

# 2024 RIT and APR cost thresholds review draft determination

## Cost thresholds review

We, the Australian Energy Regulator (AER), are responsible for the economic regulation of electricity transmission and distribution services in the National Electricity Market (NEM), as well as some gas transportation services. We also monitor compliance with, and are responsible for enforcement of the National Electricity Law and National Gas Law.

Every three years, the National Electricity Rules (NER) require us to review cost thresholds applicable to the regulatory investment tests for transmission and distribution. This objective of the review is to ensure the cost thresholds that are applied by network businesses to determine their network planning obligations remain appropriate.

On 31 July 2024, in accordance with clause 5.15.3 of the NER, we initiated a review of those cost thresholds (2024 cost thresholds review). Consistent with the requirements of clause 5.15.3(g), this document sets out our draft determination on the 2024 cost thresholds review. We are seeking submissions on the draft determination by 8 October 2024. We will prepare and publish a final determination by 12 November 2024. The revised cost thresholds set out in the final determination will take effect on 1 January 2025.

## What are the RIT and APR cost thresholds?

The cost thresholds that we must review relate to the regulatory investment test for transmission and distribution (RIT-T and RIT-D, or collectively 'the RITs') and annual planning reports (APRs). Investments over these thresholds are subject to higher levels of consultation and higher standards of stakeholder engagement, reflecting their impact.

The RIT-T and RIT-D are cost benefit tests that network service providers (network businesses) must apply before making major investments in the network. The purpose of the RITs is to identify the investment in the network which maximises the present value of the net economic benefit.

The cost thresholds related to the RIT-T and RIT-D determine whether:

- A network business must undertake a RIT
- A network business may skip the draft report stage of the RIT process
- A distribution business can include its final project assessment report as part of its Distribution Annual Planning Report (DAPR) (rather than needing to produce a separate report)
- A network business must include RIT reopening triggers in its draft RIT assessment reports.

Other cost thresholds under NER clause 5.15.3 relate to the transmission and distribution annual planning reports (the TAPRs and DAPRs, or collectively 'the APRs') that network businesses must publish each year. An APR highlights opportunities and limitations in parts of a specific network for which the network business is responsible, as well as forecasting possible developments over the minimum planning period (five years for distribution and ten years for transmission).

The cost thresholds that relate to the APRs determine whether:

- a network business can combine information in its APR for assets it expects to retire or de-rate;
- a distribution business is required to include, in its DAPR, committed investments that address an urgent or unforeseen network issue.

The regulatory investment test (RIT) and annual planning report (APR) cost thresholds effectively determine the level of stakeholder engagement that is required of network service providers (network businesses) in the RIT and APR processes.

These thresholds recognise the appropriate balance between ensuring that the appropriate range of projects are subject to a robust economic assessment and the timing and resources required to conduct such an assessment.

## Our approach to determining updated cost thresholds

In accordance with the requirements of NER clause 5.15.3(a), we have assessed how input costs for transmission and distribution projects have changed since our 2021 review.

Our assessment entailed:

- comparing changes in price indexes, including measures of the consumer price index (CPI), producer price index (PPI) and gross domestic product (GDP)<sup>1</sup>
- assessing how accurate each index is in reflecting changes to the input costs of transmission and distribution projects subject to the RIT
- determining the cost thresholds on the basis of an appropriate escalation factor.

In previous cost threshold reviews, we determined an appropriate escalation factor to reflect increases in input costs for transmission and distribution projects based on a selection of economy-wide indicators.

For this review, we have adopted an alternative approach to determining the escalation factor that uses a single index to:

- apply an objective approach to determining cost increases;
- best capture the increase in construction inputs costs – these costs appear to have increased at a rate faster than economy-wide indicators (see Table 1);
- facilitate stakeholders providing perspectives on objective measures of input costs; and
- ensure our data is transparent, relevant and from verifiable sources.

