on this basis is required; the approach is already clear and has been applied by a number of NSPs.

However, Energy Networks Australia considers that the current approach and guidance does not effectively addresses what the COAG Energy Council has identified as the ability to reflect public expectations in the RIT-T framework with regard to HILP

[7] COAG Energy Council, Review of the Regulatory Investment Test for Transmission, 6 February 2017, p. 37.
[8] COAG Energy Council, *Review of the Regulatory Investment Test for Transmission*, 6 February 2017, p. 37.

events. This includes proactively reducing the possibility of large-scale supply disruptions due to HILP events. It also includes the flexibility to appropriately weight scenarios that consider factors such as the unexpected bringing forward of the closure date of a major generator.

Energy Networks Australia considers that in order to address the shortcoming in the current RIT in relation to HILP events, as recognised by the COAG Energy Council in the case of the RIT-T, that the wording of the RITs themselves need amendment.

The requirement in the RITs to weight the scenario by the probability of it occurring does not provide the flexibility for the scenario to be given a higher weight where that may be justified. For example, on the grounds of the desirability from a policy or customer perspective of avoiding such a high impact event. This can constrain the ability to identify 'least regrets' investments that would address these events.

A change to the wording in the RIT-T/RIT-D on scenarios needing to be weighted by the 'probability of each relevant reasonable scenario occurring' would provide the flexibility to consider (and consult on) assigning different weights to HILP events for investments where they are particularly relevant. For example, those that would provide flexibility to accommodate earlier than anticipated generator retirements. Whilst probability weighting of scenarios is likely to remain relevant for many RITs, providing the flexibility for networks to propose (and justify) alternative weightings where relevant for HILP events would better align the RIT assessment with customer expectations.

Energy Networks Australia notes that the requirement for scenarios to be weighted by probability is not reflected in the Rules, and could be addressed by the AER through a change to the RITs (specifically clause (4)(a)(ii) of the RIT-T and (6)(a)(ii) of the RIT-D):

- Although this would go further than making changes to the AER's RIT Application Guidelines, Energy Networks Australia urges the AER to consider making such a change to the RIT wording, in order to effectively address this issue.
- A complementary change that could be made is the ability to better reflect the cost of some HILP events by adopting a Value of Customer Reliability (VCR) that appropriately reflects the costs associated with widespread disruptions. This may be through the use of a VCR multiplier, as previously suggested by AEMO. 9 (See discussion in section 6.4).
- However, in the absence of a change to the requirements for scenario weighting, it is likely that avoidance of HILP events will continue to have very little impact on the outcome of RIT assessments, as a consequence of the low probability of such events occurring. However, this 'expected value' may, be below the weight that customers would place on being able to avoid HILP event impacts, where they are risk averse.

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[9] AEMO, *Consumer Forum Meeting Pack 5 August 2016, Handout 4: Regulatory Investment Test for Transmission (RIT-T) Improvements*, p. 3.

The changes required to the RIT Application Guidelines are:

- An amendment to the wording of clause (4)(a)(ii) of the RIT-T and (6)(a)(ii) of the RIT-D as follows: 'weighting the benefits [..] by the probability of each relevant reasonable scenario occurring (or by an alternative weighting, where appropriate)'.
- Recognition that the appropriate VCR value for HILP events may be a multiple of typical VCR values.
- A discussion in the RIT Application Guidelines that notes that whilst the AER's expectation is that scenarios will generally be weighted by their probability of occurrence, the RITs provide the flexibility for NSPs to adopt different scenario weightings where justified. .

3.3 Additional guidance on scenario analysis

The AER suggests in its Issues Paper that it could provide further guidance on 'developing and assessing reasonable scenarios of future supply and demand to encourage network businesses to adopt a more consistent approach to forecasting different states of the world'.

Energy Networks Australia does not consider that further guidance on the development of scenarios is required, and that it is important to maintain flexibility for NSPs to develop (and consult on) scenarios that are the most relevant given the context of a particular RIT.

As discussed above, for transmission investments identified in the ISP, it is likely that the scenarios used in the ISP will also be relevant for the RIT-T, although there may be some modifications to reflect local conditions or more up-to-date information.

In the case of repex investments, there may be circumstances in which only one scenario is required.

The AER proposes revising its guidance to recognise that it may be appropriate for scenarios to vary more than one parameter at a time. Energy Networks Australia notes that this is already the approach adopted in many RIT assessments. Energy Networks Australia also notes that sensitivity testing under RITs is often undertaken in order to determine which variables are likely to change the outcome of the assessment (and which may therefore be reflected in a scenario). Where sensitivity testing shows that the RIT outcome is not affected by changes to a given parameter, it is not then typically considered further.

