

# Regulatory Investment Test for Transmission (RIT-T)

An Overview | February 2021

## What is the RIT-T?

The Regulatory Investment Test for Transmission (RIT-T) is a public cost benefit analysis test that electricity transmission network service providers (TNSPs) must apply to potential prescribed (regulated) investments in the transmission network that exceed \$6 million.

The purpose of the RIT-T is to identify the credible option (network or non-network) to address the identified need at the greatest net benefit (or least net cost), to the National Electricity Market.

The specific National Electricity Rules<sup>1</sup> (the Rules) requirement is:

*... to identify the credible option that maximises the present value of net economic benefits to all those who produce, consume and transport electricity in the market.*

### Network and Non-network options

*Network option* – includes investment in transmission assets, such as building a new or extending the life of an existing transmission line or installing a new or replacing a transformer.

*Non-network option* – includes services provided by customers in place of investment in network assets, such as demand management or local generation. A non-network option may address part of an identified need only and be proposed in conjunction with a reduced network option..

## What does the RIT-T do?

The broad steps in applying the RIT-T are:



In simple terms, the RIT-T ranks different options to identify the preferred option, i.e. the one with the highest positive net present value (NPV) or lowest negative NPV.

Each option is ranked relative to a base case and to each other. The base case could be 'do nothing' or action that would be 'business as usual' (e.g. replacement of minor components to extend the useful life of an asset).

It is the ranking that matters, not necessarily the NPVs.

These rankings are tested to ensure they are robust, through the use of scenarios and sensitivity testing.

Scenarios describe different future states of the world, (e.g. future demand) and have different input or parameter values (e.g. discount rates, value of customer reliability).

Sensitivity testing is performed to test the robustness of the outcome for differences to inputs and parameter values (e.g. cost of options, discount rates).

<sup>1</sup> The RIT-T requirements are set out in clause 5.15A of the Rules.

## What costs and benefits are considered?

When undertaking a RIT-T, the following costs and benefits are taken into account, unless the TNSP can provide reasons why they are unlikely to affect the outcome:

Costs	Benefits
Capital	Change in fuel consumption, involuntary load shedding, network losses, ancillary services costs, costs for other parties (e.g. generator investments), load curtailment, RET penalties
Operating	Competition benefits and other classes of market benefits
Compliance	Differences in timing of unrelated TNSP expenditure
	Option value

## Context of the RIT-T

There are various ways that information on potential upcoming electricity transmission network limitations is made publicly available to market participants, customers and other stakeholders.

Integrated System Plan (ISP) – the Australian Energy Market Operator (AEMO) prepares the ISP every two-years, which is a strategic, long-term development plan of the national transmission system over a 20-year outlook.

Transmission Annual Planning Report (TAPR) – each TNSP publishes its TAPR at the end of October each year to provide information on short to medium-term network planning activities over a 5-10 year outlook.

RIT-T – the RIT-T provides a further opportunity to engage with our customers when assessing the most cost effective approach to the renewal or expansion of our transmission network. It effectively represents the third layer of consultation open to stakeholders, and focuses on options to address individual network needs that must be met in the next 2-3 years.

## RIT-T Consultation Process

From start to finish, a relatively straight-forward RIT-T consultation process can take between 4 and 9 months. However, consultation periods can be extended, for example, where the need and options may be particularly complex and the cost of the options are significant.

Three main documents are produced and consulted upon as part of the RIT-T process. These are the:

- *Project Specification Consultation Report (PSCR)* – describes the need, credible network options to address the need and technical information to encourage non-network options;
- *Project Assessment Draft Report (PADR)*<sup>2</sup> – provides NPV assessment of credible options and identifies a preferred option; and
- *Project Assessment Conclusions Report (PACR)* – provides a summary of and responds to submissions, updates the NPV assessment if required and identifies the preferred option.

### Project Specification Consultation Report (PSCR)

Consultation period: minimum of 12 weeks.

### Project Assessment Draft Report (PADR)

Consultation period: minimum of 6 weeks.  
Where applicable, a PDR exemption may be applied per the Rules cost threshold.

### Project Assessment Conclusion Report (PACR)

Published as soon as practicable after the PADR consultation period has ended.

Dispute period: 30 days

<sup>2</sup> The NER allows for the second stage of the consultation process, the Project Assessment Draft Report, to be omitted where certain criteria are met, including that there are no material market benefits identified and that the estimated cost of the preferred option is less than \$43 million.

## Engagement with our customers

We recognise the role customers and other external stakeholders have in helping to shape solutions to address emerging network limitations. We engage on RIT-Ts early with our Customer Panel and more broadly with our customers and stakeholders.

When planning our engagement for a RIT-T consultation we have regard to our [RIT-T stakeholder engagement matrix](#). This document is published on our website and sets out the engagement actions we undertake for different types of RIT-Ts based on set criteria to ensure a consistent and transparent approach.

We also maintain a register of non-network solution providers, the [Non-Network Engagement Stakeholder Register \(NNESR\)](#), with whom we advise of potential non-network solution opportunities well in advance, as part of the TAPR consultation process, and throughout RIT-T consultations. To facilitate information sharing, the TAPR also contains a compendium dedicated to possible non-network solutions opportunities likely to be available within the next five years and encourages early discussions between ourselves and potential non-network service providers.

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Any potential provider of non-network solutions is welcome to contact us and request to be included in the NNESR for automatic notification of the TAPR publication and RIT-T consultations.

More information is on our website:  
[powerlink.com.au/non-network-solutions](http://powerlink.com.au/non-network-solutions).

### Interaction between the ISP and RIT-T

Actionable ISP projects are identified in AEMO's Integrated System Plan (ISP). Actionable ISP projects are those projects that are identified as requiring a RIT-T within 2 years of the ISP.

Each actionable ISP project must be assessed under the RIT-T. The AER's Cost Benefit Analysis Guideline provides detailed guidance on the application of the RIT-T for actionable ISP projects.

As a result of recent changes to the Rules, information published in AEMO's Draft ISP replace the first step of the RIT-T consultation process (the Project Specification Consultation Report).

ISP projects are typically *contingent projects* put forward by the relevant TNSP and assessed by the AER as part of a revenue determination process.

As a result, if the actionable ISP project is identified as the preferred option to implement under the RIT-T, the relevant TNSP must undergo a further regulatory approval step. That step requires the TNSP to lodge a *contingent project application* for review and assessment by the Australian Energy Regulator (AER) after completion of the RIT-T. Among other things, the AER will assess whether relevant triggers have been met, that proposed capital and/or operating expenditure is efficient and make a decision on whether to amend the relevant TNSP's last revenue determination to allow the additional revenue for the contingent project.