

19 October 2016

COAG Energy Council Secretariat
GPO Box 9839
CANBERRA ACT 2601

By email: energycouncil@environment.gov.au

Dear Energy Council Secretariat

Review of the Regulatory Investment Test for Transmission

Hydro Tasmania welcomes the opportunity to provide comments to the COAG Energy Council's review of the Regulatory Investment Test for Transmission (RIT-T).

Hydro Tasmania is an integrated energy business providing retail energy products through our Victorian-based retailer Momentum Energy, power and water consulting services through our specialist consulting business Entura, and is a material participant in the National Electricity Market. The evolution of the NEM including the development of transmission infrastructure is an important issue for Hydro Tasmania.

The consultation paper correctly points out that the Australian energy market is undergoing a period of significant transformation. The transformation includes technological developments, changes in consumer preferences and increasing deployment of renewable energy generation. Against the rapid changes currently underway the COAG Energy Council's consultation is a timely opportunity to consider the design of the RIT-T.

The design of the RIT-T is prescriptive and is therefore well suited to assess business-as-usual investments in an economically rational way. There are, however, limitations to the design of the RIT-T which results in the RIT-T being not as well suited to assessing strategic investments. In the context of the energy market transformation currently underway, some of the RIT-T's limitations are discussed below.

While the RIT-T can capture benefits of a single project, the RIT-T may not be an adequate framework to assess competing and multiple investments. This limitation is exacerbated by the rapid changes currently underway through the energy market transformation that may span longer than the study period of the RIT-T. The direction of the energy market transformation does not have a easily defined direction and could have a variety of outcomes based on changing technology, changes in fuel costs etc.. The investment framework for transmission and generation needs to recognise this transformation and consider if there are ways that design of the RIT-T could be adjusted to better assess competing and multiple projects.

A further limitation is that the RIT-T's market based approach is reasonably narrow. The RIT-T does not capture all benefits of a potential investment including system security benefits. Energy security remains a key objective as the Australian energy market transitions to zero and low emissions sources. Energy system security benefits, such as ancillary service, frequency support and storage, will be needed into the future as Australia's energy mix changes. At this point it is unclear whether

the current market frameworks are sufficient to ensure provision of these services in the future, and to the extent required. These system security benefits could be particularly valuable for the provision of system security services and in particular, the optimisation of these services between regions. The RIT-T, however, does not take sufficient account of the security benefits of interconnection, which potentially undervalue some investment options. While the test itself probably allows the inclusion of these benefits, the methodology for assessing the benefits has to date not included these benefits. This is partly because the methodology is based on “averages” which does not account for the impact of system events sufficiently. Consideration should be given to expanding the RIT-T benefits to include market security benefits.

Australia has an international commitment to reduce carbon emissions by 26-28 per cent below 2005 levels by 2030. As the stationary energy sector is the single largest contributor to national emissions, the electricity sector must play a central role in achieving the 2030 target as well as any emission reductions in later years. Given the importance of the energy sector in broader economy wide emission reduction commitments, the investment framework for generation and transmission must recognise national and international emissions reduction commitments even if specific policies/regulation to address emission reductions are yet to be formulated or developed. It would be appropriate to confirm, therefore, whether the RIT-T and its operation is consistent with, and able to recognise, Australia’s national and international emission reduction commitments.

If you have any questions in relation to this submission, please contact John Cooper on (03) 6230 5313

Yours sincerely

A handwritten signature in black ink that reads "D. Bowker." with a horizontal line underneath the name.

David Bowker
Regulatory Manager