Energy Networks Australia considers that no changes are required to the RIT Application Guidelines in relation to scenario analysis.

3.4 Option value

The calculation of option value is an area in which the COAG Energy Council asked the AER to provide further guidance.

Energy Networks Australia considers that the wording of the RIT Application Guidelines should be updated to recognise that consideration of option value may go beyond scenario analysis. In particular, these two assessment techniques can perform fundamentally different roles – namely:

- scenario analysis primarily tests the robustness of the assessment to different future outturn conditions, (e.g. what are the implications for the estimated net market benefits of each option, if actual demand is higher or lower than the current central forecast, and/or the development and adoption of new technologies increase); while
- option value assessment tries to capture the value of adapting an investment strategy over time in response to learning about future outturn conditions, (e.g., being able to expand an initial investment to accommodate future spot load once that load has been committed), compared with initial investment options that do not provide for future expansion.

Scenario analysis can be useful in assessing the flexibility of an investment (such as an interconnector) in continuing to provide market benefits across a broad range of potential future market outcomes.

While option value can often also be estimated through the use of scenarios in a RIT, more sophisticated option value techniques can more accurately assess the difference in the net benefit between fixed and flexible investment strategies.

The prerequisites for 'option value' (as defined above) are that there is:

- significant uncertainty about future conditions, such as the connection of a specific spot load or the extent of generator connections, or future environmental policies;
- 'learning' about that uncertainty, i.e. an objective point at which the uncertainty is removed (or substantially lowered);
- flexibility in at least one investment alternative over time (i.e., the ability to 'stage' the investment); and
- the possibility of regret (that is, no 'obvious' best alternative under all future outcomes).

Energy Networks Australia supports the AER developing a worked example of option value, though this is likely to prove complex in practice. Energy Networks Australia considers that a worked example based around a network extension to a REZ would be the most helpful, given the context of the ISP. That could reflect, for example, estimating the option value of a network investment to connect a REZ, where, say, a higher capacity line is installed but operated at a lower voltage until the point at which the quantum of generators connecting in that REZ justifies further investment (i.e. installation of a substation) to be able to operate the line at a higher voltage.

ElectraNet's recent Eyre Peninsula RIT-T PADR includes option value modelling. Energy Networks Australia would be happy to discuss some of the practical issues associated with option value modelling with the AER where that is helpful in developing the worked example.

The change that is required to the RIT Application Guidelines is:

- A change to the discussion in section 3.6 and section 8 of the RIT-T and RIT-D Application Guidelines to acknowledge that option value may in some instance go beyond scenario analysis.

4. Application of the RITs to repex

Energy Networks Australia notes that the AER has already updated its RIT Application Guidelines to reflect the extension of the scope of the RITs to repex, albeit in a limited manner.

Energy Networks Australia does not consider that extensive additional guidance is required in the AER's RIT Application Guidelines to address the application of the RITs to repex. However, below Energy Networks Australia has identified three areas in which further guidance may be helpful in furthering a common understanding between businesses, the AER and stakeholders.

4.1 Selection of a base case

Energy Networks Australia supports the adoption of a 'business as usual' base case for repex RIT assessments, where the base case represents a credible option that could be adopted by the business, and which remains compliant with the obligations (including safety obligations) placed on the business.

For both the RIT-D and RIT-T, the use of a 'business as usual' base case to assess the options against would not change the outcome of the RIT. However, it would avoid the analysis otherwise required to construct an unrealistic 'do nothing' base case, which could not in practice be adopted as a course of action by the network business.

The AER raises the prospect of changing the Application Guidelines for the RIT-D (which currently provide the flexibility for the DNSP to select any option as the base case against which to assess other options – referred to in the Application Guidelines as a 'base case credible option') to require the base case to be a 'business as usual' base case for repex projects, unless failure to replace would violate applicable reliability standards.

It is important to be clear on what is meant by 'business as usual' in this context. In particular, Energy Networks Australia considers that the base case should be treated consistently as with other credible options, i.e. that it is considered both technically and commercially feasible, and is consistent with the obligations on the network business (including safety obligations).

