



COAG Energy Council review of the Regulatory Investment Test for Transmission

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Energy
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Australia



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Review of the Regulatory Investment Test for Transmission

Energy Consumers Australia thanks the Council of Australian Governments Energy Council (the Energy Council) for the opportunity to comment on its Consultation Paper, *Review of the Regulatory Investment Test for Transmission* (the Consultation Paper). The RIT-T is the process that networks must follow when planning large capital investments. It seeks to ensure that networks consider all viable options, in consultation with stakeholders, before building more poles and wires (for example, demand management alternatives).

A mechanism for ensuring networks examine all available options before undertaking major capital projects is a vital part of a regime that ensures consumers pay no more than is necessary for the transportation of their electricity. Following the recent South Australian blackout, it is vital that such checks are not diluted or sidelined in an effort to 'build a solution' to such challenges as quickly as possible. Rather, the process must be allowed to run its designed course and fulfil its intended function, to ensure consumers pay no more than is necessary for a reliable, safe and secure supply of quality electricity.

Energy Consumers Australia is also conscious that this review is running in parallel to the independent review of the National Electricity Market being led by Dr Alan Finkel, and ahead of the review of emissions reductions policies in 2017. It is important that the RIT-T process reflects the decisions taken about the strategic direction of the NEM under a broader post-2017 policy framework.

The Consultation Paper

The Energy Council tasked officials with reviewing the RIT-T at its 19 August 2016, meeting.¹ The Consultation Paper was released on 30 September 2016, two days after severe storms triggered a state-wide blackout in South Australia.² Prompted by those events, the Energy Council held an extraordinary meeting on 7 October 2016 where issues around transmission and interconnector capacity were considered, and the work that was being done as part of this process was noted.

In particular, the Energy Council wishes to better understand whether the RIT-T 'remains the appropriate assessment of strategic interconnection for the development of a truly national, efficient interconnected National Electricity Market [NEM]'.³

Electricity is an essential service for people to conduct their lives and for the operation of any business. Where component prices of energy services are regulated, that regulation must work effectively together to deliver a required level of service at efficient costs, so that consumers pay no more than is necessary. In the words of the Consultation Paper, the objective of the RIT-T is to 'ensure that investments in major electricity transmission assets in the NEM are economically efficient, so minimising the risk of inefficient costs being passed on to consumers'.⁴ Energy Consumers Australia agrees with this characterisation, which is consistent with the National Electricity Objective's (NEO) requirement for all the electricity regulation to 'promote the long term interest of consumers with respect to price, quality, safety, reliability and security of supply, and the safety, reliability and security of the national electricity system'.⁵

¹ COAG Energy Council, *Review of the Regulatory Investment Test for Transmissions: Consultation Paper*, 30 September 2016, 4.

² AEMO, *Preliminary Report: Black System Event in South Australia on 28 September 2016*, 5 October 2016, 2. <https://www.aemo.com.au/Media-Centre/Update-to-report-into-SA-state-wide-power-outage>

³ COAG Energy Council, as above n 1, 5

⁴ *Ibid*, 4.

⁵ See

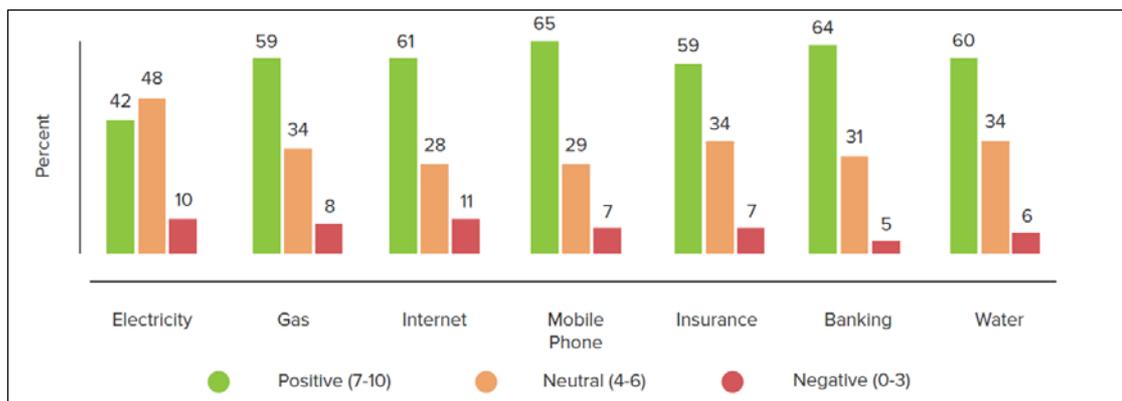
The consumer context

The Consultation Paper rightly notes that the Australian electricity market is in a period of profound and rapid change, with features such as flattening total demand, transformative technological change and the imperative for Australian to meet its international emissions reductions targets.⁶

That said, the experience of the majority of consumers in the energy market has changed very little in the past ten years. Over 80 per cent of consumers continue to purchase their electricity or gas from one of the big three retailers. Where there is some product choice, it is mainly between pricing discounts and payment options rather than in the nature of the service itself. And while increasing numbers of consumers now have smart meters, they are yet to reap the benefits.

