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Mr Peter Adams
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By email: RIT@aer.gov.au

13 September 2018

Re: Draft revisions of the application guidelines for the regulatory investment tests

AGL Energy (AGL) is pleased to provide support for the Draft revisions to the application guidelines for the regulatory investment test for distribution (RIT-D) and regulatory investment test for transmission (RIT-T).

The electricity system is undergoing significant transformation, with particularly emphasis at the transmission level where renewable generation is entering the market to replace aging thermal generators.

This transformation requires a well-coordinated, national approach to planning, coupled with an efficient and effective mechanism to deliver value to consumers while balancing investment risk.

The RIT, as a cost-benefit analysis framework, requires a network business to consider alternative investment options before identifying the best way to address its needs and can therefore lead to optimal solutions during this transformation process.

AGL supports the RIT-T and RIT-D as the best approach to progress cost efficient infrastructure in areas that most require it, especially for transmission. While we consider that the mechanism is complex and could be simplified, its function remains important.

As such, we welcome the inclusion of additional guidance around how AEMO's Integrated System Plan (ISP) should be captured in the development of a RIT-T. We believe the approach strikes the right balance by providing high level descriptors without embedding the ISP as the exclusive transmission map. Doing so provides participants with a better understanding of how ISP-recommended projects could be assessed, while leaving the investment decision to those best able and incentivised to manage them.

AGL is also pleased to see the AER has improved the draft guidelines to:

- extend the consumer and non-network engagement
- force consideration by the network proponents of further credible investment options, without bias;
- include greater guidance on sensitivity analysis, especially that potential market reforms must be considered; and



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- require consistency in the use of discount rate and value of customer reliability when assessing credible options.

Overall, AGL remains of the view that the RIT remains the best assessment mechanism for network projects, as it requires a comparison of credible network and non-network alternatives to be considered. However, the AER should require all existing infrastructure to be fully utilised before any new investments are considered and taken through the RIT process, especially in the case of significant transmission investment.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Elizabeth Molyneux', written in a cursive style.

Elizabeth Molyneux
GM of Energy Markets Regulation