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10 April 2018

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

Via email: RIT@aer.gov.au

Dear Peter

Issues Paper: Review of the application guidelines for the regulatory investment tests

Essential Energy welcomes the opportunity to comment on the AER's "Issues Paper on the Review of the application guidelines for the regulatory investment tests" (RIT-T and RIT-D – collectively referred to as the 'RITs').¹ Overall, Essential Energy supports the purpose of the Review and the approach taken by the AER including the open-discussion at the recent Public Forum.

Whilst Essential Energy has not completed a RIT-D to date, it is forecast that we will have projects in the next regulatory control period that will be subject to RIT-D.

Essential Energy's position is generally in line with the Energy Networks Association's (ENA) submission - "Review of the Application Guidelines for the regulatory investment tests" - so we will not repeat the ENA's responses to the specific consultation questions raised by the issues paper here.

However, we would like to further comment upon two issues which Essential Energy considers would improve the operation of the RIT application guidelines.

1. Question 9 – How the RITs will apply to asset replacement programs

Clarification that the RITs apply to projects and not programs

During the *Replacement expenditure planning arrangements* rule change the AEMC noted that it did not intend to cover the assessment of 'replacement programs' involving the replacement of assets across more than one location. However, the AEMC did not go so far as to suggest that an explicit exclusion was required for such programs.

"In addition, if a network service provider plans to replace multiple assets of the same type across more than one location in the same year it may not trigger the capital cost threshold if these assets are addressing more than one identified need.² The AER may provide more guidance on the treatment of asset replacement programs in its regulatory investment test application guidelines."³

As such, Essential Energy would welcome the AER clarifying its interpretation of the application of the RITs to 'replacement programs'. We suggest clarification to the effect of

¹ February 2018

² An identified need is defined in the NER as the objective a network service provider seeks to achieve by investing in the network. NER clause 5.10.2.

³ Rule Determination - National Electricity Amendment (Replacement expenditure planning arrangements) Rule - 18 July 2017

“Where a NSP intends replacing multiple low value assets (as described by clauses 5.12.2(c)(1B)(iv) and Schedule 5.8(b2)(4) of the NER⁴), at multiple geographically dispersed locations, the total annual value of these works is not considered to be addressing a single identified need and therefore is not considered to meet the trigger for assessment under the RIT.

However, where there is potential that a non-network option is, or forms a significant part of, a potential credible option in relation to a specific program, the NSP shall consider the value of the specific program as a trigger for assessment under the RIT.”

As discussed during the stakeholder workshop, we have drafted these words in good faith, as a starting point, to assist in developing a workable solution within the NER that balances the intent of the RITs, the value delivered through additional transparency and the regulatory burden of undertaking further RITs.

2. Risk-Cost Framework

Essential Energy supports the application of a value-based approach to investments within the National Electricity Market. We also recognise that the AER approaching the ENA Asset Management Committee, is the first step in initiating greater industry collaboration on how networks consistently apply value frameworks to network investment decisions across the NEM. However, we note that the guidance planned to be provided by the AER around mid-2018 should be considered the start of the process rather than an end-point. The real developments and improvements to be delivered by taking a value-based approach, need to be driven by industry and collaboratively supported by the AER. Essential Energy believes this is critical to ensure broader public, stakeholder and industry confidence in moving to an industry wide Risk-Cost Framework.

If you have any further questions regarding our response, please direct these in the first instance to Natalie Lindsay, Manager Network Regulation on 02 6589 8419 or alternatively David Mattson, Compliance Reporting Manager on 02 6042 3386.

Yours sincerely



Chantelle Bramley
GM Strategy, Regulation and Transformation

⁴ “each expected to have a replacement cost less than \$200,000 (as varied by a cost threshold determination),”