The current AER RIT-D Application Guidelines refer to a 'do nothing' base case as well as a 'base case, in which no credible option is implemented by the DNSP' to refer to the situation where a 'base case credible option' is not used. The discussion at the recent Public Forum around what the 'do nothing' option involves for repex projects had general acceptance that this did not entail 'running to failure'. Instead, the discussion centred on the 'do nothing' option looking more like 'business as usual' and that it should reflect a credible option, while noting that additional guidance on what this means should be provided in the updated Application Guidelines.[10]

[10] AER, *AER regulatory investment test public forum: Discussion summary*, p. 1

That is, in the case of replacement expenditure, the 'do nothing' base case is intended to capture the activities that the NSP would continue to undertake (i.e., business as usual, or 'BAU') in the absence of undertaking additional investment. This includes investments and expenditure to comply with safety obligations.

For some repex RITs, the BAU base case will reflect increasing reactive maintenance costs, as aging assets fail more frequently, and this will often occur with an associated increase in unserved energy, where the asset failure leads to supply interruptions. Both the increasing risk of failure (and consequent costs), and the associated risk of unserved energy (and consequent costs) can be valued using a 'risk-cost approach', and incorporated into the RIT base case.

However, given the wide range of different replacement expenditure for which a RIT will need to be applied, driven by different identified needs (including to address safety-related concerns), not all BAU base cases will reflect either reactive maintenance, or an associated risk of supply disruption – for example:

- in some cases, where replacement on failure is not a practical option, the BAU activity will be a replacement of assets once their risk of failure reaches a certain level; while
- in other cases, where an asset is required to reflect redundancy (duplication) obligations in the NER (such as the requirement to maintain secondary protection systems[11]), failure of any asset would lead to a breach of the business' obligations, but would not by itself lead to unserved energy.

It is therefore important that the Application Guidelines provide flexibility for NSPs to define a 'business as usual' base case as appropriate for specific RIT assessments.

Energy Networks Australia feels strongly that the Application Guidelines should not preclude or prejudge a NSP's particular asset management practice. Energy Networks Australia notes that this sentiment was captured in the AEMC's Final Determination for the replacement expenditure planning arrangements Rule change, which concluded that the AER should not be prescribing asset management practices (or guidance), on account of there being a variety of best practices (that can change over time) as well as the NSP being best placed to make asset management decisions.[12]

The BAU base case should in effect reflect a credible option that could be undertaken by the NSP. This avoids time and resources being spent on identifying and quantifying a 'base case' which is purely hypothetical, and which does not reflect an option that the NSP could in practice not undertake (such as 'run to failure'). Energy Networks Australia understands that this was the rationale behind the current flexibility

[11] For example S5.1.9(c) of the NER, which requires sufficient primary and back-up protection systems.
[12] AEMC, *National Electricity Amendment (Replacement expenditure planning arrangements) Rule 2017*, Final Determination, 18 July 2017, p. 52.

incorporated into the RIT-D in relation to the selection of a base case, particularly for reliability corrective actions.[13]

Energy Networks Australia considers that the current wording of the RIT-D Application Guidelines provides flexibility for DNSPs to adopt a BAU base case for repex assessments, and that additional guidance is not required. If additional guidance is provided, it would need to be worded in a way that does not require a DNSP to develop a base case that is not in reality a credible option.

Energy Networks Australia also considers that the flexibility to select an appropriate BAU base case should be extended to the RIT-T, via amendments to the RIT-T Application Guidelines, for both repex and augex RIT-Ts.

The AER Issues Paper refers to the RIT-T requiring the base case to be a state of the world in which the network business does not implement a credible option – which it terms a 'business as usual' base case.

Energy Networks Australia recognises that there are differences in the wording of the NER for the relevant RIT-T and RIT-D provisions, and that the former does make explicit reference to the analysis comparing options against a case where 'no option is undertaken'. Energy Networks Australia considers that it would be appropriate and pragmatic to also interpret 'no option is undertaken' as being a reference to the business as usual base case that reflects what a TNSP would do in the absence of the options being considered.

For RIT-Ts that are driven by market benefits, this BAU base case would literally be one in which no other action was taken by the TNSP. However, for RIT-Ts being undertaken in relation to reliability corrective action, the BAU base case would reflect the actions that would otherwise be undertaken by the TNSP. This would result in a BAU base case that was consistent with obligations placed on the TNSP, and which therefore represents a credible alternative to the investments being considered.

Notwithstanding the different wording of the NER for the RIT-T, allowing a 'business as usual' base case for the RIT-T would be a pragmatic approach, and would reflect the recommendation of the AER's own economic specialist (Dr Darryl Biggar[14]).

[13] AER, *Regulatory investment test for distribution Application Guidelines*, 18 September 2017, p. 35.
[14] Biggar, D., *An Assessment of the Modelling Conducted by TransGrid and Ausgrid for the 'Powering Sydney's Future' Program*, May 2017, pp. 2, 3 & 27.

