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Submitted via email: RIT@aer.gov.au

REVIEW OF THE GUIDELINES FOR THE REGULATORY INVESTMENT TESTS – ISSUES PAPER

Origin Energy Limited (Origin) welcomes the opportunity to comment on the review of the application guidelines for the regulatory investment tests of transmission and distribution networks.

Overall Origin believes that the regulatory investment test (RiT) should continue to be the primary mechanism through which large investments in transmission and distribution networks are economically assessed. It is vital that an independent assessment, by the AER, continues to be undertaken to ensure that uneconomic investments, are not progressed.

The Issues Paper has discussed a number of areas for review. Origin has highlighted some key areas below and our appendix provides more detailed answers to the questions posed.

Identified Needs
The identified need that focuses on a network reliability aspect must demonstrate how the proposed investment will prevent a breach of the Reliability Standards. There is a risk that network businesses claim reliability benefits where supporting evidence is minimal. These claims should be tested to determine if the reliability standards are to be breached. This provides a firm benchmark with which to assess if a network augmentation will help alleviate this issue as the least cost solution.

High Impact / Low Probability Events
The AER should provide greater scrutiny of RiTs where they claim an augmentation is based on a high impact, low probability event occurring. Recently the AEMC[1] made a rule change that provides AEMO with a greater ability to manage the NEM by classifying certain high impact, low probability events as 'protected events'. This allows the NEM to be managed in a different way for system security and reduce the economic impact if an event did occur. Origin would welcome greater guidance on how AEMO's new management powers may affect RiTs which are basing a network augmentation on a high impact, low probability event.

Integrated System Plan (ISP)
The ISP will provide a national view of transmission investment and identify potential Renewable Energy Zones (REZ). The RiT must remain the primary economic assessment tool for the ISP and assess the likelihood or firmness of generation investment that could take place within a REZ. The AER should make clear how conclusions drawn from the ISP in respect to REZ rankings or potential generation investments can be used to justify augmentation.

Should you have any questions or wish to discuss this information further, please contact James Googan in the first instance via email james.googan@originenergy.com.au or phone, on (02) 9503 5061.

Yours sincerely,

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[1] https://www.aemc.gov.au/rule-changes/emergency-frequency-control-schemes-for-excess-gen

AER Question	Origin Response
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 and RiT-D should continue to be the primary assessment tool for large regulated investment projects. Origin believes the RiT process promotes efficient investment in the long-term interests of consumers by providing an independent evaluation of the costs and benefits of augmentations above the pricing threshold.
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?	Conceptually we agree that a RIT should not be required where the external financial contribution results in the project falling below the cost threshold. As the AER point out, in these circumstances, the external financial contribution means that, to the extent of that contribution, the costs of the project do not need to be recovered from consumers via the network business's regulated charges. In terms of the contribution itself, we seek clarification whether this covers both monetary or in contributed assets. In the event that a contribution ensures that an asset is below the threshold and the lesser value forms part of the ongoing RAB, how will the total asset be assessed for maintenance cost purposes. Specifically, if the asset would not have passed a regulatory assessment without a contribution, how will the AER determine what level of ongoing maintenance costs should be included for recovery from regulated revenues.
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?	As the penetration of smart metres increase we believe that DNSPs should consider optimising the use of these meters as opposed to the installation of separate assets that enable network support services. We understand that while some networks do consider the use of smart meters to enable non-network solutions, we believe this could be adopted more widely. For example, smart meters should be used to enable load control services rather than via the installation of a separate network device. Furthermore, the economic benefit of a non-network solution could be offset against the cost of a smart meter for the customer while also empowering the customer to access a broader range of services and demand response measures.
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	The RIT-T project specification consultation report should include the same information that a non-network options report would include. As a general rule, the transmission project specification consultation report should include sufficient information to assist non-network service providers to present alternative potential credible options for the RIT–T proponent to consider.

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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?	
Question 6: What additional guidance should the RIT application guidelines provide regarding the information network businesses should publish when they cancel RiT assessments?	Agree with the AER that stakeholders and network businesses would benefit from providing greater guidance when explaining the decision to cancel a RiT assessment. A greater level of transparency regarding the reasons why an assessment was cancelled would be welcome. It could be as simple as the proponent no longer wishes to go ahead with the project, or more detailed depending on the reasons. If it is cancelled based on uneconomic grounds, greater clarity as to why could inform future decision making if the same or a similar RiT was considered in the future.
Question 7: Do you agree with our proposed approach of providing further guidance on how RIT proponents should describe an identified need?	The identified need that focuses on a network reliability aspect must demonstrate how the network investment will prevent a breach of the AEMC Reliability Standards. There is a potential for RiTs to claim to fix future network reliability issues when none have been identified or the levels of reliability will not breach the 0.002% standard. These claims should be tested to determine if the reliability standards are to be breached. Significant work is being undertaken by the AEMC and AEMO to ensure system security and reliability including work to address inertia, system strength and better frequency control. This work is aimed at stabilising the NEM and maintaining a high level of reliability. Therefore, claims of network reliability should be tested against the current program of work that is being undertaken by the AEMC and AEMO to determine if network augmentation is the least cost solution. Currently there is a great deal of uncertainty regarding the interaction of the RiT and AEMO's development of the Integrated System Plan which includes the identification of Renewable Energy Zones. Origins view is that any potential transmission works identified under the ISP process must be assessed through the RIT or similar economic test.
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	Agree, greater prescription on how high impact, low probability events are accounted for in the net benefits test is welcomed. The AER should provide greater scrutiny of RiTs where they claim an augmentation is based on a high impact, low probability event occurring. Recently the AEMC made a rule change that provides AEMO with a greater ability to manage the NEM by classifying certain high impact, low probability events as 'protected events'. This allows the NEM to be managed in a different way for system security and reduce the economic impact if an event did occur. Origin would welcome greater guidance on

helpful—and how (if at all) should this differ between the RIT–D and RIT–T application guidelines?	how AEMO's new management powers may affect RiTs which are basing a network augmentation on a high impact, low probability event.
Question 14: What kind of additional guidance, if any, would you like the RIT application guidelines to provide on selecting an appropriate VCR?	The VCR is a key economic indicator and is used extensively in modelling to determine the level at which a consumer is willing to forgo reliable power supplies. There are multiple VCR estimates that have been undertaken by various States and the AER. It would be beneficial to utilise one VCR indicator across RiT assessments. Origin recommends the use of the NEM wide study undertaken by AEMO and believes that it should be periodically updated to better reflect consumer sentiment.
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?	It should be made clear that the RiT process is still the primary assessment tool for large regulated investments. The ISP can help better co-ordinate national planning of transmission infrastructure, especially around Renewable Energy Zones, however a RiT must still be undertaken to ensure there is economic justification for network investments. The ISP is likely to draw some conclusions around network investments and provide a preference or ranking of sites that are most advantageous to the NEM. This is especially true of the Renewable Energy Zones. It is important to understand how the evaluations or conclusions drawn in the ISP for network augmentation are treated in any RiT process, especially how they might influence the economic justification for a network investment.