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Australian Energy Regulator

Lodged via email: RITguidelines@aer.gov.au.

AER's RIT and APR cost thresholds review draft determination

Transgrid welcomes the opportunity to respond to the Australian Energy Regulator's (**AER**) draft determination on its 2024 regulatory investment test (**RIT**) and annual planning reports (**APR**) cost thresholds review. The objective of the review is to ensure the cost thresholds that are applied by network businesses to determine their network planning obligations remain appropriate.

As the jurisdictional planner, operator and manager of the transmission network in NSW and the ACT, Transgrid is obliged to undertake a Regulatory Investment Test for Transmission (**RIT-T**) to potential prescribed (regulated) investments in the transmission network that exceed $7 million. The purpose of the RIT-T is to identify the credible network or non-network option to address the identified need at the greatest net benefit, or least net cost, to the National Electricity Market (**NEM**).

Transgrid acknowledges the role the RIT-T plays in ensuring that the appropriate level of analysis in the evaluation of transmission investments has been undertaken. It also provides the opportunity for stakeholders including consumers to provide feedback and help shape solutions through the consultative stages before proceeding to invest in our network. Given this, we broadly support the role of the RIT-T and the role it plays in major investments.

However, we are concerned that in many instances consumers are bearing the costs of completing the numerous documents and actions required to complete the RIT-T with little to no benefit. This is because a substantial number of resources, including labour and consultative services are being spent on many RIT-Ts that have zero to minimal consumer interest and have shown to not influence the outcome of the RIT-T.

Therefore, we would urge the AER, to consider in detail the cost and benefit of RIT-Ts to consumers as analysis indicates that consumers are funding costs for a regulatory process that yields little incremental benefit to them.

We have summarised our concerns into the following categories:

1. RIT-T threshold
2. Replacement RIT-T
3. Asset replacement program.

1. RIT-T Threshold

The AER has proposed to increase the RIT-T threshold from $7 million dollars to $8 million dollars which will take effect on 1 January 2025. In its assessment the AER has assessed the following:

a) comparing changes in price indexes, including measures of the consumer price index (**CPI**), producer price index (**PPI**) and gross domestic product (**GDP**),

b) assessing how accurate each index is in reflecting changes to the input costs of transmission and distribution projects subject to the RIT; and

c) determining the cost thresholds on the basis of an appropriate escalation factor.

We acknowledge the AER has used consistent CPI figures, outlined in point a) above however we do not believe that criteria b) has been appropriately applied. That is, we do not believe the escalation applied reflects changes in costs to transmission projects.

Clause 5.15.3 of the National Electricity Rules (**NER, Rules**) was created in 2009 with a RIT-T threshold value of $5 million. The clause also requires the AER to conduct a review every three years to determine changes in the input costs used to calculate the estimated capital costs. At the time of the rule change, the rule determined that the $5 million threshold was the "a suitable cost threshold"[1]. If this logic were to be carried through, then it would be appropriate to assess the percentage increase in costs projects at that threshold.

As such, we analysed data on a sample of projects from 2009 that were around this threshold. Over this period, from 2009, we have witnessed an increase in capital project costs at around 200%, a doubling in costs. The following table outlines three projects that illustrate the real increase in costs for like projects.

Project	Year	Description	Actual costs ($m, nominal)	Current estimated cost ($m, FY25)	% change
Parkes 132kV Sub - Transformer Addition	2008	Additional 132/66kV 60MVA transformer and associated switchbays. Also includes a 66kV bus section bay and a 66kV line bay.	4.3	8.2	191%
Armidale Koolkhan 966 Line 132kV Uprate	2007	Replacement of 37 structures with taller poles	4.1	8.4	205%

[1] https://www.aemc.gov.au/sites/default/files/content/c7081c7a-d73b-459f-b716-628a725e9e3f/Final-Determination.pdf

Project	Year	Description	Actual costs ($m, nominal)	Current estimated cost ($m, FY25)	% change
Kemps Creek 330kV Cap Banks	2008	Two new 330kV 200MVAr cap banks with associated switchbays and busbar extension	5.5	13	236%

In our opinion, the AER should ensure that the appropriate cost escalation has been applied to the threshold. This will ensure that regulated businesses are not subject to large expenses to complete a RIT-T for small projects that do not yield much interest from stakeholders. The introduction of the threshold in 2009, was intended to avoid spending thousands of dollars on RIT-Ts for small value projects as the cost and benefit of carrying out this process doesn't stake up economically.