But what has changed during this period is price, with the amount the average household spends on electricity approximately doubling, placing pressure on all consumers, but particularly on those on low incomes or with vulnerabilities. The number of consumers being disconnected from their energy supply – over 150,000 in 2014/15 – has tracked price increases and is of deep concern given the impact that being without these essential services has on households.

Energy Consumers Australia's Energy Consumer Sentiment Survey shows that consumers are generally satisfied with the reliability of their energy services,⁷ but the very significant price rises they have experienced have left them questioning whether these services represent value for money. Indeed, consumers feel they are getting better value for money from their mobile phone, internet, water, insurance and banking providers.⁸



<http://www.aemc.gov.au/Australias-Energy-Market/Markets-Overview/National-electricity-market#NEO>

⁶ COAG Energy Council, as above n 1, 12-13.

⁷ ECA, *Energy Consumer Sentiment Survey Findings (National)*, July 2016, 8. Available at:

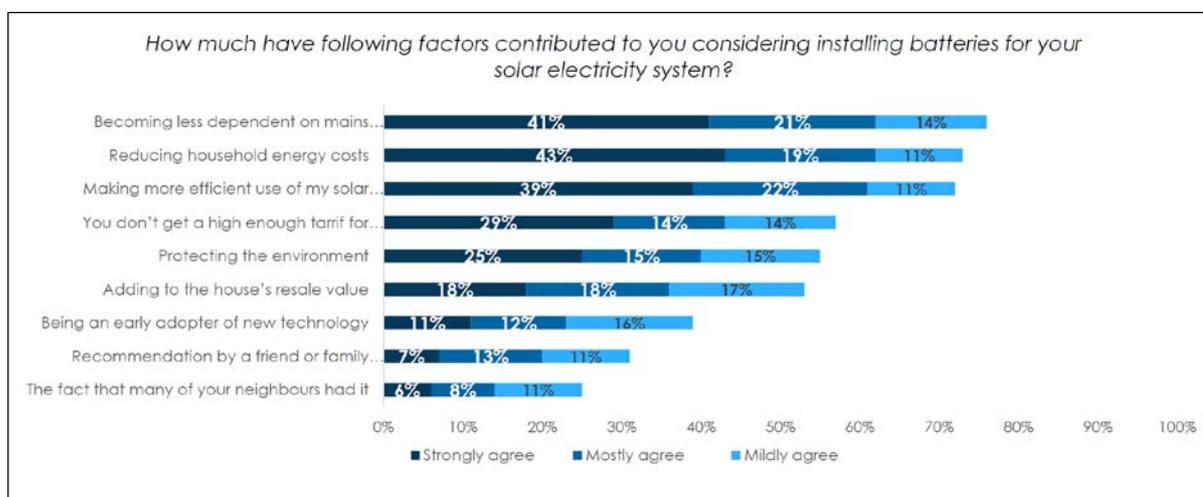
www.energyconsumersaustralia.com.au/research/energy-consumer-sentiment-survey-findings.

According to the Australian Energy Regulator (AER), there has been no significant increase in the overall reliability performance of electricity networks across the across the NEM over the last decade – see AER, *State of the Energy Market 2015*, 84. Available at: www.aer.gov.au/publications/state-of-the-energy-market-reports/state-of-the-energy-market-2015

⁸ *Ibid*, 4.

There is also a low level of confidence among consumers that the market (defined as the industry and the regulators) is working in their interests now or is likely to do so in the future.⁹ It is in this context that many people are taking, or considering taking, steps to reduce their dependence on the grid by investing in solar PV and other technology.

New research that Energy Consumers Australia will publish in early 2017, indicates that 'becoming less dependent on the grid' is driving interest in battery technology among those consumers who have already installed solar PV.



Over time, we expect this to contribute to a more dynamic local market for energy services, with networks providing critical information and transport services to facilitate, among other things, trading between residential and small business energy consumers.

This desire for greater control of outcomes by residential and small business consumers is becoming a defining feature of, and will increasingly drive, the transformation of the Australian energy market. While there is rightly an urgency amongst policy makers to avoid future state-wide blackouts, concerns about affordability and control must not be overlooked, particularly where consideration is being given the investment in new network infrastructure.