The indices that we included in our analysis of input cost changes along with the changes in those indices since June 2021 are set out in Table 1.

**Table 1 Changes to indices assessed in 2024 draft determination**

Index	Change from June 2021 to June 2024 (%)
Consumer price index: <i>trimmed mean</i> (CPI <sub>trimmed</sub> )	15.36
Producer price index: <i>final demand</i> (PPI <sub>final</sub> )	15.05
Producer price index: <i>Heavy and Civil Engineering Construction</i> (PPI <sub>construction</sub> )	18.77
Gross domestic product: <i>seasonally adjusted, implicit price deflator</i> <sup>1</sup> (GDP <sub>IPD</sub> )	14.80

Note 1: Consistent with the 2021 cost threshold review, changes in GDP<sub>IPD</sub> are from March 2021 to March 2024 due to unavailability of June 2024 data at the time of the review

Data source: Australian Bureau of Statistics Consumer Price Index, June 2024; ABS Producer Price Index, June 2024; Australian National Accounts: National Income, Expenditure and Product, March 2024.

Tables 2 and 3 show the change in thresholds from July 2021 to July 2024 that would result from each cost index identified in Table 1.

We note that the choice of PPI<sub>construction</sub> compared to CPI<sub>trimmed</sub> or PPI<sub>final</sub> results in a change for the RIT draft report thresholds, as well as the reopening trigger thresholds (highlighted yellow in tables 2 and 3).

<sup>1</sup> Consistent with the 2021 cost threshold review, changes in GDP<sub>IPD</sub> indices are from March 2021 to March 2024 due to unavailability of June 2024 data at the time of the review

# 2024 RIT and APR cost thresholds draft determination

**Table 2 Transmission cost thresholds under various indices**

Cost threshold	Published 2021 thresholds (\$m)	2024 thresholds using PPI <sub>construction</sub> (\$m)	2024 thresholds using PPI <sub>final</sub> (\$m)	2024 thresholds using CPI <sub>trimmed</sub> (\$m)	2024 thresholds using GDP <sub>IPD</sub> (\$m)
The threshold under NER cl. 5.15.3(b)(1A) for an asset's replacement costs, under which a transmission business can combine the information in its TAPR for assets it expects to retire or de-rate.	0.2	0.3	0.3	0.3	0.3
The thresholds under NER cl. 5.15.3(b)(2),(4) and (6) for capital costs, over which a RIT-T applies.	7	8	8	8	8
The threshold under NER cl. 5.15.3(b)(5) for the proposed preferred option's capital costs, under which a RIT-T proponent can skip the 'project assessment draft report' consultation step.	46	54	53	53	53
The threshold under NER cl. 5.16.4(j)(10) for the proposed preferred option's capital costs, above which must include RIT reopening triggers applying to the RIT-T project.	100	103	103	103	102

\* this threshold was introduced as part of the 2023 RIT and CBA guidelines review and has been escalated from SQ23

**Table 3 Distribution cost thresholds under various indices**

Cost threshold	Published 2021 thresholds (\$m)	2024 thresholds using PPI <sub>construction</sub> (\$m)	2024 thresholds using PPI <sub>final</sub> (\$m)	2024 thresholds using CPI <sub>trimmed</sub> (\$m)	2024 thresholds using GDP <sub>IPD</sub> (\$m)
The threshold under NER cl. 5.15.3(d)(4A) for an asset's replacement costs, under which a distribution business can combine the information in its DAPR for assets it expects to retire or de-rate.	0.2	0.3	0.3	0.3	0.3
The threshold under NER cl. 5.15.3(d)(1) for capital costs, over which a RIT-D applies.	6	7	7	7	7
The threshold under NER cl. 5.15.3(d)(3) for the proposed preferred option's capital costs, under which a RIT-D proponent can skip the 'draft project assessment report' consultation step.	12	14	14	14	14
The threshold NER cl. 5.15.3(d)(4) for the proposed preferred option's capital costs, over which a RIT-D proponent includes its 'final project assessment report' as part of its DAPR.	24	28	27	27	27
The threshold under NER cl. 5.15.3(d)(5), over which committed investments to address an urgent and unforeseen network issue must be included in the DAPR.	2	3	3	3	3
The threshold under NER cl. 5.17.4(j)(13) for the proposed preferred option's capital costs, above which must include RIT reopening triggers applying to the RIT-T project.*	100	103	103	103	102

