



Draft- for Consultation only

Regulatory investment test for transmission application guidelines

This indicative version of the regulatory investment test for transmission application guidelines only contains marked-up extracts of relevant sections of this guideline which are amended to reflect changes in lieu of the AEMC's final rule for the Replacement expenditure planning arrangements rule change request.

11 August 2017

2 Overview of the RIT-T

Under clause 5.6.5B of the Electricity Rules the AER is required to publish the RIT-T and application guidelines. The RIT-T is an economic cost benefit analysis which is used to assess and rank different electricity investment options.

From 1 August 2010, TNSPs must apply the RIT-T in accordance with clause 5.6.6 of the Electricity Rules to assess the economic efficiency of proposed investment options. The RIT-T is intended to promote efficient transmission investment in the *national electricity market* (the NEM) and ensure greater consistency, transparency and predictability in transmission investment decision making. The RIT-T replaces the AER's *regulatory test* for transmission investment.

2.1 Purpose of the RIT-T

Clause 5.6.5B of the Electricity Rules states that the purpose of the RIT-T is to:

... identify the *credible option* that maximises the present value of net economic benefit to all those who produce consume and transport electricity in the *market* (the *preferred option*). For the avoidance of doubt, a *preferred option* may, in the relevant circumstances, have a negative *net economic benefit* (that is a net economic cost) where the *identified need* is for *reliability corrective action*.

2.2 Investments subject to RIT-T assessment

Clause 5.6.5C of the Electricity Rules provides that a TNSP must apply the RIT-T to all proposed *transmission investments* unless the investment falls under defined circumstances.

A *transmission investment* is defined in the Electricity Rules as:

Expenditure on assets and services which is undertaken by a *transmission network service provider* or any other person to address an *identified need* in respect of its *transmission network*.

The circumstances where a TNSP does not need to apply the RIT-T include where:

- a proposed investment is required to address an urgent and unforeseen *network* issue (discussed below)
- the estimated capital cost of the most expensive option to address the *identified need* is which is technically and economically feasible is less than \$5 million (the AER must review this threshold every three years)¹
- the proposed investment relates to maintenance ~~or replacement~~ and is not intended to augment the *transmission network* or replace network assets. ~~If the maintenance or replacement results in an augmentation of the transmission network, the augmentation component is exempt if the estimated capital cost of the~~

¹ Under clause 5.6.5E of the National Electricity Rules the AER must review RIT-T cost thresholds every three years with the first review to commence in 2012. Details regarding any review of the RIT-T thresholds (including any revisions to this threshold) will be published on the AER's website www.aer.gov.au.

~~augmentation is less than \$5 million (the AER must review this threshold every three years)²~~

- the proposed investment is undertaken to re-route one or more paths of the *network* and has a substantial primary purpose other than the need to augment the *network*. The TNSP must reasonably estimate that the investment will cost less than \$5 million (the AER must review this threshold every three years)³ or is likely to have no material impact on network users
- the proposed investment will be a *dual function asset* or a *connection asset*⁴
- the proposed investment is designed to address limitations on a *distribution network*
- the cost of the proposed *transmission investment* is to be fully recovered through charges for *negotiated transmission services*.

In determining whether a TNSP must apply the RIT-T to a proposed transmission investment, a TNSP must not treat different parts of an integrated solution to an *identified need* as distinct and separate options.⁵

Where a TNSP does not need to apply the RIT-T to a proposed investment (with the exception of *funded augmentations*)⁶ a TNSP must ensure, acting reasonably, that the investment is planned and developed at least cost over the life of the investment.⁷

Economically feasible

As noted, under clause 5.6.5C(a)(2) of the Electricity Rules a TNSP does not need to apply the RIT-T where the most expensive option to address the *identified need* which is technically and economically feasible is less than \$5 million. The Electricity Rules do not define the term “economically feasible”. Whether an option is economically feasible will depend on the particular circumstances surrounding the RIT-T assessment. However, as general guidance, the AER considers that an option is likely to be economically feasible where its estimated costs are comparable to other *credible options* which address the *identified need*. One important exception to this general guidance applies where it is expected that a *credible option* or options are likely to deliver materially higher *market benefits*. In these circumstances the option may be “economically feasible” despite the higher expected cost.

Urgent and unforeseen investments

As noted, a TNSP does not need to apply the RIT-T to a proposed *transmission investment* to address an urgent and unforeseen *network* issue that would otherwise put the reliability of the *transmission network* at risk. Under clause 5.6.5C(b) of the

² ~~For further details see footnote 1.~~

³ For further details see footnote 1.

⁴ Dual function asset and connection assets are defined in chapter 10 of the National Electricity Rules.

⁵ See clause 5.6.5C(e) of the National Electricity Rules.