The operation of the RIT-T

The consideration of this issue is timely, as it appears likely that a RIT-T will be undertaken in relation to additional interconnector capacity between South Australia and New South Wales.¹⁰

Energy network planning and regulation are both complicated and complex tasks, which must be approached in an appropriately rigorous and measured fashion. When properly implemented, regulatory tools such as the RIT-T are an important part of such an approach.

⁹ Energy Consumers Australia, *Energy Consumer Sentiment Survey Findings - National*, July 2016, 5. Available at: www.energyconsumersaustralia.com.au/documents/Energy-Consumer-Sentiment-Survey-Findings-National.pdf

¹⁰ 6th COAG Energy Council Meeting Communique <http://www.coagenergycouncil.gov.au/publications/6th-coag-energy-council-meeting-communique>

As the Consultation Paper acknowledges, an effective RIT-T is an important mechanism to balance 'any potential benefits of increased interconnection...against the fact that interconnectors are expensive' and these costs will be borne by consumers.¹¹

Accordingly, Energy Consumers Australia's chief concern in relation to RIT-T is that it be allowed to operate as intended and that planners, developers and stakeholders are not deprived of the opportunity to properly assess and scrutinise any proposal to ensure that it is the alternative most in the long-term interest of consumers. In particular, the sense of urgency surrounding recent events must not be used to rush decisions about significant investments that will impact electricity prices for the forecast life of the asset, which could be fifty years.

The RIT-T exists to encourage the examination of a broad range of options, including demand-side options, for addressing future network needs. Energy Consumers Australia takes the view that a time of such fast transition in energy markets, the demand side of the energy market may offer more flexible and better tailored solutions than traditional supply side solutions. We note for instance that Energeia, in modelling undertaken for the Energy Networks Association's *Electricity Network Transformation Roadmap*, found that in a scenario where network can buy grid services from distributed energy resource (DER) customers (e.g. residential and small business consumers with solar PV and/or batteries), more than \$16 billion in network investment could be avoided by 2050.¹²

Given the current levels of uncertainty around the future shape of energy markets, alternatives that involve less long-lived capital investment are often likely to be the options that deliver the required level of network services at a cost to consumers that is no higher than is necessary. In other jurisdictions, regulatory frameworks are being adapted to require networks to follow more rather than less intense 'integrated resource planning' processes that require rigorous evaluation of non-wires alternatives. In California, Portland General Electric's 2016 Draft Integrated Resource Plan, for example, runs to 776 pages and weighs demand, supply and energy storage options using a sophisticated methodology.¹³

Energy Consumers Australia also notes that the evidence presented in Appendix II of the Consultation Paper suggests that the RIT-T is largely functioning in a way that sees projects cancelled before they are built, except in regard to interconnectors. Since the RIT-T was introduced in 2009, 14 projects have been subject to the process. Of those, 10 have been cancelled prior to construction, for a range of reasons, including in updated forecasts about the need for the investment¹⁴ or lapsing due to not being pursued by the proponent.¹⁵ Of the four projects that have been completed, two are interconnectors (NSW-Queensland and Heywood. All other interconnectors were approved before the RIT-T process was introduced).

These results do not indicate that the RIT-T is stifling interconnector investment. Robust cost-benefit analysis of new NEM interconnectors will not unduly hamper the further development of a national market. Rather, such a test must be applied fully to ensure that there will be

¹¹ COAG Energy Council, as above n 1, 14.

¹² *Unlocking value for customers*, ENA-Energeia, <http://www.ena.asn.au/energeia-modelling-unlocking-value-energy-customers>

¹³ 2016 Draft Integrated Resource Plan, Portland Gas Electric
<file:///C:/Users/ChrisAlexander/Downloads/2016-09-16-draft-irp.pdf>

¹⁴ Ibid, 21, project: Regional Victoria Reactive Support

¹⁵ Ibid, 22, project: Electricity Supply Augmentation for the Kingston Area

sufficient benefit to consumers from any future large-scale investment that they will fund through their bills.

Once again, Energy Consumers Australia thanks the Energy Council for the opportunity to provide comment on the Consultation Paper.

If you would like to discuss this matter further, please do not hesitate to contact Oliver Derum, Associate Director of Advocacy and Communications, on 02 9220 5514 or oliver.derum@energyconsumersaustralia.com.au.



Energy Consumers Australia

ABN: 96 603 931 326

Suite 2, Level 14, 1 Castlereagh Street
Sydney NSW 2000

 02 9220 5500
 @Energy Consumers
 Australia_advocacy
energycconsumersaustralia.com.au