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Stephanie Jolly  
General Manager, Market Performance  
Australian Energy Regulator  
Submitted via email to [AERinquiry@ aer.gov.au](mailto:AERinquiry@ aer.gov.au)

**15 October 2021**

Dear Stephanie

**AER RIT and APR cost threshold review – Draft Determination, September 2021**

AGL Energy (**AGL**) welcomes the opportunity to comment on the Australian Energy Regulator's (**AER**) RIT and APR cost threshold review – Draft Determination, September 2021 (**Cost Threshold Review**).

AGL does not consider the assessment framework applied by the AER in the Cost Threshold Review is appropriate to determine whether the costs thresholds remain fit-for-purpose to support economically efficient outcomes for consumers.

In the context of non-network solutions facilitated through distributed energy resources (**DER**) investments, while the Regulatory Investment Test – Distribution (**RIT-D**) provides the appropriate starting point for analysing the range of options network businesses should consider, the costs thresholds need to be substantially reduced to improve opportunities for the competitive market to provide more cost-effective solutions within network businesses' standard control services.

As the AER's own analysis highlights, the RIT-D framework has had limited success in supporting effective competitive alternatives to distribution businesses' capital expenditure plans. The AER's 2018 review of the RIT-D Guidelines reports only one successful non-network project from 10 competitive assessments and 16 RIT-D reviews since the RIT-D's introduction in 2013.<sup>1</sup>

In 2020, the Australian Energy Council (**AEC**) brought forward a rule change proposal that is currently pending before the Australian Energy Market Commission (**AEMC**) to give effect to a reduction in the RIT-D cost threshold for projects where the estimated capital cost for the most expensive credible option is \$1M or more.<sup>2</sup> AGL considers this cost threshold reduction would substantially improve opportunities for non-network solutions.

We would recommend the AER defer its assessment of the RIT-D threshold until such time as the rule change determination is completed. While we appreciate that the AER's assessment framework focuses on changes in price indexes, we believe the apparent shortcomings in the RIT-D scheme's overall performance necessitates deferring any determination on the appropriate setting of a cost threshold.

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<sup>1</sup> Australian Energy Regulator, Issues Paper: Review of the application guidelines for the regulatory investment tests (February 2018), Available at [https://www.aer.gov.au/system/files/AER%20-%20Issues%20Paper%20-%20Review%20of%20the%20RIT%20application%20guidelines%20-%202020%20February%202018\\_0.pdf](https://www.aer.gov.au/system/files/AER%20-%20Issues%20Paper%20-%20Review%20of%20the%20RIT%20application%20guidelines%20-%202020%20February%202018_0.pdf).

<sup>2</sup> See further Australian Energy Council, The Regulatory Investment Test for Distribution (RIT-D) – rule change proposal (22 July 2020), Available at <https://www.aemc.gov.au/sites/default/files/2020-08/ERC0314%20Rule%20change%20request%20pending.pdf>.



Should you have any questions in relation to this submission, please contact Kurt Winter, Regulatory Strategy Manager, on 03 8633 7204 or [KWinter@agl.com.au](mailto:KWinter@agl.com.au).

Yours sincerely

A handwritten signature in blue ink, appearing to read 'K. Winter'.

Con Hristodoulidis

**A/ GM Policy and Markets Regulation**