\* this threshold was introduced as part of the 2023 RIT and CBA guidelines review and has been escalated from SQ23

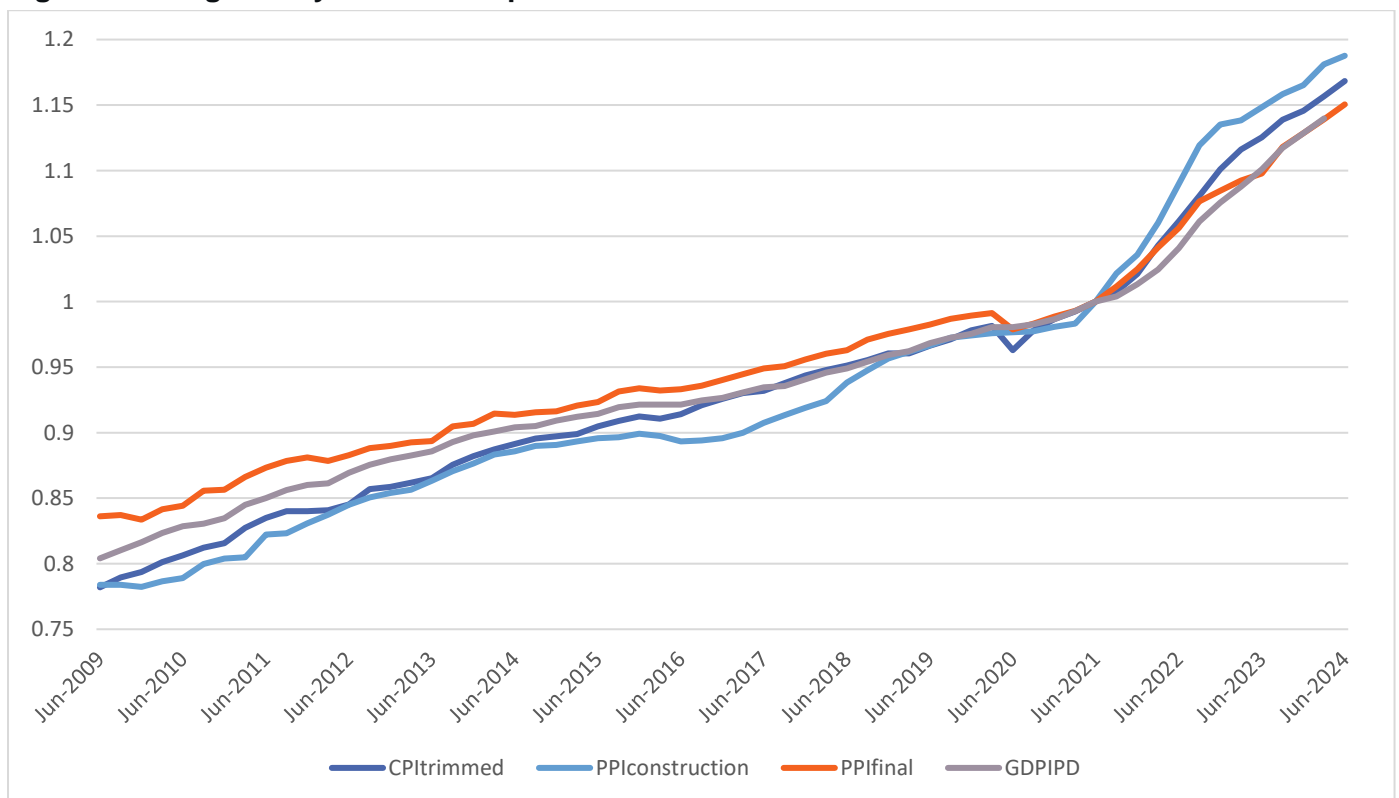
We consider  $PPI_{\text{construction}}$  to be the best estimate of the change in input costs for transmission and distribution projects from June 2021 to June 2024. It best captures the observed higher increase in construction costs when compared to the wider economy. The inputs to calculating  $PPI_{\text{construction}}$  are goods/services for large engineering construction projects such as electricity transmission and distribution lines, rather than the standard basket of goods reflecting general consumption expenditure that underpins the CPI. Similarly, input costs for electricity projects should more closely follow costs for large engineering construction projects than  $GDP_{\text{IPD}}$  because the latter measures the price of all new goods produced in the economy. We have therefore adopted a cost escalator of 18.77% in our draft decision.

