

# RIT-T review – terms of reference

On 19 August 2016 the Council of Australian Governments (COAG) Energy Council noted the important role interconnectors play in a transitioning energy sector and tasked officials to undertake a review of the regulatory test that applies to investments in new electricity transmission assets in the National Electricity Market (NEM) – the ‘RIT-T’ – to ensure it is effective in the current market environment. Officials are required to report back to Ministers before the end of the year.

The RIT-T is a cost-benefit assessment to identify the investment option to address an identified need which maximises net economic benefit to all those who produce, consume and transport electricity in the NEM. The overarching role of the RIT-T is to ensure that consumers only pay for those investments that are economically efficient.

In considering the RIT-T in its broader context it is important to recognise that the test is used to inform investment decisions. When applied, it should allow timely identification and implementation of the most beneficial means of addressing emerging network constraints in the setting of the broader policy framework in which the market operates.

This is particularly important in a dynamic and changing energy environment where new technologies and services are being developed at a rapid pace and becoming increasingly available. Investment decisions made by network businesses should consider a range of solutions and take into account net economic benefits in the long term interests of consumers. For example, in some locations, network businesses are already assessing whether distributed generation is more efficient than building or replacing grid infrastructure. Similarly, in some cases, interconnectors may offer an efficient means for maintaining power system security across the interconnected system, as well as assisting in reducing wholesale and retail market costs through inter-regional trade and risk management.

The Review will examine whether

- there is scope to make the RIT-T process more efficient and timely; and
- the design of the current RIT-T remains appropriate to current and future needs, with particular regard to whether:
  - the RIT-T remains the appropriate mechanism for the assessment of strategic interconnection investment for the development of a truly national, efficient, interconnected NEM; and
  - the parties responsible for assessing and making decisions on strategic interconnection investment are appropriate in the context of the development of a truly national, efficient, interconnected NEM.

In doing so, it will take into account the National Electricity Law (NEL), the National Electricity Rules (NER), applicable jurisdictional regulatory frameworks and relevant industry structures along with national and jurisdictional policies to reduce carbon emissions through increasing the proportion of renewables in the national energy mix.

The Review will be oversaw by the COAG Energy Council Energy Project Team and undertaken by a working group consisting of representatives from:

- Commonwealth (Chair) and state and territory governments
- Australian Energy Regulator (AER)

- Australian Energy Market Operator (AEMO)
- Australian Energy Market Commission (AEMC).

The working group will prepare a report to energy ministers for consideration at the December 2016 COAG Energy Council meeting, which will include, but not be limited to:

- an overview of the current RIT-T and its application and effectiveness under the current NER and guidelines;
- key issues or deficiencies identified in the current RIT-T process, including whether the current process presents any particular barriers to the continued development of a truly national, efficient, interconnected NEM; and
- any proposals to amend the framework for carrying out the RIT-T together with a timetable and process for implementation.

Any proposals need to be consistent with:

- the retention of:
  - a cost-benefit assessment framework to ensure protection of the long-term interests of consumers;
  - a decision criterion based on the maximisation of net market benefits to those who produce, consume and transport electricity in the NEM; and
- the fundamental principle of competitive neutrality between network investment and other options.

In developing the report, the working group will give consideration to the role of the RIT-T in a future characterised by reduced growth in demand forecasts, greater reliance on renewable sources of energy and rapid technological change. In this context they will consider:

- Do transmission investment decisions made using the RIT-T take into account the full value – given implemented government policies - of the options considered to those who produce, consume and transport electricity in the NEM?
- Could the NER provide clearer guidance as to how the future policy and economic context should be accounted for in assessing investment options under the RIT-T?
- Could further clarification be included in the NER on how the RIT-T should be conducted?
- Could the AER RIT-T application guideline be clarified and improved?
- Does the process in the NER for the RIT-T strike the right balance between speed and efficiency versus a comprehensive and consultative process?
- How well does the RIT-T interact with other aspects of the regulatory frameworks which are designed to deliver optimal NEM-wide investment solutions (for example, the incentives flowing from the economic regulation of transmission network businesses as well as planning functions of energy market bodies)?
- What has been the experience of the RIT-Ts carried out to date? What can we learn from international experiences?

Stakeholder views on these and other matters will be sought through a consultation paper in September/October 2016.