The change to the RIT Application Guidelines required:

- For the RIT-D Application Guidelines, Energy Networks Australia does not consider that any change is required to the current wording, which already provides flexibility for the DNSP to select an appropriate base case (which for some repex RIT-Ds cases may be an alternative option, where 'run-to-failure' does not represent a credible BAU alternative).
- Energy Networks Australia proposes that the AER amend its RIT-T Application Guidelines to allow for the adoption of a BAU base case, which in some circumstances may also be one of the credible options being considered in the analysis.

4.2 Clarification that the RITs apply to projects and not programs

The NER requires the RITs to be applied to 'RIT-T projects' and 'RIT-D projects'.[15] These are in turn defined in the NER to refer to projects the purpose of which is to address an identified need identified by the TNSP or DNSP, respectively, where an 'identified need is defined as the objective the NSP seeks to achieve by investing in the network.[16]

As part of the Rule change that extended the RITs to repex, the issue of whether the RITs would extend to replacement programs (such as those relating to wooden poles, in the case of DNSPs) was raised. The AEMC suggested that the AER may provide further guidance in this area.

Programs of replacement works would not routinely be expected to be subject to a RIT, given that in the majority of cases, there are likely to be no credible non-network alternatives, and the replacement program is assessed by the AER as part of the regulatory determination process. It is also likely that activities being conducted as part of a replacement program will not address the same identified need across various locations, and therefore may not exceed the relevant RIT threshold for each identified need.

The exception is where a specific program may give rise to credible non-network alternatives, which would be identified by the network business on a case by case basis. Energy Networks Australia considers that it would be difficult to provide written guidance that encapsulates the relevant considerations for when a RIT may or may not be applied to a replacement program. As a consequence, Energy Networks Australia does not consider that additional guidance is required in the RIT Application Guidelines.

Energy Networks Australia does not consider that changes are required to the Application Guidelines with respect to distinguishing projects and programs.

[15] NER 5.16.3(a) and NER 5.17.3(a).
[16] See the definitions of 'RIT-T project' 'RIT-D project' and 'identified need' in clause 5.10.2 of the NER.

4.3 Consideration of dispatch benefits for RIT-D assessments

The Rules mandate a more limited list of market benefit categories for inclusion in the RIT-D than is required for the RIT-T. In particular, changes in fuel costs associated with different patterns of generator dispatch are deliberately excluded under the RIT-D.

With the increasing adoption of distributed generation, and the potential for the development of islanded microgrids as an alternative to edge of grid network replacement at the distribution level, the impact of options on wholesale market outcomes may sometimes be relevant for RIT-D assessments.

The Rules allow the RIT-D to include 'other market benefits' that the AER considers relevant. However, the current RIT-D Application Guidelines states that there are unlikely to be other market benefits associated with a RIT-D.[17]

Energy Networks Australia suggests that the RIT-D Application Guidelines be updated to acknowledge that other market benefits relating to the impact of distribution investments on generation dispatch may be relevant in some circumstances.

Change required to the RIT-D Application Guidelines:

- The current guidance on the inclusion of 'other benefits' should be revised to acknowledge that there are circumstances in which avoided fuel costs may become a relevant benefit category.

[17] AER *RIT-D Application Guidelines*, September 2017, Section 10.

5. Stakeholder Engagement

Energy Network Australia has recently concluded its Electricity Network Transformation Roadmap, which recognises the importance of customer input and consultation and includes customer orientated electricity as the one of five key areas of transformational focus.[18]

Effective engagement in relation to RIT applications includes consulting with customers generally as well as potential non-network providers leading up to and throughout the RIT process. Ensuring all relevant parties have had the opportunity to be involved in the process improves the prospect of identifying efficient non-network solutions, as well as broadening understanding of the drivers for the investment and identified solution.

Energy Networks Australia considers that the existing engagement strategies of individual NSPs provide an effective, flexible and dynamic framework for consulting with stakeholders, which can be appropriately tailored to specific RITs. In light of this, Energy Networks Australia does not consider that additional guidance is required in the AER's RIT Application Guidelines on consumer engagement for the RITs specifically. The sections below outline why this is the case for general RIT consultation, as well as specific consultation with non-network providers, and provide examples of the types of consultation currently undertaken in relation to RITs. Individual NSPs are always open to hearing feedback from stakeholders directly, in order to further improve their engagement, as this is an area that is constantly evolving.

5.1 RIT consultation forms part of NSPs wider engagement strategies

The AER raises questions in its Issues Paper on whether the RIT Application Guidelines should provide additional guidance on how network businesses should engage with customers through the RIT process.