Therefore, we encourage the AER to consider increasing the threshold by at least 200% from the 2009 starting point (i.e. to $10 million, which is double the original $5 million number outlined in the Rules). This would be in line with observed network cost increases in the period since 2009.

2. Replacement RIT-T

In 2017, the AEMC extended the scope of the RIT-T process to also include replacement capital expenditure (**repex**), whereby the potential transmission network reinvestment is compared against alternative network and non-network options. Repex RIT-T involves exploring alternative investments to replace existing network assets. The objective of the amendments to include replacement projects was to:

- facilitate earlier consultation in the planning process thereby enabling other potential viable non-network options to be identified and assessed appropriately and,
- provide greater consumer transparency regarding network spending.

However, we do not believe these objectives are being realised and the process is adversely affecting consumers. We encourage the AER to increase the repex RIT-T threshold to $54 million[2] because:

- Since the rule came into effect, Transgrid has only received 4 submissions for repex RIT-Ts of which none altered the outcome of the preferred option as outlined in the RIT-T. For additional context, three submissions were on bushfire issues related to line 966 and one safety issue related to line 18.

[2] In line with the proposed threshold in which a RIT-T proponent can skip the 'project assessment draft report' consultation step ($54 million)

- Our experience, which is backed up by publicly available data on RIT-T outcomes, is that non-network solutions are not competitive or efficient to solve repex RIT-T needs. This is particularly true for transmission level investments.
- Since the rule was introduced, the AER has other tools which provide increased transparency and scrutiny on repex. The AER are increasingly assessing transmission repex in granular detail at the time of the revenue determination in setting the TNSP allowance.
- TNSPs are subjected to the capital expenditure sharing scheme (**CESS**) to prevent them spending more than necessary.
- Transgrid has a robust internal review before the commencement of the RIT-T from all levels of the organisation. Each investment is analysed and examined in detail by the senior management team.
- Our capital program is compiled through evidence-based analysis during the revenue determination period.
- In our experience, repex projects do not impact communities in the same way that augmentation projects do and therefore yield minimal stakeholder engagement.
- To complete a repex RIT-Ts, TNSPs utilises internal and external resources, costing consumers millions of dollars for minimal benefit or return. This is because a large volume of projects meets the threshold however do not lead to submissions or interest from consumers and communities.

The repex RIT-T was introduced to add an extra layer of consumer protection however it is not providing a benefit for the corresponding cost, especially repex projects that are below ~$54 million.

We strongly encourage the AER to increase the RIT-T threshold for repex projects to $54 million to ensure consumers are not paying for a process that yields zero to minimal value.

3. Asset replacement program

The current RIT-T guidelines outline that a TNSP must apply the RIT-T to an asset replacement program if the expected capital costs of the program are above the RIT-T cost threshold[3].

Transgrid has undertaken several asset replacement programs such as replacing many circuit breakers scattered across the state, each valued far below the current threshold however with a combined program value greater than the threshold. Even though each asset, located at different locations across NSW, fulfills a separate network need, guidance obtained by Transgrid[4] concluded that these individual projects need to be considered as one large project under the current RIT-T guideline.

As these RIT-Ts consume a lot of resources to complete, we have concerns that this requirement has only introduced costs with no corresponding benefit or value to consumers (especially given these are small

[3] Page 12 - AER - RIT-T guidelines - final amendments (clean) - 6 October 2023_0.pdf
[4] Including a RIT-D bulletin however the AER has quoted that it equally applies to RIT-T. Refer section 3.3: https://www.aer.gov.au/system/files/Compliance%20Bulletin%20No.%2010%20-%20RIT-D%20-%20November%202021.pdf

individual projects). The AER has tools which it can apply including through their revenue determination assessments and their asset replacement planning guidelines where the cost/benefit is demonstrated at that time.

We encourage the AER to consider in detail the benefit of this requirement. We believe this requirement should be removed from the RIT-T guideline.

Conclusion

All the above observations indicate that the current (and proposed) low RIT-T threshold is costing consumers collectively a substantially large amount of money with no clear benefits and, delaying projects which has a cascading effect on the network and therefore the transition to net zero target.

We look forward to working with the AER to continue to ensure that any proposed amendments to the RIT-T threshold and criteria are fit-for-purpose and are in the best interest of consumers. If you or your staff require any further information or clarification on this submission, please contact Zainab Dirani, Policy and Advocacy Manager at zainab.dirani@transgrid.com.au.

Yours faithfully

Monika Moutos
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