12 April 2018

Mr Peter Adams
General Manager, Wholesale Markets
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

Dear Mr Adams,

Review of the Application Guidelines for the Regulatory Investment Tests – Issues Paper

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Australian Energy Regulator (AER), on its consultation on the *Review of the application guidelines for the Regulatory Investment Tests – Issues Paper*. This submission is provided by Energy Queensland, on behalf of its related entities Energex Limited (Energex), Ergon Energy Corporation Limited (Ergon Energy), Ergon Energy Queensland (EEQ) and Yurika Pty Ltd (Yurika).

Should you require additional information or wish to discuss any aspect of this submission, please do not hesitate to contact either myself on (07) 3851 6416 or Trudy Fraser on (07) 3851 6787.

Yours Sincerely

Jenny Doyle
General Manager Regulation and Pricing

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Encl: Energy Queensland's submission to the Issues Paper

Energy Queensland Submission on the Review of the Application Guidelines for the Regulatory Investment Tests

Issues Paper

Energy Queensland Limited

12 April 2018

About Energy Queensland

Energy Queensland Limited (Energy Queensland) is a Queensland Government Owned Corporation that operates a group of businesses providing energy services across Queensland, including:

- Distribution Network Service Providers, Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy);
- a regional service delivery retailer, Ergon Energy Queensland Pty Ltd (Ergon Energy Retail); and
- affiliated contestable business, Yurika Pty Ltd.

Energy Queensland's purpose is to "safely deliver secure, affordable and sustainable energy solutions with our communities and customers" and is focussed on working across its portfolio of activities to deliver customers lower, more predictable power bills while maintaining a safe and reliable supply and a great customer service experience.

Our distribution businesses, Energex and Ergon Energy, cover 1.7 million km^2 and supply 37,208 GWh of energy to 2.1 million homes and businesses. Ergon Energy Retail sells electricity to 740,000 customers.

The Energy Queensland Group now includes Yurika, an energy services business creating innovative solutions and technologies. Yurika is a key pillar to ensure that Energy Queensland is able to meet and adapt to changes and developments in the rapidly evolving energy market.

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1 Introduction

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Australian Energy Regulator (AER) on its Review of the Application Guidelines for the Regulatory Investment Tests Issues Paper (Issues Paper). This submission is provided by Energy Queensland, on behalf of its related entities Energex Limited (Energex), Ergon Energy Corporation Limited (Ergon Energy) and Yurika.

Energy Queensland strongly supports efficient investment decisions that result in the highest net benefit to our customers. To that extent, we believe the Regulatory Investment Test (RIT) process needs to provide flexibility for Network Service Providers (NSPs) to deploy innovative methods to engage with non-network alternative (NNA) providers and provide information on anticipated limitations at a sufficiently early stage. We believe that the difference in drivers behind augmentation expenditure (Augex) and replacement expenditure (Repex) projects are not sufficiently recognised within the current rules and we feel that this is an opportunity for improvement. We also suggest that the current approach to the RIT could be made more efficient to reflect the increasing volume of work subject to the RIT, particularly by considering the linkages with the range of associated non-network and customer engagement initiatives already in place across the sector.

Energy Queensland has provided responses to the questions raised in the Issues Paper in the following section. Energy Queensland's DNSPs are both members of Energy Networks Australia (ENA), the national industry association that represents businesses operating Australia's electricity transmission and distribution and gas distribution networks. ENA have prepared a response to the Issues Paper and we are supportive of the positions presented in their response. Energy Queensland is available to discuss this submission or provide further detail regarding the issues raised, should the AER require.

2 Table of detailed comments

Consultation Paper Feedback Question	Energy Queensland Comment
Section 3: The Role of RITs in promoting the long term interest of consumers	
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?	Energy Queensland is a strong advocate for options that ensure safe, secure, affordable and sustainable energy solutions for the communities and customers we supply. We believe that RITs have begun to foster increased acceptance within the industry of the opportunity and solutions that NNAs can provide for network constraints. However, Energy Queensland considers that current interpretation of the RIT rules may not support or promote innovative approaches to NNA engagement options including earlier engagement. For complex projects, it is likely that NNA providers are hesitant to allocate substantial resources up front due to the commercial risk of the option not being selected as the preferred option. Additionally, there is a particular perception that NNAs may not be given a transparent and equitable evaluation compared to a network solution. In turn, this further reduces the likelihood of a detailed or quality submission from such proponents. In the main, NNA solutions are historically submitted in an incremental manner or are only available to solve some of an identified constraint. This can make the comparison to traditional solutions complex and Energy Queensland welcomes clearer guidelines on this matter. Energy Queensland agrees that the general principles of the RITs promote neutrality and efficiency. However we support consultation on the process as a mechanism to deliver further improvements and in particular, we see opportunities that could enhance outcomes