The Rules require publication of certain information in the various RIT reports, but do not set out the means of engagement on that information (e.g. website publication, public forums, stakeholder briefings etc.).

Energy Networks Australia notes that consultation on the RITs forms part of each businesses' wider customer engagement strategy. This includes:

- the engagement that NSPs undertake on their Annual Planning Reports; and
- the extensive engagement around the regulatory proposal process, which has now become a key focus of the regulatory framework.

[18] Energy Networks Australia, *Electricity Network Transformation Roadmap*, Final Report, April 2017.

Practice to date across both the TNSPs and DNSPs has been to target customer engagement on particular RITs to the nature and complexity of the investments being considered, as well as their overall magnitude. Examples of consumer engagement on RITs to date are set out in the table below (which is not intended to be exhaustive).

Citipower, Powercor and United Energy	» Publish demand side engagement plans » Meet with local Councils and major customers as relevant when RIT-Ds or major works are undertaken in their area » Community forum for Brunswick Terminal Station RIT-T » UED - annual public forums on its DAPR
SA Power Networks	Kangaroo Island RIT-D (substantial consultation given significance of scenarios being considered): » Notification of publication of all documents to SAPN's Demand Side Engagement Register (open to all parties) » Public Forum ahead of Non-network option report » Ran tours for non-network proponents to key sites » Bilateral sessions with key stakeholders (e.g. Councils)
ElectraNet	South Australian Energy Transformation: » ElectraNet published a PSCR on 7 November 2016, and subsequently also published a Market Modelling Approach and Assumptions Report, and a Supplementary Information Paper to provide further information and opportunity for engagement. Over 30 responses were received. » ElectraNet engaged a consultant to investigate combinations of non-network proposals that together are able to meet the identified need.
Powerlink	» Has published a RIT-T Engagement matrix on its website[19] » Examples of broader engagement activities include the North Queensland Forum, Transmission Network Forum and Future Transmission Network webinar/s.
TransGrid, Ausgrid	Powering Sydney's Future RIT-T (substantial engagement given nature of investment and potential for non-network options): » Between January and October 2014, TransGrid and Ausgrid implemented a range of engagement activities including workshops, information sessions, surveys and briefings » Through this engagement TransGrid and Ausgrid received feedback from more than 350 stakeholders.

[19] Available at: https://www.powerlink.com.au/rit-t-stakeholder-engagement-matrix

Energy Networks Australia does not therefore consider that separate, additional guidance would add value as part of the RIT Application Guidelines, given the existing AER Consumer Engagement Guidelines that apply more broadly and the constantly evolving nature of engagement. Energy Networks Australia notes that this same view was also prevalent amongst consumer representatives at the AER Public Forum.

Energy Network Australia does not consider that additional guidance on consumer engagement is required specifically for the RIT processes, given the AER Consumer Engagement Guidelines and the network business' broader engagement strategies.

5.2 Constructive engagement with non-network providers already occurs

The AER raises the question of whether greater guidance should be provided to DNSPs on their non-network options reports and non-network screening requirements.

Energy Networks Australia notes that direct engagement with non-network providers is a feature of each DNSPs overall business as usual engagement strategies. This currently occurs in a number of ways, both formal and informal, and is not restricted to particular RIT-D applications. Energy Networks Australia therefore considers that additional guidance, as part of the RIT-D Application Guidelines is not required.

Relatedly, the COAG Energy Council recommended in its RIT-T Review that the AER consider whether TNSPs should be subject to the same requirements as DNSPs to screen for non-network options and consult on a non-network options report.

The AER comments in its Issues Paper that the Rules still require substantive engagement by TNSPs on non-network options in the RIT-T process, and that this should sufficiently accommodate effective consultation.

Energy Networks Australia supports this view, and considers that there is already effective consideration of non-network options by TNSPs under the current Rules. For example, bilateral discussions early on in the process for some RIT-Ts, have allowed TNSPs (and proponents) to understand the 'credibility' of non-network options, while RFT-type processes later on have assisted in allowing credible non-network options to be assessed alongside network options.

