

6 April 2018



Via email: RIT@aer.gov.au

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

Jemena Electricity
Networks (Vic) Ltd
ABN 82 064 651 083

Level 16, 567 Collins Street
Melbourne, VIC 3000
PO Box 16182
Melbourne, VIC 3000
T +61 3 9173 7000
F +61 3 9173 7516
www.jemena.com.au

Dear Mr Adams

Submission on Issues Paper—Review of the application guidelines for the regulatory investment tests, February 2018

Jemena Electricity Networks (Vic) Ltd (**JEN**) welcomes this opportunity to make a submission to the Australian Energy Regulator's (**AER**) issues paper reviewing the application guidelines for the regulatory investment tests.

JEN welcomes the proposed improvements to the application guidelines by way of additional guidance and worked examples. We look forward to commenting on the draft amendments to the application guidelines and participating in the stakeholder workshops later this year.

Our responses to the questions posed in the issues paper are set out in **Attachment 1** to this letter.

If you have any queries in relation to this submission, please contact Siva Moorthy on (03) 9173 8774 at Siva.Moorthy@jemena.com.au.

Yours sincerely,

[Signed]

Matthew Serpell
Manager Asset Regulation & Strategy

Attachment 1

AER questions	JEN responses
<p>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?</p>	<p>We agree and consider the factors identified for consideration are adequate.</p>
<p>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?</p>	<p>We agree. We consider that where a project is fully funded, then there is no need to recover costs via network charges from the existing customers connected to the network.</p>
<p>Question 3: How do you think we should amend the RIT application guidelines to better facilitate consumer engagement throughout the RIT application process?</p>	<p>We agree that additional guidance to promote a consistent, best-practice approach to customer engagement is in the long term interests of customers.</p> <p>Further, we see benefit in DNSPs engaging directly with larger customers that could potentially provide non-network support in network constrained areas. We also see opportunities for aggregators to engage with smaller customers pooling resources as part of their response the DNSP's non-network options report.</p>
<p>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?</p>	<p>We consider the existing guidance is sufficient. Moreover the National Electricity Rules (NER) clearly outline the requirements for non-network options report.</p>
<p>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</p>	<p>JEN offers no comment to these questions.</p>

AER questions	JEN responses
the RIT–T to more closely mirror what the NER require for the RIT–D?	
Question 6: What additional guidance should the RIT application guidelines provide regarding the information network businesses should publish when they cancel RIT assessments?	<p>We support guidance on the level of detail a RIT proponent would need to provide in explaining their decision to cancel a RIT assessment. However we consider the required information associated with cancellation need only be at a high level.</p> <p>In many cases, RITs are cancelled due to changes in forecast demand, and we see little value undertaken and reporting detailed analysis to validate cancelling a RIT where the identified need clearly longer exists.</p>
Question 7: Do you agree with our proposed approach of providing further guidance on how RIT proponents should describe an identified need?	<p>We agree with the AER’s approach, identified need must be based on maximising net market benefits, not individual participant benefits. We consider the reference to the <i>long term interest of customers</i> in the National Electricity Objective refers to customers as a collective rather than an individual.</p> <p>If an proposed option benefits a particular participant or generation investment, it should be considered alongside all alternative options based on their net market benefit.</p> <p>Additional guidance and specific examples in line with the intent of the NER are welcomed, especially relating to the description of an identified need relating to the recently added requirement to apply the RIT to replacement projects.</p>
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?	<p>We welcome more guidance and clarity on the level of assessment expected for Option Value, as well as for sensitivity and scenario analysis.</p> <p>The statement in the current RIT-D guidelines ‘we consider that appropriate identification of credible options is capable of capturing any option value, thereby meeting the requirement to consider option value as a class of market benefits under the RIT-D’ suggests that little more than appropriate consideration of credible options is required for assessment of Option Value. However, the points raised in the issues paper indicate broader</p>

AER questions	JEN responses
	<p>concerns with a lack of appropriate sensitivity and scenario analysis being considered in RITs.</p> <p>While we agree that more robust sensitivity and scenario analysis is valuable, these should remain flexible enough to ensure that the level of assessment is balanced against the identified need and credible options being considered in any RIT assessment.</p> <p>Varying multiple sensitivity parameters at a time may be valuable in some cases, a requirement to always undertake this analysis could lead to added complexity and reduced transparency in other RITs.</p> <p>We agree that Option Value is a plausible method for assessing investments and providing a more detailed worked example would be highly valuable. We also consider further benefit could be achieved by extending scenarios by showing how assumed costs and benefits relate to scenario and sensitivity analysis.</p> <p>Additionally, since Option Value is currently captured via appropriate consideration of credible options, it is impractical to separate Option Value from other costs and benefits quantified in the RITs. If there is an expectation that Option Value benefit should be considered and reported separately from other benefits, additional guidance and a worked example showing how this can be done would be of value.</p>
<p>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?</p>	<p>JEN welcomes guidance on all of the four items identified in section 5.3 of this issues paper.</p>
<p>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</p>	<p>Yes, we agree.</p>

AER questions	JEN responses
the market should increase the final net benefit?	
<p>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?</p>	<p>JEN considers no specific guidance is required as high-impact low-probability events are generally considered in the normal probabilistic assessment methodology.</p> <p>Further, we consider there should be no difference between RIT-T and RIT-D.</p>
<p>Question 12: What additional guidance would stakeholders find useful in regarding the treatment of environmental policies in the RIT–T application guidelines?</p>	<p>JEN offers no comment to this question.</p>
<p>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?</p>	<p>Yes, we agree to specifying, as a default, the same discount rate should be used when comparing different options. As noted in the issues paper, difference in project risks can adequately be accounted for through the scenarios analysis.</p> <p>However, sufficient flexibility should remain so that an alternative discount rate can be applied where there is sufficient supporting evidence.</p> <p>It would be beneficial if the guidelines could provide guidance on what supporting information should be included to justify using different discount rates for different options, potentially with examples of the different options.</p>
<p>Question 14: What kind of additional guidance, if any, would you like the RIT application guidelines to provide on selecting an appropriate VCR?</p>	<p>Existing guidance on selecting an appropriate VCR is sufficient. We also agree that guidelines do not need to be overly prescriptive. However, additional guidance on how VCR could be varied—similar to those included in the issues paper—would benefit stakeholders.</p>

AER questions	JEN responses
<p>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?</p>	<p>Additional guidance on base case selection for repex projects would be valuable.</p>
<p>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?</p>	<p>JEN does not offer a comment to this question.</p>