Clean Energy Council submission to the Australian Energy Regulators: RIT and APR cost threshold review – Draft Determination, September 2021

The Clean Energy Council (CEC) welcomes the opportunity to provide feedback on the Australian Energy Regulators (AER) RIT and APR cost threshold review – Draft Determination, September 2021.

The CEC is the peak body for the clean energy industry in Australia. We represent and work with Australia's leading renewable energy and energy storage businesses, as well as rooftop solar installers, to further the development of clean energy in Australia. We are committed to accelerating the transformation of Australia's energy system to one that is smarter and cleaner.

The CEC does not consider the assessment framework applied by the AER in the cost threshold review/ scope of the draft determination to be adequate to determine whether the costs thresholds remain fit-for-purpose to maximise benefits for consumers. We suggest that changes in technology costs are far more material than consumer price index changes.

The CEC recommends that the RIT-D threshold should be reduced from six million to $500,000. The AER review has failed to consider the implications of the falling cost of energy storage. Since its last review, distribution network service providers (DNSPs) have realised the potential benefits of community batteries (also known as 'neighbourhood-scale batteries'), and the cost of those batteries has fallen to below $500,000. By retaining the RIT-D threshold at $6 million, consumers could miss out on the benefits of the community batteries. 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[1]. The CEC supports the AEMC's rule change proposal of cost threshold reduction which would substantially improve opportunities for non-network solutions.

We further recommend that the RIT-D process should be simplified using an AER tool to lower the administrative burden on DNSPs and reduce transaction costs. The DNSPs will want to avoid the administrative burden that cost-benefit tests can entail. By streamlining the assessment process with an analytical tool catering specifically for batteries on distribution networks, the AER has an opportunity to deliver a win for networks and customers. We also note that the AER in its review of electricity distribution ring-fencing guidelines has proposed a new 'Class Exemption' procedure for DNSP-owned batteries. The proposed tool to simplify the RIT-D process could assist with making the 'Class Exemption' process more streamlined and less burdensome.

[1] https://www.aemc.gov.au/sites/default/files/2020-08/ERC0314%20Rule%20change%20request%20pending.pdf.

Additional guidance is needed on the treatment of environmental policies and for replacement expenditure projects, option value analysis, accounting for high impact low probability events (such as bushfires or hailstorms) in RIT-D application guidelines.

The higher integration of variable renewable energy resources (VER) and distribution energy resources (DER) and more decentralised DER systems means it will be less economical to invest in poles and wires over the next 20 years or so. The RIT-D process should facilitate the integration of distributed renewable energy generation and demand management/response. Greater clarity is needed around incorporating uncertainty and risk into the RIT-D process such as considering compliance, legal and safety risks and the distinction between capital planning and operations. Externalities need to be incorporated into the RIT-D process. Better guidance is needed in selecting a suitable modelling period especially with the changing generation mix and the increasing number of decentralised systems. Further, there is a need to encourage the collection of user-friendly data and to provide guidance on dispute resolution.

We would be happy to discuss these issues in further detail with representatives of AER. We look forward to contributing further to this important area for policy development.

Lower transaction cost

- The administrative burden of the RIT-D reduces its effectiveness for DNSPs and suppliers of DER. Therefore, reducing the administrative burden imposed on distribution businesses and proponents will promote the long-term interests of consumers.

- The CEC suggests the AER should streamline the assessment process with an online analytical tool which DNSPs could use to enter information/numbers of individual projects which will give out some general recommendations. Then DNSPs could decide whether it is worth carrying out more analysis rather than starting a cost benefit analysis from scratch. This will help with driving the transaction costs down which will benefit both customers and networks.

RIT-D threshold of $6 million

- The $6 million threshold is too high and does not enable the identification of low-cost solutions such as 'neighbourhood scale' batteries connected to the distribution network.

- A lower threshold such as $500,000 would be more appropriate. A threshold of $6 million could lead to DNSPs investing in projects that increase overall costs to consumers (i.e., not cost minimising/benefit maximising). The argument for a lower RIT-D threshold could be supported with the decreasing trends of technology cost in recent years. Regulations need to keep up with technology updates/cost reductions. For example, Yackandandah's community battery[2] of 274 kWh costed approximately $400,000 (including transport) and Ausgrid's Beacon Hill battery of 267kWh in NSW also costed around $400,000[3].