In choosing  $PPI_{\text{construction}}$  we have been guided by the data principles recommended in the AER’s cost benefit analysis guidelines<sup>2</sup>:

- **Internal consistency:** the Australian Bureau of Statistics (ABS) applies the same methodology across subseries
- **Plausibility:** the ABS performs meaningful quality control to minimise outliers and explain figures
- **Verifiable sources:** While not all of the ABS data inputs are publicly available, they publish a quality declaration for these releases.
- **Relevance:** the ABS publishes relevant and up-to-date figures
- **Transparency:** the ABS has a clear methodology and data sources

Figure 1 indicates that  $PPI_{\text{construction}}$  has been produced since at least 2009 (these cost thresholds were introduced in July 2009) and has exhibited a similar level of volatility to other price indices. Figure 1 also shows that  $PPI_{\text{construction}}$  has steadily remained above other price indices for the period of this review,

**Figure 1 Change in key indices compared since June 2009**



ABS Figures have been rebased to June Quarter 2021

AER analysis has indicated that if the thresholds were escalated by the largest escalation factor calculated from changes in key indices shown in Figure 1, of the projects which published a final report in the 2023–24 financial year:

<sup>2</sup> AER, cost benefit analysis guidelines – Guidelines to make the Integrated System Plan actionable, section 3.2.1 Inputs and assumptions

- 1 RIT-D out of 16 would not have been required, and 2 RIT-Ds would not have required a draft report
- 4 RIT-Ts out of 30 would not have been required, and one RIT-T would not have required a draft report.

For administrative simplicity we have rounded the thresholds to the nearest million dollars (or hundred thousand dollars for the APR thresholds) but note that calculations have been performed using unrounded figures from the previous review.

We note that if we had chosen an index other than  $PPI_{\text{construction}}$  only two (rounded) thresholds would change from those determined using  $PPI_{\text{construction}}$ .

## Draft Determination

Consistent with the requirements of clause 5.15.3(g), this section sets out our draft determination on the 2024 cost thresholds. In making this draft determination, we have:

- Applied the percentage change in  $PPI_{\text{construction}}$  to the unrounded value of the cost thresholds in the 2021 cost threshold review (or a proportional percentage change in the case of the \$100 million thresholds which were introduced 9 October 2023)
- We then rounded to the nearest million (or nearest \$100,000 in the case of the \$300,000 thresholds).

The final column of Tables 4 and 5 sets out our draft determination on the cost thresholds for both transmission and distribution network service providers, respectively.

