



## Compliance Bulletin No. 5

Criteria for determining credible options  
under the RIT-T

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## Shortened forms

AER	Australian Energy Regulator
Electricity Law	National Electricity Law
Electricity Rules	National Electricity Rules
NEM	National Electricity Market
RIT-T	Regulatory investment test for transmission
TNSP	Transmission network service provider

# 1 Introduction

The Australian Energy Regulator (AER) is responsible for monitoring compliance by registered participants and other persons with the National Electricity Law (Electricity Law), the National Electricity Rules (Electricity Rules) and associated Regulations. The AER aims to work cooperatively with participants to help them understand the obligations under the Electricity Rules in order to achieve a high level of compliance.

Chapter 5 of the Electricity Rules governs network connections. Clause 5.6 contains procedures for the planning and development of networks, with clause 5.6.6 outlining the *Regulatory investment test for transmission* (RIT-T) procedures. The RIT-T replaced the *Regulatory test* for consultations on transmission investment that commenced on or after 1 August 2010. The RIT-T is used by transmission network service providers (TNSPs) to assess the efficiency of proposed investment options and identify the transmission investment option which maximises net economic benefits while meeting any relevant jurisdictional or Electricity Rules based reliability standards. As required under clause 5.6.5B of the Electricity Rules, the AER has developed and published the RIT-T and application guidelines.<sup>1</sup>

The RIT-T and the application guidelines were developed to promote efficient transmission investment decision making in the national electricity market (NEM). The broad level of consultation and assessment of market benefits required under the RIT-T should lead to greater consistency and transparency in TNSP decision making. The RIT-T application guidelines provide greater specification and worked examples which should also lead to greater consistency in how TNSPs apply the RIT-T.

The AER has identified an apparent misapplication by certain TNSPs of the criteria for developing alternative options in past applications of the regulatory test. While the RIT-T uses the term ‘credible options’ rather than ‘alternative options’ as used in the regulatory test, the AER is concerned that some TNSPs may also misapply the ‘credible option’ definition under the regulatory test.

It appears that certain TNSPs have required alternative options to be committed projects for them to be considered under the regulatory test, however this was not the relevant threshold to apply under the regulatory test. By restricting the options sought to include only committed projects, the option which may have best satisfied the regulatory test may not be considered.

The AER is concerned by the misapplication of the criteria for identifying alternative options under past regulatory test processes and will be carefully monitoring compliance with this obligation in future consultations under the RIT-T process.

While the RIT-T application guidelines provide guidance on what constitutes a credible option, the AER has decided to publish this compliance bulletin to draw attention to the importance of this requirement to assist TNSPs in undertaking future RIT-T consultations.

Participants should examine their approach to determining credible options under the RIT-T to ensure that it is consistent with the AER’s expectations.

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<sup>1</sup> See <http://www.aer.gov.au/content/index.phtml?itemId=730920>.

## 2 Regulatory framework

This section describes the AER's functions and responsibilities and summarises the provisions of the Electricity Rules relevant to this compliance bulletin.

### 2.2 Role and functions of the AER

The AER has functions and powers, which include:<sup>2</sup>

- monitoring compliance with the Electricity Law and Electricity Rules
- investigating breaches or possible breaches of the Electricity Law and Electricity Rules
- instituting proceedings in relation to breaches.

In exercising these functions and powers, we work to ensure that:

- our approach is consistent over time
- our processes are cost effective for relevant participants and the AER
- our activities are transparent.

The AER has detailed its methods for compliance and enforcement in the *AER Enforcement and Compliance - Statement of Approach* which is available on the AER website.<sup>3</sup> This document explains the AER's approach to monitoring compliance, how the AER responds to potential breaches and how it decides whether or not to take enforcement action.

### 2.3 Relevant Rule

This compliance bulletin explains the AER's expectations relating to the determination of credible options under the RIT-T. In particular, the definition of credible options under clause 5.6.5D of the Electricity Rules.

Under the RIT-T, a TNSP is required to identify credible options which may address the identified need. Credible options may include (without limitation): alternative transmission options, interconnectors, generation, demand side management, market network services or other network options.

Clause 5.6.5D(a) of the Electricity Rules states that a credible option is an option (or group of options) that:

- (1) addresses the identified need;
- (2) is (or are) commercially and technically feasible; and
- (3) can be implemented in sufficient time to meet the identified need.

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<sup>2</sup> The AER's functions and powers are outlined in Part 3, Section 15 of the Electricity Law.

<sup>3</sup> See <http://www.aer.gov.au/content/index.phtml?itemId=685897>.

Clause 5.6.5D(b) states that:

In applying the regulatory investment test for transmission, a Transmission Network Service Provider must consider ... all options that could reasonably be classified as credible options...

Clause 5.6.5D(c) further states that:

The absence of a proponent does not exclude a transmission investment option from being considered a credible option.

The credible option definition requires that the option can be implemented in sufficient time to meet the identified need. This does not mean that the option is required to be committed at the time credible options are identified.

By unduly restricting the credible options explored under the RIT-T analysis to include only committed projects, the option which delivers the greatest net economic benefit may not be considered.

### **3 Future compliance monitoring**

To ensure compliance in this area, the AER will closely monitor transmission regulatory investment consultation processes. This will include audits of processes using publicly available information, including how TNSPs have sought to apply the RIT-T (or the regulatory test for those that commenced before 1 August 2010). In addition, the AER will continue to monitor areas of concern highlighted in previous investigations in this area.<sup>4</sup>

The AER will focus on ensuring that the processes used by TNSPs are competitively neutral and that an appropriate quantity and quality of publicly available analysis is used to justify conclusions.

Specifically, the determination of credible options must be undertaken in accordance with the processes set out in the RIT-T (or alternative options under the regulatory test) and must not be restricted to those options which are 'committed projects'. The AER notes that its RIT-T application guidelines aim to assist TNSPs to correctly carry out the process.

The AER acknowledges that Grid Australia (the organisation which represents Australian transmission network owners) is currently developing a handbook to further build on the AER's RIT-T application guidelines. This handbook aims to provide additional guidance to those undertaking the RIT-T and to enhance transparency and consistency in the application of the RIT-T.

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<sup>4</sup> See Transgrid investigation report <http://www.aer.gov.au/content/index.phtml/itemId/739797>.