Mr Peter Adams
General Manager — Wholesale Markets Branch
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

9 October 2015

Email: AERinquiry@aer.gov.au

Dear Mr Adams

COST THRESHOLDS REVIEW FOR THE REULATORY INVESTMENT TEST — DRAFT DETERMINATION

CitiPower Pty and Powercor Australia Limited (**the Businesses**) welcome the opportunity to respond to the draft determination published by the Australian Energy Regulator (**AER**) in relation to the cost thresholds for the Regulatory Investment Test for Distribution (**RIT-D**) and the Regulatory Investment Test for Transmission (**RIT-T**).

In its draft determination, the AER proposes that:

- the $5 million capital cost threshold that triggers a RIT-D remains unchanged;
- the $5 million capital cost threshold that triggers a RIT-T increases to $6 million.

For consistency of the RIT-D and RIT-T thresholds, the Businesses consider that both thresholds should be raised to $6 million. Our reasons are set out below.

AER approach to reviewing the thresholds

The AER's approach to determining a change in the thresholds has been undertaken by considering the change in economy wide indices since the RIT-T was last reviewed (in 2012) and the RIT-D framework was introduced (on 1 January 2013).

The AER outlines that economy wide indices, such as the Consumer Price Index, the Producer Primary Index, and Gross Domestic Product have increased by approximately 5-7 per cent (with a midpoint of 6 per cent) since 2012, and 4-6 per cent (with a midpoint of 5 per cent) since 1 January 2013 when the RIT-D framework commenced in the National Electricity Rules.

The AER has inflated the raw cost thresholds by the midpoint of the range, and rounded to the nearest million. The raw cost threshold was $5 million for distribution, but $5.5 million for transmission following the 2012 review of the RIT-T thresholds.

Essentially, the timing of the introduction of the RIT-D compared with the RIT-T underpins the basis for the AER's proposed divergence in the cost thresholds.

Misalignment of thresholds

In the Australian Energy Market Commission's (**AEMC**) consideration of the cost threshold for the RIT-D, the AER expressed support for the $5 million figure on the basis that it provided consistency with the RIT-T.[1]

The consistency of the RIT-D and RIT-T thresholds is necessary for joint planning projects where the identified need may be addressed by potential solutions on either the distribution or transmission network (or a combination of both).

To ensure consistency and avoid confusion where the most expensive credible option to resolve a particular constraint falls below the proposed RIT-T threshold but above the proposed RIT-D threshold, the AER should align both thresholds to the revised figure of $6 million for the period to 31 December 2018.

Broader review in 2018

While the AER's approach to reviewing the threshold in 2015 is based on the use of indices, the Businesses consider that a more holistic review of the cost threshold be undertaken in 2018.

At that point, the RIT-D framework will have been in place for around five years, and the RIT-T for around ten years. It would therefore be appropriate to review the costs and benefits to all stakeholders from the RIT-T and RIT-D frameworks and the cost thresholds more broadly.

The Businesses would be pleased to discuss any aspect of this letter with the AER. Please contact Elizabeth Carlile on 03 9683 4886 or ecarlile@powercor.com.au.

Regards

Renate Tirpcou
Manager, Regulation

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1 AEMC, *National Electricity Amendment (Distribution Network Planning and Expansion Framework) Rule 2012*, Rule Determination, 11 October 2012, p. 68.