



27 September 2018

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Australian Energy Regulator  
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## **STRENGTHENING THE CONSUMER TEST – THE REGULATORY INVESTMENT TEST GUIDELINES REVIEW**

Dear Mr Adams,

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the Council of Australian Governments Energy Council (Energy Council) in 2015, our objective is to promote the long-term interests of energy consumers with respect to price, quality, reliability, safety and security of supply.

We appreciate the opportunity to respond to the Australian Energy Regulator's (AER) draft Regulatory Investment Test (RIT) guideline (Guideline) for both transmission (RIT-T) and distribution (RIT-D). Energy Consumers Australia supports the direction of the proposed changes to the Guideline to strengthen the RIT as an important 'consumer test' at a time when affordability is the number one priority for consumers.

Energy consumers want comfortable homes, competitive businesses and bills that don't make them so anxious that they put off opening them. The latest Energy Consumer Sentiment Survey indicates that in terms of value for money, households and small businesses rate electricity services behind internet, mobile phone, insurance, banking and water services. At the same time, satisfaction with levels of reliability are much higher than they are in relation to price.<sup>1</sup>

With prices at unprecedented levels, and a recent history of overinvestment in networks, affordability cannot merely be aspiration of the regulatory framework: affordability must be an explicit criterion in decision-making processes. In this submission we explain why the RIT acts as this strong consumer test and comment on aspects of the updated methodology drawing on insights from our involvement in recent transmission projects.

### **Context**

The Guideline is being developed at a complex time for the transmission and system planning in the National Electricity Market (NEM):

- electricity prices are seen by households and business to be too high;
- the Energy Consumer Sentiment Survey is not showing a consumer preference for increased reliability;

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<sup>1</sup> <http://energyconsumersaustralia.com.au/publication/energy-consumer-sentiment-survey-findings-june-2018/>



- the policy framework for the transition of fuel type and supply security is not settled and quantifying benefits such as Deferred Capex and Decreased Fuel Costs is difficult;
- several RIT reviews are underway;
- the regulatory framework for transmission planning and regulation is being reviewed and re-cast; and
- technologies including information and communication are emerging to enable more contemporary risk management practices and consumer reward pricing.

These developments raise issues that go beyond the scope of this review of the RIT Guideline and that are being considered by the Australian Energy Market Commission (AEMC) and Energy Security Board (ESB) as part of work to develop an implementation framework for the Integrated System Plan (ISP). The AEMC and the ESB are currently consulting about this work and the latter is due to present a report to the COAG Energy Council in December 2018.<sup>2</sup>

Ahead of this work being finalised, we would note a sequencing risk as some projects have already commenced and it is unclear how the new framework will apply. Given the size and nature of these investments, and the implications for consumers, there is a strong case for 'hastening slowly' and taking the time to resolve key questions about the new framework first. We are particularly concerned that consumers may be asked to bear the costs of investments in an environment where a sense of urgency trumps unresolved uncertainty about business cases.

It is important to note that the Finkel Review concluded that there may be a role for governments to make strategic investments in transmission capacity and to carry the risk, rather than consumers. In effect, the review concluded that there are limits to the extent to which better coordination and planning can overcome the uncertainties associated with a complex transforming system and that judgements and choices may need to be made about the future shape of the network.

The ISP (rec. 5.1) and the Renewable Energy Zones (rec. 5.2) are principally about guiding government investment in transmission and private investment in generation rather than fast-tracking the process (of which the RIT-T is a key part) for consumer-funded transmission projects.

*The Plan [ISP] should be released as a publicly available resource to enable investors to make informed decisions about where to plan new renewable generation capacity. Although it may be many years until particular renewable energy zones are connected due to reasons of commercial attractiveness and economic efficiency, an integrated grid plan will send a clear signal to investors about the future of the transmission network. Augmentations in line with the integrated grid plan would be evaluated through the RIT-T process or its successor.<sup>3</sup>*

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<sup>2</sup> COAG Energy Council Meeting Communique 10 August 2018

<sup>3</sup> *Independent Review into the Future Security of the National Electricity Market: Blueprint for the Future*, Commonwealth of Australia 2017, p 123.



The takeaway for the purposes of the draft Guideline is that maintaining a strong RIT framework is consistent with the Finkel Review and consistent with integrated grid planning. Arguments to water-down or modify the RIT to clear the way or expedite projects – no matter how strategically important, must be rejected. We look forward to exploring these broader issues in more detail through the Australian Energy Market Commission’s Review of Coordination of Generation and Transmission Investment.<sup>4</sup>

### **Engaging with consumers to align interests and get better outcomes**

Energy Consumers Australia welcomes the greater emphasis on consumer engagement and transparency in section 1.4 of the draft Guideline.