Specific examples include:

- TNSP's active contribution of data to AREMI's Network Opportunity Mapping, funded by ARENA and in conjunction with UTS/ISF and Energy Networks Australia, which focuses on the potential for non-network solutions.
- ElectraNet engaged with a non-network proponent as part of the proposed Baroota substation upgrade to refine the technical and commercial characteristics of the solution it proposed. Despite the efforts of the proponent to reduce costs,

the economic analysis showed that the identified non-network solution did not produce a net market benefit.[20]

- Powerlink's PACR Supply to Bowen Basin coal mining area, which resulted in the installation of four capacitor banks in the Bowen Basin area and the provision of network support services between 2014 and 2016 (which deferred the construction of a $110m transmission line).
- Powerlink's introduction of a Non-Network Solution Feasibility Study process to support the potential for the uptake of non-network solutions - specifically when considering options to meet an identified need, which may fall outside the requirement to undertake a RIT-T. In the future, this would relate to augmentation and replacement needs under $6 million.
- As part of the Powering Sydney's Future RIT-T, TransGrid ran an Expression of Interest for non-network alternatives to help assess whether a non-network solution could be used to defer the project or to reduce the risk of unserved energy.
  - In response to the PSCR, TransGrid and Ausgrid received enquiries from several non-network service providers and in December 2016, as requested by potential non-network service providers, extended the submission deadline to February 2016 to enable more rigorous proposals to be developed. In total eleven submissions were received from non-network proponents.
  - TransGrid held meetings with non-network proponents throughout the RIT-T process and continue to do so.
  - As a consequence, in the PACR TransGrid proposed a four-year demand management program to help manage the risk of unserved energy, and economically defer the project.

Energy Networks Australia does not consider that there is a need for further guidance on this area, and expects it is an area where TNSPs will continue to develop their engagement strategies as the non-network market develops further. However, Energy Networks Australia would be interested in understanding any views from non-network proponents on areas in which engagement could be improved, as this is an area of continual evolution.

Energy Networks Australia also notes that in some instances RIT-T processes elicit responses from non-network proponents that are lacking in substantive detail, including (but not limited to) the technical characteristics of their solution. In these cases there is balance to be struck in following up with the potential proponent (and where the lack of detail is often a sign of a non-credible option), and the timeframes for progressing the RIT-T process. In the event that the AER does decide to provide

[20] Network options also did not produce a net market benefit.

further guidance on engagement, Energy Networks Australia considers that the AER should set out its expectations in this circumstance.

Energy Networks Australia does not consider that there is a need to amend either the RIT-D or the RIT-T Application Guidelines or for a Rule change to align the RIT-T and RIT-D requirements regarding consultation on non-network options.

5.3 NSPs to provide more information on cancellation of RIT assessments

The AER Issues Paper comments that there is little guidance on the information that a RIT proponent should publish when it cancels a RIT assessment, and suggests that more information should be provided to increase transparency.

Energy Networks Australia does not consider that this is a priority area for additional guidance to be provided. NSPs typically provide information on the key changes to assumptions/circumstances that have led to the decision to cancel the RIT, as well as flagging future changes that may lead to the process being re-started.

If additional guidance is to be provided in this area, Energy Networks Australia considers that it should seek to formalise the approach typically taken by NSPs currently, i.e. simply state the items to be commented on by the NSP(s) cancelling the RIT, such as:

- the key changes to assumptions/circumstances that have led to the decision to cancel the RIT; and
- future changes that may lead to the process being re-started, including the indicative timeframe over which the assumptions relied on remain relevant.

Overall, it is important that any information requirement is proportionate to the benefits that will result from increased transparency.

Energy Networks Australia does not consider that further guidance is required in relation to information to be published following the cancellation of RIT assessments.

6. Other Issues

This section outlines Energy Networks Australia's views on four other issues raised in the AER Issues Paper, namely: the treatment of external financial contributions in the RIT assessment; characterisation of the 'identified need'; the discount rate and how it captures certain risks; and the 'value of customer reliability'.

6.1 External financial contributions

The AER Issues Paper raises questions about how external financial contributions should be treated in the RITs. This is not an area in which guidance is currently provided, and Energy Networks Australia supports the AER providing greater clarity in this area, as external contributions may become a more widespread issue going forward.

The AER proposes that:

- a RIT assessment is not required where an external financial contribution results in the project falling below the RIT cost threshold; and
- where the resulting cost of the project still exceeds the threshold, the amount of the external contribution should enter the RIT analysis as an offset to the capital cost (i.e. it reduces the effective cost of the option, which is the cost that remains to be recovered from customers through regulated charges).

Energy Networks Australia supports this general approach as proposed by the AER, with one important amendment. The AER proposes that only financial contributions that come from outside of the NEM (such as from government) should be treated in this way. The AER considers that contributions from parties within the NEM (such as generators) would represent a transfer, and so would not enter the cost benefit assessment.

In contrast, Energy Networks Australia suggests that the same approach apply for all external contributions, including those from parties within the NEM (including generators). The external funding would then not enter the RIT analysis, but would reduce the capital cost of the option that is assessed under the RIT.

