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20 October 2016

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To the Energy Project Team

RIT-T Review – Consultation Paper

AGL Energy welcomes the opportunity to comment on the COAG Energy Council's *Review of the Regulatory Investment Test for Transmission (RIT-T Review) – Consultation Paper, 30 September 2016.*

AGL is one of Australia's leading integrated energy companies with over 3.7 million electricity and gas customers. AGL also has a diverse power generation portfolio including base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources including hydro, wind, solar, landfill gas and biomass.

The focus of this review is to consider if the RIT-T is working effectively to deliver optimal investment outcomes particularly in relation to interconnectors.

AGL's comments on the Consultation Paper are outlined below.

Application of the RIT-T

The purpose of the RIT-T, as set out in the NER, is to identify the credible option which maximises the present value of the net economic benefit of those who produce, consume and transport electricity in the NEM. As explained in the Consultation Paper, this is designed to objectively evaluate proposed transmission infrastructure investment against other credible network or non-network alternatives such as local generation, storage or demand management and other new emerging technologies.

In AGL's view, the objective of the RIT-T is critical and continues to be highly appropriate. Such investments should be efficient and "… *for the long term interests of consumers of electricity with respect to – price, quality, safety, reliability and security of supply of electricity; and the reliability, safety and security of the national electricity system" (National Electricity Objective).*

It is necessary to assess the issue giving rise to the need to consider new infrastructure investment and to consider a full range of options, of which interconnection may be a credible option. For instance, indigenous generation, that is, generation within the region, may have economic benefits over interconnectors. They can provide firm financial contracts for managing retail demand and ancillary services. New interconnection will likely to have a significant impact on the viability of existing generation.

Impact of changing energy market environment

New technologies, flattening electricity demand and climate change policies will make the assessment of interconnections challenging. An investment which is considered efficient may be rendered inefficient when the market environment changes.

The Consultation Paper has validly raised concerns that the AER's role is limited largely to assessing compliance with requirements and do not have regulatory oversight in determining if the most efficient option is chosen by the RIT-T proponent. Proponents have imperfect information and inadequate incentives to effectively capture and assess system-wide impacts and due to information asymmetries, third party are unable to provide a meaningful level of scrutiny of network planning reports and RIT-T analysis.

Interconnectors are costly and have long lives. It is appropriate that proposed investments in such assets are assessed comprehensively to avoid locking in long term costs in the Regulatory Asset Base to address issues which may be short term in nature. Given the technological development in the energy industry, such as distributed generation, virtual power plants and the emergence of 'prosumers', long lived assets may become redundant.

One option is to encourage the participation of the merchant interconnector or Market Network Service Provider. Whilst this has been tried, unsuccessfully, with Murraylink and Directlink, the option may be appropriate to avoid embedding additional costs into the energy supply system and providing a better balance of risks between the proponents and energy users. This RIT-T process for this option can be afforded speed and flexibility if the proponents bear the risks of the investment being inefficient. The bankability of this model of investment will provide a meaningful aspect of a RIT-T proposal.

Summary

In applying the RIT-T, it is important that a range of credible options be considered, of which interconnection is one option.

In a changing energy market environment, long term investment decision will be challenging and it is important to avoid embedding costs in the energy supply system for the long term to address issues which may be short term in nature.

Should you have any questions in relation to this submission, please contact Meng Goh, Manager Regulatory Strategy, at mgoh@agl.com.au or (02) 9921 2221.

Yours sincerely,

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