In 2016, Energy Consumers Australia published a comparative study of the United Kingdom and Australian experience of negotiated settlement and consumer engagement. One of the lessons for Australia was that “[t]o be effective as part of economic regulation, regulators need to be clear in how the outcomes of engagement will be used in regulatory decision making”<sup>5</sup>. This basic philosophy is increasingly informing engagement by electricity distribution networks in the context of revenue resets, including through the *NewReg* trial with Ausnet Services.<sup>6</sup>

A positive example of how this works in practice, is our experience with TransGrid in agreeing a path forward for the *Powering Sydney’s Future* (PSF) project. PSF was proposed to replace several aging lines with two new 330kV cable from Rookwood Road substation to Beaconsfield West substation. This PSF proposal went through the RIT process and following extensive engagement with consumer groups and the AER was amended to become a single cable solution with the infrastructure for a second cable included. The final proposal sees the PSF planned and staged in a way that will help guard against premature investment, provide option value to consumers and deliver a future solution should a second cable be required in the future.

PSF is a unique project, due to its numerous drivers and complexities, especially related to the failure rate of the current cables and future electricity demand in inner Sydney. In response to stakeholder views regarding the uncertainties in forecasting such matters, TransGrid will undertake ongoing community engagement through the planning and build stages of the project and committed to delivering transparency for these stages by ensuring a mechanism for continued consumer engagement with the PSF project. This will be rolled out by establishing a Stakeholder Monitoring Committee. This innovative and unprecedented approach to project oversight will ensure transparency of implementation and that the best interests of consumers are kept at the forefront of important decisions and ensure not a dollar more than is necessary is spent a day too early.

In section 4.1 of the draft guideline, the AER “...encourages proponents to give adequate weight to the suggestions made and perspectives offered by consumers in their submissions”. We suggest that this should be strengthened to a statement of expectation

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<sup>4</sup> <https://www.aemc.gov.au/markets-reviews-advice/reporting-on-drivers-of-change-that-impact-transmi>

<sup>5</sup> Energy Consumers Australia, *Negotiated Settlement and Consumer Engagement: UK Experience and lessons for Australia* (2016), 15.

<sup>6</sup> Energy Consumers Australia, Australian Energy Regulator, Energy Networks Australia, *New Reg: towards consumer-centric energy network regulation*, 2018.



rather than encouragement. We also believe that proponents should give weight to feedback provided by consumers outside of written submissions. This recognises the constraints consumers face in participating in the large number of energy market reviews; and the contribution that consumers make in other feedback channels such as consultative committees and public forums. Proponents should also be required to explicitly respond to the issues raised by consumers, stating their position on the matters raised.

We also suggest that the AER further strengthen the consumer voice in RIT processes by requiring businesses to convene a consumer reference group panel. Part of the role of the Panel would be to provide a report to the AER, evaluating how well it believes the proponent incorporated consumer preferences into the proposal.

The risk we face in the current environment where there are anxieties about security and reliability is that we repeat the mistakes of the last ten years, where overinvestment in networks for a range of reasons pushed prices to unacceptable levels. Engaging with consumers in an open and constructive way, including through RIT processes, can help re-build trust and strike the right investment and affordability balance.

### Case study

ElectraNet’s proposed *Riverlink* interconnector provides a live case study of the RIT-T. As outlined in our submission to ElectraNet’s consultation on the *Riverlink* Project Assessment Draft Report (PADR), analysis undertaken by The Energy Project has identified a number of issues around timing, risk allocation, and options assessment that go to the framing and application of the RIT more generally. We are continuing to engage with ElectraNet on these issues and will be keen to bring this insights and lessons from this experience to discussions about the RIT and the ISP.

Risk	Impact
Timing	<p>Material impact to the identification of the preferred outcome.</p> <p>In the Riverlink example, the timing of benefits means that ElectraNet’s “preferred option” is highly sensitive to the time period over which the net present value is calculated. Alternative modelling by the Energy Project results in the non-interconnector option being the preferred option, when the period of benefit realisation is brought forward to 2033 rather than 2040.</p>
Inappropriate calculation of the cost of non-interconnector options	<p>The potential impact is that consumers are required to pay for more expensive and potentially unnecessary interconnectors.</p> <p>In the Riverlink example, the estimated costs appear on the evidence of comparable projects to be over-estimated.</p>
Allocation of risk	<p>Consumers bear the financial risk of cost allocation and uncertainty, without receiving appropriate benefits for their investment.</p>



Risk	Impact
	<p>In the Riverlink example, the sharing of costs and benefits (via wholesale price reductions) between consumers in the two regions appears uneven.</p> <p>There is also a level of uncertainty in market conditions that will contribute to or hamper the outcomes of a RIT. The implications of this uncertainty need to be reflected in both the timing of the elements of these investments and how these investments are funded.</p> <p>Action should also be taken to minimise the risk that consumers are charged twice for any financial contribution made by market bodies.</p>

### Conclusion

Energy Consumers Australia is keen to continue the dialogue with you about the RIT framework and about the bigger optimisation challenge in a transforming system.

If you would like to discuss this matter further, please contact Chris Alexander, Director Advocacy and Communications on 02 9220 5500 or by email at [chris.alexander@energyconsumersaustralia.com.au](mailto:chris.alexander@energyconsumersaustralia.com.au).

Yours sincerely,

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**Chief Executive Officer**