⁶ A funded augmentation is a transmission network augmentation for which a TNSP is not entitled to receive a charge under Chapter 6A of the National Electricity Rules.

⁷ See clause 5.6.5C(d) of the National Electricity Rules.

Electricity Rules, a proposed *transmission investment* is only subject to this exemption if:

- it is necessary that the proposed investment be operational within six months of the TNSP identifying the need for the investment
- the event or circumstance causing the *identified need* was not reasonably foreseeable and was beyond the control of the TNSP
- a failure to address the *identified need* is likely to materially adversely affect the *reliability* and *secure operating state* of the *transmission network*, and
- it is not a *contingent project*.⁸

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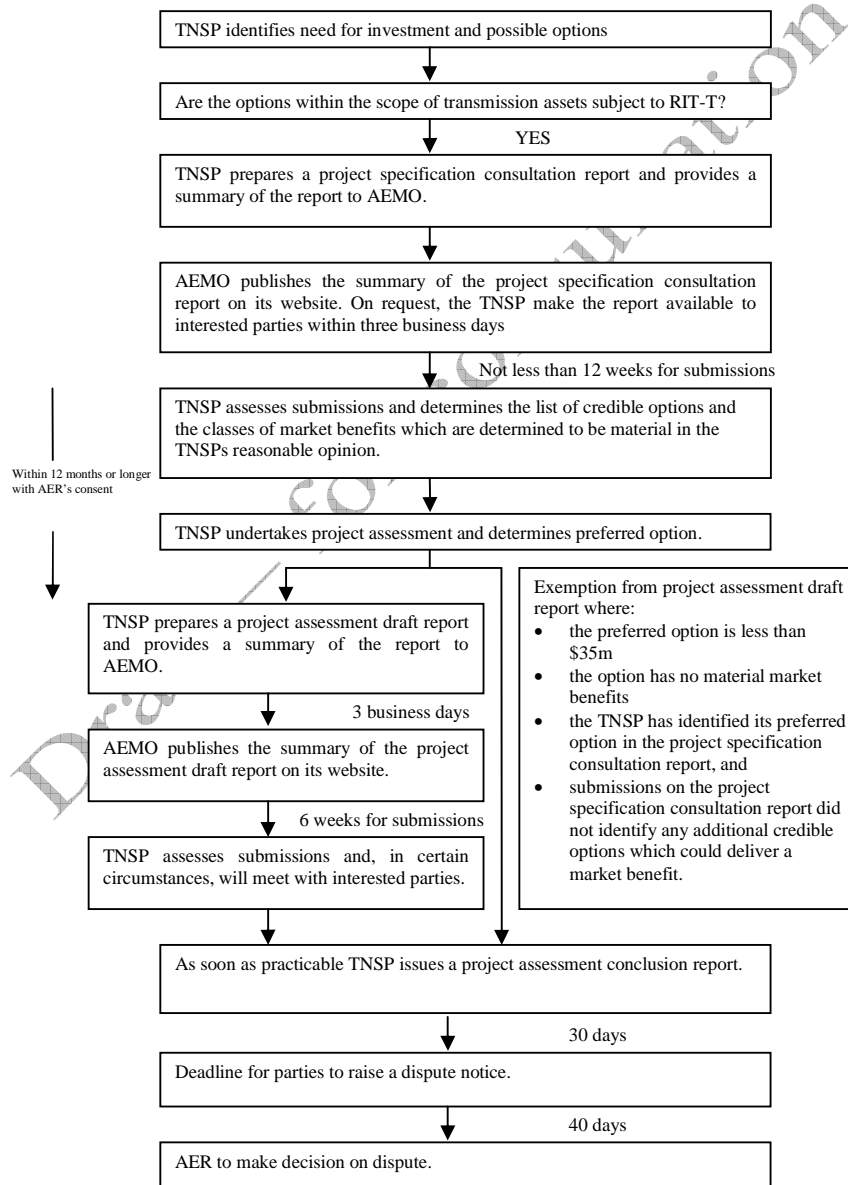
⁸ Contingent projects are determined by the AER under clause 6A.8.1(b) as part of a TNSP's revenue determination.

4 Process to be followed in applying the RIT-T

This part of the guideline summarises the process that a TNSP must follow when applying the RIT-T as set out in the Electricity Rules. It summarises each stage of the process for applying the RIT-T.

Clause 5.6.6 establishes a three stage process for applying the RIT-T: the *project specification consultation report*, *project assessment draft report* and *project assessment conclusions report*. If a proposed *transmission investment* is subject to a RIT-T assessment, a TNSP must follow the three stage process. This process is summarised below. A flow chart of the consultation and assessment process is also set out at figure 1.

Figure 1 RIT-T assessment and consultation process



4.1 Stage one: Project specification consultation report

The TNSP must prepare a *project specification consultation report* setting out certain information about the proposed *transmission investment*. A TNSP is not required to make the *project specification consultation report* separately available if it includes the report as part of its *annual planning report*.