The RITs are being applied to justify the costs that customers will bear as part of their regulated charges. External funding by a government, generator or any other party will reduce the amount that customers have to pay through regulated charges. Energy Networks Australia considers that there is no need to draw a distinction between which party is providing the funding. Doing so would mean that some investments, where the benefits outweigh the costs customers would bear, would not proceed.

The AER is correct that the RIT assessments are based on a NEM-wide view, under which transfers between parties in the NEM do not enter the cost benefit analysis. However, the RITs apply in assessing the costs and benefits of the regulated investment, which is *after* the point that the external funding has been deducted. Any external funding by a market participant is therefore not a transfer within the RIT

assessment, as it has already been netted of the regulated costs, which are being assessed in the RIT.

6.2 Identified Need

The AER proposes providing additional guidance on how RIT proponents should describe an identified need. However, Energy Networks Australia is not clear on the precise approach being proposed by the AER.

Standard practice is to describe the identified need in one of two ways:

- if an investment is a reliability corrective action, by reference to the relevant standard that the investment is needed to meet (such as a jurisdictional reliability standard, safety obligation or technical obligation in the NER); or
- if an investment is proposed for market benefit reasons, then broadly highlighting the expected sources of market benefit (e.g. enabling lower cost dispatch by facilitating the connection of low cost renewable generation in a particular geographic area).

Energy Networks Australia does not consider that there is a need to provide additional guidance relating to an identified need generally. However, Energy Networks Australia does consider that an example of how to couch a safety-related identified need would be useful (i.e. where the NSP considers replacement expenditure is required to address an increasing safety risk).

Energy Networks Australia also noted that analysis and assumptions regarding an ISP identified project may provide more focus to the identified need for a subsequent RIT-T.

6.3 Discount rate and treatment of risks

Energy Networks Australia supports the AER's view that the default approach should be to adopt the same discount rate across all options as part of a RIT analysis, and notes that this is current practice.

The role of the discount rate in the NPV assessment is to calculate the present value of a stream of future costs and benefits, and to test the sensitivity of the RIT outcome to a range of different values for the discount rate. The discount rate is applied to both costs and benefits – including benefits to the market, which are appropriately reflected by the adoption of a commercial discount rate.

The discount rate is not addressing any difference in the perceived risk between different options within the same RIT. The cost of non-network options in the RIT assessment is based on the price which the non-network proponent offers to provide the service. The proponent's view of the 'riskiness' of providing the service is reflected in its price, and doesn't need to be addressed via the choice of discount rate.

Energy Networks Australia does not consider that there is a need to provide additional guidance relating to the discount rate.

6.4 Value of Customer Reliability (VCR)

The AER is proposing that the RIT proponent should use VCR estimates from a reputable source, but that the RIT Application Guidelines need not be overly prescriptive on the selection of an appropriate VCR, as the VCR could vary project by project.

Energy Networks Australia supports this position. It would be helpful for the AER to make explicit in its RIT Application Guidelines that the choice of VCR estimate may vary from application to application, and should reflect the specific factors relevant to a particular RIT, including:

- Whether the outage is temporary or prolonged;
- Whether the outage would affect a wide or narrow area; and
- Customer type.

As discussed earlier, for some HILP events, it would be appropriate to adopt a VCR value that appropriately reflects the costs associated with widespread disruptions. This may be through the use of a VCR multiplier, as previously suggested by AEMO. [21]

Energy Networks Australia notes that it is important that VCR estimates are 'fit for purpose' to distinguish between the specific factors above. Energy Networks Australia notes that the COAG Energy Council has submitted a Rule change under which the AER would be tasked with providing updated VCR estimates[22]

[21] AEMO, *Consumer Forum Meeting Pack 5 August 2016, Handout 4: Regulatory Investment Test for Transmission (RIT-T) Improvements*, p. 3.
[22] This Rule change is listed as pending on the AEMC's website at the time of this submission.

7. Summary of responses to specific questions

AER questions	Energy Networks Australia response and section reference
Question 1: Do you agree that the RITs promote the long-term interests of consumers by promoting competitive neutrality and investment efficiency? Are there any other factors we should consider?	The RIT-T Application Guidelines can play an important role in helping to deliver investment in line with the ISP, by drawing a presumptive link between the ISP analysis and the later RIT-T analysis. See section 2
Question 2: Do you agree that a RIT assessment is not required where the external financial contribution results in the project falling below the cost threshold?	Yes – although Energy Networks Australia considers that the same treatment for external contributions should apply regardless of the source of that funding – see section 6.1
Question 3: How do you think we should amend the RIT application guidelines to better facilitate consumer engagement throughout the RIT application process?	Energy Networks Australia does not consider that any change in the guidelines is required, as engagement on the RITs forms part of the NSPs' wider engagement approach, including on TAPRs/DAPRs and regulatory proposals – see section 5.
Question 4: What specific guidance would help distribution businesses better use their non-network options reports and non-network screening requirements to engage with non-network service providers? Are there specific ways we should complement this guidance with greater oversight over distribution business' non-network engagement activities?	Energy Networks Australia does not consider that any additional guidance is required – see section 5.2