	for consumers through: • the alignment of the 'registered participant' list that Energy Queensland's NSPs Energex and Ergon Energy, and the Australian Energy Market Operator (AEMO) maintains; • assessing how information already published supports the intention of the RIT through the Distribution Annual Planning Report (DAPR) , DAPR template, Demand Management Plan and other similar mechanisms, to ensure efficiency; and • promoting earlier constraint identification including improvements through demand maps and tools. It would be beneficial for the RIT process to allow for the incorporation of earlier engagement with NNA providers and demand-side solutions prior to the detailed network limitation resolution proposal. We believe that a collaborative approach well in advance of a proposed solution may provide more opportunities for NNA proponents to establish solutions. More-over, early engagement through the screening process is likely to better cement an NSP's position for a non-network options report. Given the increasing volume of work subject to the RIT, ensuring that this process is efficient, flexible and dynamic should be a priority of the review. Specifically, ensuring that the RIT outcomes are achieved whilst avoiding any unnecessary burden to the networks which is ultimately reflected in customer prices. This should include a review and better utilisation of information that is already published that supports the RIT outcomes. Lastly, we suggest that consideration should be given to Augex projects with a high opex component (but where the capex component would not trigger a RIT) to maintain the efficiency of these proposed solutions.
Section 4.1: When do the RITs apply?	
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?	Energy Queensland supports ENA's position that funding sources from within the National Electricity Market (NEM) should reduce the effective project cost in respect to the RIT. However, we would like to understand further the AER proposal regarding how funding sources external to the NEM (such as grant funding) should be considered.

Section 4.2: Consumer engagement and the RITs	
3. How do you think we should amend the RIT application guidelines to better facilitate consumer engagement throughout the RIT application process?	Energy Queensland is supportive of the intent for greater consumer engagement and would welcome the inclusion of more guidance on best practice. Information on engagement type, purpose, cost, time and effort involved in the different options would be beneficial to help NSPs select the most appropriate form of engagement. Community consultation is already a key piece in many infrastructure projects but is not directly linked to the RIT process. Engaging consumers and the community earlier may have some very strong benefits. Energy Queensland believes in earlier engagement which may include opportunity analysis well before a formal RIT. This may include demand maps or similar incentive programs.
Section 4.3: Screening for non-network options	
4. What specific guidance would help distribution businesses better use their non-network options report 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 Queensland supports the promotion of industry best practice. From an NSP perspective, greater visibility of NNA solutions would assist in the determination of viable alternative options. For example, based on their oversight of the NEM and other RITs, the AER could publish an 'annual report' of viable or emerging viable NNA solutions as technology evolves and more solutions become viable. To ensure NNA providers are well informed, NSPs should continue to seek to provide clear information in the demand maps, DAPR and DAPR template or other means. Specifically, clearly articulating the identified need and the assumptions that underpin this along with sufficient lead time for NNA providers to prepare for the RIT process. This needs regular NSP review and NNA feedback to ensure that requirements meet expectations and provide meaningful information for all parties. We suggest this would better facilitate the non-network screening process and would be a more preferable approach to additional oversight, which increases the regulatory burden and ultimately costs to customers. Furthermore, greater engagement through the screening process is likely to better cement an NSP's position for a non-network options report.

Section 4.4: Scope for more consistency between the RITs	
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 Queensland has no objection to the proposed alignment of RIT-T to the RIT-D process regarding non-network options report.
Section 4.5: Cancellation of RIT assessments	
6. What additional guidance should the RIT application guidelines provide regarding the information network businesses should publish when they cancel RIT assessments?	Energy Queensland agrees additional guidance is required to enable NSPs to provide supporting documentation which is useful to the market. However, we caution against any requirement for significantly burdensome documentation that would increase the cost to NSPs and therefore ultimately their customers. The risk is even greater for repex projects as NSPs attempt to invest closer to failure point. As such, a minimum information requirement or pro-forma would be helpful.
Section 5.1: Identified need	
7. Do you agree with our proposed approach of providing further guidance on how RIT proponents should describe an identified need?	Energy Queensland supports ENA's response to this question.
Section 5.2: Option value and scenario analysis	
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	Regional areas (rural/radial networks) are particularly sensitive to energy forecasts which can complicate the assessment under scenario analysis. Energy Queensland supports