Information required for project specification consultation report

The *project specification consultation report* must set out the following:

- the *identified need* for the investment
- assumptions used in identifying the *identified need*. Where a TNSP considers *reliability corrective action* is required, it must include reasons why this action is necessary.
- the technical characteristics of the *identified need* that a non-network option would be required to deliver, such as the size of load reduction or additional supply, location and operating profile
- a description of all *credible options* that the TNSP considers address the *identified need*
- for each *credible option* identified, information about:
 - the technical characteristics of the *credible option*
 - whether the *credible option* is likely to have a material inter-regional impact
 - the classes of *market benefits* that the TNSP considers are unlikely to be material and reasons why the TNSP considers that these classes of *market benefits* are unlikely to be material
 - the estimated construction timetable and commissioning date, and
 - to the extent practicable, the total indicative capital and maintenance costs.

In describing the *identified need* under clause 5.6.6(c)(6), it is often useful for a TNSP to specify (where the *identified need* is for *reliability corrective action*):

- the maximum demand in MW and energy in MWhs at risk. This should include the TNSP's expectations regarding the timing of any expected breach of a reliability standard and by how much.
- specific details on the planning criteria which is being applied (for example specific clause and section references to the legislation or other regulatory instruments that apply)
- in an 'n-x' reliability assessment, any assumptions the TNSP has made in developing 'x' (including for example information regarding generator and interconnector availability).

In addition to the material TNSPs are required to publish under clause 5.6.6(c)(6), it may assist non-network proponents to propose alternative *credible options*, if the *project specification consultation report* also specifies (where relevant):

- how any proposed augmentation *credible option* links to the TNSP's asset refurbishment or replacement plans, and
- information regarding future generation and demand assumptions.

Consultation process

The TNSP must make the *project specification consultation report* available to all registered participants, AEMO and interested parties.¹⁰ Below is a summary of the important stages in the consultation process:

- Within five *business days* of making the *project specification consultation report*, the TNSP must provide a summary of the report to AEMO. AEMO will publish the summary on its website within three *business days* of receiving the summary.
- Upon request, a TNSP must make their *project specification consultation report* available to an interested party within three *business days*.
- While not a requirement in the Electricity Rules, the AER considers it best practice for a TNSP to also publish its *project specification consultation report* (or the summary of the report) and the closing date and requirements for submissions on the TNSP's website.
- A TNSP must seek submissions from registered participants, AEMO and interested parties on the *credible options* presented and the issues addressed in the *project consultation specification report*.
- The period for submissions must be at least 12 weeks from the date AEMO publishes the summary on its website.

4.2 Stage two: Project assessment draft report

If a TNSP decides to proceed with the proposed *transmission investment*, it must prepare a *project assessment draft report* within:

- 12 months of the end of the consultation period under stage one, or
- a longer period agreed to by the AER in writing.

A TNSP is not required to make a separate *project assessment draft report* available if it includes the report as part of its *annual planning report* and this report is published within 12 months of the end of the consultation under stage one (or the longer period agreed to by the AER).

¹⁰ Registered participant and interested party are defined in chapter 10 of the National Electricity Rules.

Information required for project assessment draft report

The *project assessment draft report* must include the following information:

- a description of each *credible option* assessed
- a summary of, and commentary on, the submissions received
- a quantification of the *costs* (including a breakdown of the operating and capital expenditure) and classes of material *market benefit* for each *credible option*
- where relevant, the reasons why the TNSP has determined that a class of *market benefit* is not material
- a detailed description of the method used to quantify each class of material *market benefit* and *cost*
- the identity of any class of *market benefit* estimated to arise outside the TNSP's *region* and a quantification of the value of such benefits (in aggregate across all *regions*), and
- the results of a net present value analysis of each *credible option* and accompanying explanatory statements regarding the results
- the proposed *preferred option* and details on its technical characteristics, estimated construction timetable and commissioning date and a statement and analysis that the *preferred option* satisfies the RIT-T.

The AER considers that, where a TNSP has undertaken market modelling, the *project assessment draft report* should also include a description of any assumptions the TNSP has made.

Consultation process

The TNSP must make the *project assessment draft report* available to registered participants, AEMO and interested parties. Below is a summary of the important stages in the *project assessment draft report* process:

- Within five *business days* of making the *project assessment draft report*, TNSPs must provide a summary of the report to AEMO. AEMO will publish the summary on its website within three *business days*.
- Upon request, a TNSP must make their *project assessment draft report* available to an interested party within three *business days*.
- While not a requirement in the Electricity Rules, the AER considers it best practice for a TNSP to also publish its *project assessment draft report* (or the summary of the report) and the closing date and requirements for submissions on the TNSP's website.