Guidance on environmental policies and replacement expenditure

- Additional guidance is required on the treatment of environmental policies and for replacement expenditure projects. This could include giving an example of a replacement expenditure project driven by compliance with safety requirements. Further guidance is needed on how environmental policy objectives and targets (such as the Renewable Energy Target, state-based emissions reduction targets and the National Energy Guarantee) which may be uncertain but should be accounted for in assessing investment options.

- "A RIT–D proponent must exclude from its analysis, the costs (or negative benefits) of a credible option's harm to the environment or to any party that is not expressly prohibited or penalised under the relevant laws, regulations or administrative requirements." The RIT-D proponent should still include in its analysis any environmental harm or harm to any third party.

Guidance on option value, scenario analysis and dealing with non-network options

- RIT-D framework would benefit from having clarity in the guidelines, through worked examples on the calculation of option value and how it could be applied to network options, non-network options as well as replacement projects.

Treatment of high impact low probability events

- Guidance on how to better account for high impact low probability (HILP) events in RIT-D application guidelines. The RIT-D currently do not assign appropriate weight to high-consequence scenarios such as the bushfires or hailstorms. We recommend the AER incorporate "The Sectoral Project Information" information by the Bureau of Meteorology/AEMO

[2] https://www.abc.net.au/news/2021-05-24/community-battery-yackandandah-ausgrid-electricity-shakeup/100159460

[3] https://reneweconomy.com.au/ausgrid-installs-first-of-many-community-battery-installations-in-sydney-network/

in the RIT-D. The RIT-D regimes must facilitate, where expenditure is justified, reinforcement or decentralisation of the power system so that it is resilient to more extreme weather, including high impact, low probability events and meeting system security needs. It is important to weight the economic impact of the event by a reasonable estimate of its probability of occurring. For clarity, weighting these events differently to their probability of occurring could distort the RIT–D outcome and undermine transparency. A RIT–D proponent can also use sensitivity testing to explore the robustness of different credible options to risks, including HILP events.

Changing technology mix/increasing decentralised systems

- Higher VRE and DER integration and more decentralised DER systems means it will be less economical to invest in poles and wires over the next 20 years. The RIT-D process should facilitate, or at least not hinder, the integration of distributed renewable energy generation and demand management/response.

- The guideline should provide guidance as to how non-physical investment options, for example information technology or communication systems, should be assessed. With the existing levels and projected growth of DER, including battery storage and active demand responses connecting to the distribution network, it is likely that DNSPs will need to enhance their network monitoring and control systems and provide services that support the management and operation of the network. Consistency across the NEM, to determine if this additional investment is in the long-term interest of consumers. A RIT-D type of framework needs to apply and therefore suggests this review consider extending the application of the RIT-D to these types of investment options.

- Another material change in circumstances could be the formerly unforeseen availability of an alternative credible option, such as demand response provided by a virtual power plant program. The RIT-D needs a standard process to support VPP and stand-alone power systems.

Guidance on uncertainty and risk

- Greater clarity is needed around the compliance, legal and safety risks distinction between capital planning and operations. The RIT–D proponent should also consider any quantified 'risk costs' consistent with its BAU risk mitigation and management activities and with reference to AER's 'industry practice application notes for asset replacement planning'.

- RIT–D provides RIT–D proponents with the flexibility to adjust the discount rate to reflect the risks that different types of projects carry. We expect these adjustments would vary between identified needs rather than between credible options to address a specific identified need.

- The first step in taking account of material uncertainty over future market supply and demand conditions is to formulate a set of reasonable scenarios that reasonably reflect potential future market conditions. The next step is for the RIT–D proponent to assign a reasonable probability to each of these reasonable scenarios occurring in practice.

Externalities and external funding contributions

- "RIT–D proponents must exclude externalities from their RIT– D assessments has a bearing on how RIT–D proponents should treat external project funding for a credible option differently depending on whether it has or will be provided by: A Registered Participant under the NER or any other party in their capacity as a consumer, producer or transporter of electricity in the NEM (a Participant); or Any other party (Other Party)". We advise AER to include positive and negative externalities in the RIT-D process.

Suitable modelling periods

- "It is unlikely that a period of less than 5 years would adequately reflect the market benefits of any credible option. In the case of high-cost investments that provide a return over a longer period, it may be necessary to adopt a modelling period of 20 years or more". Better guidance is needed on suitable modelling periods especially with changing generation mixed and more decentralised systems. It might not worth spending on poles and wires for next 20 years if we are moving into stand-alone power systems.

User friendly data

- Need user friendly data with information that is more useful, more timely and more accessible.

Guidance on dispute resolution

- More guidance is needed on dispute resolution with examples.