

15 July 2013

Mr Chris Pattas  
General Manager  
Network Operations and Development  
Australian Energy Regulator  
GPO Box 520  
MELBOURNE VIC 3001



Dear Mr Pattas

### **Draft Regulatory Investment Test for Distribution and Application Guidelines**

Energex Limited (Energex) appreciates the opportunity to provide a submission on the Australian Energy Regulator's (AER's) draft Regulatory Investment Test for Distribution (RIT-D) and accompanying Application Guidelines. Energex also thanks the AER for the opportunity to discuss the draft RIT-D and Application Guidelines at the workshop held on 26 June 2013.

Energex notes from the explanatory notes to the RIT-D and Application Guidelines the AER's view that costs incurred before the RIT-D process is finalised would typically be treated as sunk costs and excluded from the cost-benefit analysis. Energex also notes the AER's stated intention at the recent workshop to give further consideration to the treatment of land and easement costs incurred prior to finalisation of the RIT-D process. Energex would support an approach that includes the disposal value or opportunity cost of strategically purchased land in the test. However, easements should be treated as sunk costs as they have no disposal value.

Energex has reviewed the worked examples provided by the AER in the draft Application Guidelines and suggests the inclusion of an additional example in section 1.2 (Investments subject to RIT-D assessment) to provide clarity in the event there are dual drivers for asset replacement, including both asset condition and future identified capacity requirements. A suggested example has been provided separately.

Finally, Energex would also like to reiterate the view that the Application Guidelines should include a statement reflecting the Australian Energy Market Commission's statement that: "The RIT-D is not intended to test the efficiency of a particular proposed investment per se, nor does it require that a particular investment that satisfies the RIT-D be undertaken"<sup>1</sup>. As noted in Energex's response to the Issues Paper, this statement is a fundamental principle of the RIT-D and a key element of which all parties involved in the RIT-D process should be aware.

Should you have any enquiries regarding this report, please contact Neil Andersen, Group Manager Revenue Strategy, on (07) 3664 4009.

Yours sincerely

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Customer and Corporate Relations

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<sup>1</sup> AEMC's Draft Determination, p. 174.

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