

9 October 2015

Mr Peter Adams
General Manager – Wholesale Markets Branch
Australian Energy Regulator
Level 35, The Tower
360 Elizabeth St
Melbourne Victoria 3000

Via email: AERInquiry@aer.gov.au

Submission to AER – 2015 cost thresholds review draft determination

Dear Mr Adams

The Energy Networks Association (ENA) is pleased to have this opportunity to respond to the Australian Energy Regulator's (AER) Draft determination on the 'Cost thresholds review for the regulatory investment test' published on 2 September 2015.

Background

The *National Electricity Rules* require the AER to undertake a cost thresholds review associated with the regulatory investment test for transmission (RIT-T) and the regulatory investment test for distribution (RIT-D) every three years to ascertain whether in light of changes to input costs, the thresholds listed in clause 5.15.3(b) and (d) of the *National Electricity Rules* need to be changed to maintain their appropriateness. The review is being conducted in accordance with clause 5.15.3 of the *National Electricity Rules*.

Under the rules, electricity network businesses must apply the RIT-T and RIT-D tests before building electricity network infrastructure that exceeds certain cost thresholds.

In September 2015 the AER published a draft determination in relation to the thresholds.

The draft determination is that:

- » for the RIT-T cost thresholds, the \$5 million cost thresholds referred to in clauses 5.15.3(b)(1),(2),(3)(4) and (6) of the *National Electricity Rules* should be increased to \$6 million and the \$35 million cost threshold referred to in clause 5.15.3(b)(5) of the *NER*, which was increased to \$38 million in the 2012 cost thresholds review be increased to \$41 million.
- » for the RIT-D cost thresholds, the \$20 million cost threshold referred to in clause 5.15.3(d)(4) be increased to \$21 million and the other RIT-D cost thresholds listed in clause 5.15.3(d) of the *National Electricity Rules* remain unchanged.

Avoiding unnecessary regulatory burden

The ENA considers that there needs to be consistency between the thresholds for application of the RIT-T and RIT-D for joint planning purposes. In this regard, it would be reasonable for the AER to align the lower thresholds for the RIT-T and RIT-D by raising the proposed RIT-D thresholds to \$6 million. This is because the proposed divergence in cost thresholds is solely attributed to the timing of the introduction of the RIT-D, rather than any assessment of value of the projects.

Aligning the thresholds is also consistent with the AER's own view as stated in its submission to the Australian Energy Market Commission in relation to the Distribution Network Planning and Expansion Framework rule change.¹

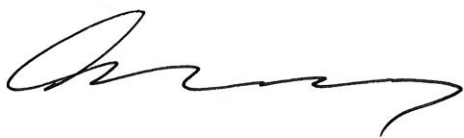
Consistent with the broad principle of seeking opportunity to reduce regulatory burden the ENA is in agreement with the overall methodology used in the establishment of the updated RIT-T thresholds, as well as \$21 million cost threshold under clause 5.15.3(d)(4) to apply from 1 January 2016.

In particular, the ENA considers it appropriate to give greater weight to broader economy wide indexes rather than undertaking a more full scale review of precise changes in network project costs.² Avoiding unnecessary regulatory burden is consistent with the recent Guidance Note published by the Australian Government, Department of Prime Minister and Cabinet, Office of Best Practice Regulation in February 2015.³

In the longer term, with the objective of reducing regulatory burden on network businesses, the ENA would support a more holistic review of whether the framework and cost thresholds remain appropriate when a review is next due in 2018.

The ENA appreciates the opportunity to participate in the development of these guidelines. If you have any questions please contact Garth Crawford on 02 6272 1507.

Yours sincerely,



John Bradley
Chief Executive Officer

¹ AER, Submission to Distribution Network Planning and Expansion Framework rule change proposal, November 2011, p.6.

² AER, Draft Determination, Cost thresholds review for the regulatory investment test, 2015, p.5.

³ Australian Government, Department of Prime Minister and Cabinet – see https://www.dpmp.gov.au/sites/default/files/publications/005_Regulatory_Burden_Measurement_Framework_1.pdf