AUSTRALIAN
ENERGY
COUNCIL

Ms Stephanie Jolly
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Australian Energy Regulator
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Submitted online: AERinquiry@aer.gov.au

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Dear Ms Jolly

**2021 RIT and APR cost thresholds review - draft determination**

The Australian Energy Council (AEC) welcomes the opportunity to make a submission to the 2021 RIT and APR cost thresholds review - draft determination.

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The AEC is the industry body representing 20 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the majority of the electricity in Australia, sell gas and electricity to over ten million homes and businesses, and are major investors in renewable energy generation.

The AEC does not support the assessment framework for this review. The AEC has previously proposed a reduction in the cost threshold in the Regulatory Investment Test for Distribution (RIT-D).[1] The AEC's proposed rule would apply the RIT-D to a project where the estimated capital cost for the most expensive credible option is $1 million or more.

The AEC has previously examined publicly available data to assess the performance of the RIT-D against its objectives and concluded that as an effective competitive alternative to distribution businesses' capital expenditure plans, the RIT-D is not delivering.[2] In fact the AER's 2018 review of the RIT-D Guidelines supported this; the AER identified only one successful non-network project from 10 competitive assessments and 16 RIT-D reviews since the RIT-D's introduction in 2013.[3]

Network Distribution Annual Planning Reports (DAPR) project data suggest in recent years there have actually been fewer augmentation projects, and falling average project costs, at the same time as the RIT-D cost threshold has been increased.[4] In this same period refurbishment and replacement projects also appear to have been reducing in number and falling in size.

In this context, and with the AEMC still to initiate the AEC's rule change proposal, it seems highly likely that even fewer projects will proceed to a full assessment relative to relevant network capital expenditures over the next period.

There is good rationale behind the AEC's position on the RIT-D being split from that om the RIT-T. Firstly, evidence amply supports arguments that distribution and transmission projects have different characteristics. Specifically, transmission projects covered by the RIT-T are materially larger than distribution projects covered by the RIT-D and the difference between the two may be increasing. The insistence on maintaining

[1] The regulatory investment test for distribution rule change proposal, Australian Energy Council https://www.aemc.gov.au/sites/default/files/2020-08/ERC0314%20Rule%20change%20request%20pending.pdf

[2] How has the RIT-D functioned? The regulatory investment test for distribution rule change proposal, Australian Energy Council, P.10. https://www.aemc.gov.au/sites/default/files/2020-08/ERC0314%20Rule%20change%20request%20pending.pdf

[3] Australian Energy Regulator, Issues Paper: Review of the application guidelines for the regulatory investment tests, February 2018, p.18

[4] Over the period 2014-2019, the market for Demand Management was small; only three projects were identified in the DAPRs, none of which would have met the RIT-D test, averaging just over $730,000 per project.

the relationship between the two cost thresholds in the face of the available evidence would increase the costs to transmission networks without achieving concomitant benefits. Further, there is no evidence that during 2016 –2019 when the two lower cost thresholds diverged that there was any material negative impact on consumers' welfare from the divergence. The two can and should be considered entirely separately to each other.

The AEC proposed changes to the RIT – D threshold based on evidence and analysis[5] that identified that:

- The RIT-D does not contribute to achieving the objectives that underlay its introduction;
- Non-network services are not providing an effective competitive alternative to distribution businesses' capital expenditure plans under the RIT-D; and,
- The benefits to customers are not being realised under the current RIT-D design.

The AEC acknowledges that the AER assessment framework for the RIT-D examines changes in price indexes and does not review the schemes performance. However, the AEC believes that doubts over the efficacy of the RIT-D, combined with any pending review of the scheme by the AEMC, should be sufficient to withhold increases to the RIT-D threshold until after any such review.

Please contact the undersigned at David.Markham@energycouncil.com.au to discuss.

Yours sincerely,

**David Markham**
Australian Energy Council

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