Question 5: Do you agree that the RIT–T process accommodates the consultation required for proponents to effectively test the market, but would benefit from guidance to better align information provided in the project specification consultation report with that provided in the non- network options report under the RIT–D? Alternatively, would it be preferable to request a rule change for non-network consultation under the RIT–T to more closely mirror what the NER require for the RIT–D?	Energy Networks Australia agrees that the current RIT-T process facilitates effective engagement with non-network proponents, and does not consider that there is a need to amend the current guidance in order to align with the requirements for the non-network options report. Energy Networks Australia does not consider that a Rule change is required. See section 5.2.
Question 6: What additional guidance should the RIT application guidelines provide regarding the information network businesses should publish when they cancel RIT assessments?	Energy Networks Australia does not consider that any additional guidance is required - see section 5.3.
Question 7: Do you agree with our proposed approach of providing further guidance on how RIT proponents should describe an identified need?	Energy Networks Australia does not consider that any additional guidance is required - see section 6.2
Question 8: Is there any specific guidance you would like us to provide in clarifying how RIT proponents should calculate option value, make forecasts and test different states of the world? Are there particular scenarios where a worked example would be helpful in providing this guidance?	See section 3.4
Question 9: Would any guidance in addition to the areas listed in section 5.3 of this issues paper assist in the application of the RITs to repex projects? Is there particular guidance stakeholders would like to help understand how the RITs will apply to asset replacement programs?	Energy Networks Australia considers that additional guidance on the base case and clarification that dispatch costs may sometimes be relevant for RIT-D applications would be helpful - see section 4

Question 10: Do you agree that the RIT is a market-wide cost–benefit analysis? Do you agree that, as a consequence of this, funds that move between parties within the market should not affect the final net-benefit, but funds that comes from outside the market to a party within the market should increase the final net benefit?	Energy Networks Australia considers that the same treatment for external contributions should apply regardless of the source of that funding. The RITs are addressing the question of whether expected benefits outweigh the remaining costs customers would pay for the investment– see section 6.1
Question 11: Do you agree that the scenario analysis currently prescribed in the RIT Application Guidelines can sufficiently capture the effects of high impact, low probability events and system security requirements? Do the RIT–T Application Guidelines require expanding to assist proponents in accounting for these events? Is there specific guidance you would like on this topic, or particular scenarios where a worked example would be helpful—and how (if at all) should this differ between the RIT–D and RIT– T Application Guidelines?	No. Energy Networks Australia suggests that greater flexibility should be provided to weight scenarios, through a revision to the RIT wording that currently restricts scenario weighting to reflecting probabilities – see section 3.2.
Question 12: What additional guidance would stakeholders find useful in regarding the treatment of environmental policies in the RIT–T application guidelines?	Energy Networks Australia considers that there should be recognition in the Application Guidelines of a presumptive link between the ISP scenarios and approach to environmental policies and the RIT analysis (particularly in the longer term, once the ISP process is 'bedded down') - see section 3.1.
Question 13: Do you support our proposal to expand our RIT application guidelines to specify that, as a default, RIT proponents should use the same discount rate when comparing different credible options?	Yes – see section 6.3
Question 14: What kind of additional guidance, if any, would you like the RIT Application Guidelines to provide on selecting an appropriate VCR?	Recognition that different VCR values may be appropriate for different RITs - see section 6.4

Question 15: Should we revise the RIT–D Application Guidelines to clarify that a 'business-as-usual' base case should be used for repex projects? Is there any other guidance the RIT Application Guidelines should provide on selecting an appropriate base case?	The base case used in both the RIT-D and RIT-T should reflect the credible business as usual activities that would otherwise be undertaken by the NSP, to continue to remain compliant with the obligations on them – which will vary depending on the identified need for the assessment. See section 4.1.
Question 16: Given AEMO is currently developing the Integrated System Plan (ISP), what additional guidance would stakeholders find useful in the RIT–T Application Guidelines with respect to the ISP?	The AER Guidelines should recognise the presumptive link between the assumptions and base case in the ISP, and the later RIT-T analysis – see section 2