### Transmission cost thresholds

**Table 4 Draft determination — Transmission cost threshold amendments**

Cost threshold	Current threshold (\$m)	2021 unrounded threshold (\$m)	Escalator applied* (%)	2024 unrounded threshold (\$m)	Proposed 2024 threshold (\$m)
The threshold under NER cl. 5.15.3(b)(1A) for an asset's replacement costs, under which a transmission business can combine the information in its TAPR for assets it expects to retire or de-rate.	0.2	0.20	18.77	0.26	<b>0.3</b>
The thresholds under NER cl. 5.15.3(b)(2),(4) and (6) for capital costs, over which a RIT-T applies.	6	6.18	18.77	7.78	<b>8</b>
The threshold under NER cl. 5.15.3(b)(5) for the proposed preferred option's capital costs, under which a RIT-T proponent can skip the 'project assessment draft report' consultation step.	43	43.26	18.77	54.45	<b>54</b>
The threshold under NER cl. 5.15.3(b)(7) for the proposed preferred option's capital costs, above which the project assessment draft report must include RIT reopening triggers applying to the RIT-T project.	100	100	2.59**	102.52	<b>103</b>

\*Escalator applied to the unrounded value of the cost thresholds determined in the 2021 Cost Threshold review

\*\*This escalator represents a proportional increase in input cost, as this threshold came into effect 9 October 2023

## Distribution cost thresholds

**Table 5 Draft determination — Distribution cost threshold amendments**

Cost threshold	Current value (\$m)	2021 unrounded threshold (\$m)	Escalator applied* (%)	2024 unrounded threshold (\$m)	Proposed 2024 threshold (\$m)
The threshold under NER cl. 5.15.3(d)(4A) for an asset's replacement costs, under which a distribution business can combine the information in its DAPR for assets it expects to retire or de-rate.	0.2	0.20	18.77	0.26	<b>0.3</b>
The threshold under NER cl. 5.15.3(d)(1) for capital costs, over which a RIT-D applies.	6	5.57	18.77	7.01	<b>7</b>
The threshold under NER cl. 5.15.3(d)(3) for the proposed preferred option's capital costs, under which a RIT-D proponent can skip the 'draft project assessment report' consultation step.	11	11.13	18.77	14.01	<b>14</b>
The threshold NER cl. 5.15.3(d)(4) for the proposed preferred option's capital costs, over which a RIT-D proponent includes its 'final project assessment report' as part of its DAPR.	22	22.26	18.77	28.03	<b>28</b>
The threshold under NER cl. 5.15.3(d)(5), over which committed investments to address an urgent and unforeseen network issue must be included in the DAPR.	2	2.23	18.77	2.80	<b>3</b>
The threshold under NER cl. 5.15.3(d)(6) for the proposed preferred option's capital costs, above which the draft project assessment report must include RIT reopening triggers applying to the RIT-D project.	100	100**	2.59**	102.52	<b>103</b>

\*Escalator applied to the unrounded value of the cost thresholds determined in the 2021 Cost Threshold review

\*\*This escalator represents a proportional increase in input cost, as this threshold came into effect 9 October 2023

## Submissions

Clause 5.15.3 of the NER outlines the consultation process we must follow when reviewing certain cost thresholds that apply to the RITs and APRs. Consistent with those requirements, we invite interested parties to review the matters raised in this draft determination and provide written submissions within the consultation period.

We are requesting written submissions by the close of business on **8 October 2024**

We prefer stakeholders send submissions electronically to: [RITguidelines@aer.gov.au](mailto:RITguidelines@aer.gov.au)

Alternatively, stakeholders can mail submissions to:

Ms. Stephanie Jolly  
Executive General Manager  
Australian Energy Regulator  
PO Box 12241  
George Street Post Shop  
BRISBANE QLD 4003

We prefer all submissions be publicly available to facilitate an informed and transparent consultation process. We will therefore treat submissions as public documents unless otherwise requested.

We request parties wishing to submit confidential information to:

- Clearly identify the information that is subject of the confidentiality claim; and
- Provide a non-confidential version of the submission, in addition to the confidential one.

We will place all non-confidential submissions on our website at [www.aer.gov.au](http://www.aer.gov.au). For further information regarding our use and disclosure of information provided to us, see the ACCC/AER Information Policy.