- A TNSP must seek submissions from registered participants, AEMO and interested parties on the *preferred option* presented and the issues addressed in the *project assessment draft report*.
- The period for submissions must be at least 6 weeks from the date AEMO publishes the summary on its website.
- An interested party, a registered participant or AEMO (each known as a *relevant party*) may request a meeting with the TNSP within four weeks of the end of the consultation period. However a TNSP is only *required* to hold a meeting if a meeting is requested by at least two relevant parties. The TNSP *may* meet with a relevant party if after considering all submissions it considers that the meeting is necessary.

Exemption from preparing a project assessment draft report

Under certain circumstances, *transmission investments* do not require a *project assessment draft report*. Under clause 5.6.6(y) of the Electricity Rules, TNSPs are exempt from providing a *project assessment draft report* if all of the following conditions are met:

- the estimated capital cost of the *preferred option* is less than \$35 million (the AER must review this threshold every three years)¹¹
- the TNSP has identified in its consultation report its *preferred option*, its reasons for that option and noted that it will be exempt from publishing the draft report for its *preferred option*
- the TNSP considers that the *preferred option* and any other *credible options* do not have a material *market benefit* (other than benefits associated with changes in voluntary load curtailment and involuntary load shedding), and
- the TNSP forms the view that submissions on the *project specification consultation report* did not identify additional *credible options* that could deliver a material *market benefit*.

4.3 Stage three: Project assessment conclusions report

As soon as practicable after the consultation period for the *project assessment draft report*, the TNSP must consider all submissions received and publish and make available to all registered participants, AEMO and interested parties¹² a *project assessment conclusions report*.

Where a TNSP is exempt from preparing a *project assessment draft report*, the TNSP must make the conclusions report available within 12 months of the end of the consultation period under stage one.

¹¹ For further details see footnote 1.

¹² Registered participant, interested party and AEMO are defined in chapter 10 of the National Electricity Rules.

A TNSP is not required to make the *project assessment conclusions report* available if it includes the report as part of its *annual planning report*.

Information required for project assessment conclusions report

The *project assessment conclusions report* must set out:

- the matters required in the *project assessment draft report* (see information required for *project assessment draft report* in stage two above), and
- a summary of, and the TNSP's response to, submissions received from interested parties regarding the *project assessment draft report*. If a TNSP is exempt from preparing a *project assessment draft report*, the *project assessment conclusions report* must address any issues raised during consultation under stage one.

The AER considers that, where a TNSP has undertaken market modelling, the *project assessment draft report* should also include a description of any assumptions the TNSP has made.

Publishing final report

Below is a summary of the stages for publishing and making the *project assessment conclusions report* available to registered participants, AEMO and interested parties:

- Within five *business days* of making the *project assessment conclusions report*, the TNSP must provide a summary of the report to AEMO. AEMO will publish the summary on its website within three *business days*.
- Upon request, a TNSP must make their *project assessment conclusions report* available to an interested party within three *business days*.
- The TNSP must also publish the *project assessment conclusions report* by making it available to registered participants electronically.
- While not a requirement of the Electricity Rules, the AER considers it best practice for a TNSP to also publish the *project assessment conclusions report* on its website as well as the date that this report was published. The TNSP may also note on its website that a process exists for resolving RIT-T disputes and the timeframes for lodging a dispute notice with the AER.

4.4 Reapplication of the RIT-T

Clause 5.16.4(z3) of the NER sets out that if a material change in circumstances means that, in the reasonable opinion of the RIT-T proponent, the *preferred option* identified in the *project assessment conclusions report* is no longer the *preferred option*, the RIT-T proponent must re-apply the RIT-T to the RIT-T project.

A material change in circumstances may include, but is not limited to, a change in the key assumptions used in identifying:

- the *identified need* described in the *project assessment conclusions report*; or

- the *credible options* assessed in the *project assessment conclusions report*.¹³

The AER can make a determination to exclude RIT-T proponents from this clause, where it considers appropriate. In making a determination under cl. 5.16.4(z3) of the NER, the AER must have regard to:

- the *credible options* (other than the preferred option) identified in the *project assessment conclusions report*
- the change in circumstances identified by the RIT-T proponent
- whether a failure to promptly undertake the RIT-T project is likely to materially affect the reliability and *secure operating state* of the *transmission network*, or a significant part of that network.¹⁴

We expect that situations that require a re-application of the RIT-T under cl. 5.16.4(z3) of the NER will be exceptional. Similarly, circumstances where we make a determination to exclude RIT-T proponents from this clause are also likely to be exceptional. For this reason, we will consider these situations on a case-by-case basis on whether such a determination would be appropriate.

¹³ NER, cl. 5.16.4(z4)

¹⁴ NER, cl. 5.16.4(z5) (1-3).