different states of the world? Are there particular scenarios where a worked example would be helpful in providing this guidance?	ENA's response to this question. It can be challenging to clearly articulate a risk cost against NNA options, particularly where a third party provider is not sufficiently large enough to satisfy the NSP that the commercial risk is minimal. Furthermore, it is difficult to assess technology risk in response to an NNA. As such, NSPs would benefit from more examples around these aspects. Energy Queensland would also support a DNSP worked example for guidance on how to balance the need for the lowest cost solution while still providing high option value.
Section 5.3: Replacement expenditure	
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 Queensland supports the areas of focus for additional guidance identified in the Issues Paper, and in particular the treatment of asset replacement programs and assessing options that entail a combination of augex and repex. We note that while the RIT has the ability to defer or avoid the need for an augex project it is rarely able to do this for a repex project. It is far more common that the RIT has the ability to shape the scope of the repex project, based on the network loading. As such it should be reviewed as to what level of engagement with NNA providers is efficient in terms of fulfilling this function, such that transparency and efficiency is maintained whilst not creating a burden for the proponents or NSP in terms of developing responses to projects that cannot be impacted.
Section 5.4: Accounting for external funds when applying RITs:	
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 come from outside the market to a party within the market should increase the final net benefit?	Energy Queensland supports ENA's response to this question. However, as noted in our response to Question 2 above, we would like to understand further the AER proposal regarding how funding sources external to the NEM (such as grant funding) should be considered.

Section 5.5: Treatment of high impact, low probability events	
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?	Energy Queensland supports ENA's position and will continue to apply network security criteria with VCR. Further, any assumptions made regarding the likely weightings should be transparent through the RIT process.
Section 5.6: Environmental policy and the National Energy Guarantee	
12. What additional guidance would stakeholders find useful in regarding the treatment of environmental policies in the RIT-T application guidelines?	Energy Queensland believe that there will be scenarios where the lowest cost option for delivering continued reliability and security of the NEM while meeting emissions targets, will exist in the distribution network. We therefore believe that consideration of modifications or additional guidance to the RIT-T application guidelines with respect to environmental policy or the NEG, should also be considered and reflected in the RIT-D guidelines as appropriate.
Section 5.7: Discount rate and treatment of risks	
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?	We support the need for a consistent approach to assigning a discount rate. However, we suggest that some commentary should be provided around where different rates could be used, particularly where investments of differing timeframes results in a different risk exposure. Notwithstanding, it is unclear whether the use of the regulated cost of capital as the lower bound promotes a full range of scenarios to be tested.
Section 5.8: Value of customer reliability	
14. What kind of additional guidance, if any, would you	Energy Queensland supports a review of VCR in line with ENA recommendations. We

like the RIT application guidelines to provide on selecting an appropriate VCR?	expect to continue producing RIT documents that contain transparent and clear application of the VCR.
Section 5.9: Selection of base case	
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. Energy Queensland supports ENA's comments in relation to this question.
Other RIT issues – Integrated System Plan:	
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?	Notwithstanding our support for the development of the ISP, Energy Queensland notes from the Issues Paper that AEMO, as the National Transmission Planner for the NEM, has focussed primarily on the development of transmission network interconnected infrastructure, including generation, gas pipelines and distributed energy resources. While there is without doubt considerable benefit to be gained from a strategic approach to integrated generation and transmission network planning, Energy Queensland considers that focussing at the transmission network level is too limited for a number of reasons as outlined in our submission to the ISP consultation[1]. Energy Queensland considers that its NSPs play a significant role in system security, particularly Ergon Energy in western Queensland where there is currently no transmission network and more than 1GW of solar. We also believe that there will be scenarios where the lowest cost option for delivering continued reliability and security of the NEM while meeting

[1] Energy Queensland, February 2018. *Submission to the Australian Energy Market Operator Integrated System Plan for the National Electricity Market* pp2-3

	emissions targets, will exist in the distribution network. For all of the reasons listed above, Energy Queensland believes that any consideration of modifications or additional guidance to the RIT-T rules with respect to supporting ISP should also be reflected in the RIT-D rules and guidelines.