

4 April 2018

Mr Peter Adams
General Manager, Wholesale Markets
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

Submission via: RIT@aer.gov.au

Dear Mr Adams

Review of the guidelines for regulatory investment tests

Thank you for the opportunity to provide comment on the AER's review of the application guidelines for the regulatory investment tests for transmission and distribution.

Hydro Tasmania is Australia's largest producer of renewable energy. We are an integrated energy business providing retail energy products through our Victorian-based retailer Momentum Energy, power and water consulting services through our specialist consulting business Entura. As a material participant in the National Electricity Market (NEM), the investment framework for generation and electricity networks is fundamentally important to our business. The energy market is undergoing a period of significant transformation which is changing the way that energy is produced, transported and consumed. The AER's review of the regulatory investment tests is therefore a timely opportunity to assess if this framework remains appropriate.

The RIT-T is the key framework to assess the merits of proposed transmission investment. The RIT-T aims to provide a rigorous, systematic and transparent process for assessing market benefits and costs, which is primarily valuable for assessing traditional transmission investments such as network augmentation. However, given rapid technology and market change, Hydro Tasmania believes, that the current RIT-T is unable to fully assess potential large scale strategic investments in the NEM due to its limited ability to consider all market (including social and environmental) benefits and to undertake assessments in a timely manner. Consequently, the RIT-T (without complementary measures) is unlikely to deliver the level of investment needed given the rate and scale of the energy sector's transformation.

As noted in the Issues Paper, AEMO is developing an Integrated System Plan (ISP) to support the 'efficient development and connection of renewable energy zones (REZ) across the National Electricity Market'. The ISP will seek to provide a more strategic approach to integrated transmission investment for the future of the NEM. Hydro Tasmania has significant concerns about the RIT-T's ability to facilitate key elements of the ISP - in particular REZ and supporting transmission interconnection. Stakeholder workshops on the REZ conducted by AEMO clearly noted that an

outcome of the RIT-T framework is that investment uncertainty tends to restrict new developments to incremental augmentations rather than capturing economies of scale benefits.¹ Hydro Tasmania therefore recommends that the AER fully considers the relationship between the RIT-T and the ISP to best optimise and coordinate investment in generation, transmission and storage. Options to consider could include ways to streamline the RIT-T process for strategic transmission options identified through the ISP process and to review the parameters of the RIT-T to ensure they align with transmission options identified in the ISP.

Please feel free to contact John Cooper should you have any questions or would like to discuss this submission further (john.cooper@hydro.com.au (03) 6230 5313).

Yours sincerely

A handwritten signature in black ink, appearing to be 'Steve Davy', written in a cursive style.

Steve Davy
CEO

¹Integrated System Plan Consultation Paper, AEMO, December 2017 (Page 37)