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29 April 2021

Derek Madden  
Chief Executive Officer  
Moorabool Shire Council  
PO Box 18  
Ballan VIC 3342

Sent by email on: 29 April 2021

Dear Mr Madden,

**Re: Western Victoria Transmission Network Project RIT-T**

Thank you for your correspondence of 17 February 2021, in which you raised concerns about the Regulatory Investment Test for Transmission (RIT-T) for Western Victoria Transmission Network Project (Western Victoria), undertaken by the Australian Energy Market Operator (AEMO).

In particular, your correspondence and the associated consultant's report raised issues relating to the cost benefit analysis undertaken by AEMO for Western Victoria RIT-T. Your concerns also relate to key elements and scope of the current RIT-T framework, including a comparison with Victorian Department of Treasury and Finance's (DTF) Cost Benefit Analysis (CBA) guidelines.

We apologise for the delay in responding to your letter, but some of the issues you have raised required us to carefully consider AEMO's tender and procurement process, including a consideration of information we received from AEMO to clarify certain matters that you have brought to our attention.

**Application of the RIT-T**

In your letter, you queried whether the options reviewed in the Western Victoria RIT-T would be revisited in light of the issues identified in your letter. These related to the costs and benefits assessed as part of the RIT-T. As noted above, our compliance review of the Western Vic RIT-T process has not found any breaches of the relevant provisions of the National Electricity Rules, the RIT-T and associated application guidelines.

Registered participants are required to undertake RIT-T assessments in accordance with relevant provisions of the National Electricity Rules (NER), RIT-T, and associated application guidelines. Given our role as the national economic regulator, the AER is responsible for monitoring compliance and enforcement of the NER, including developing and maintaining Guidelines for the application of the RIT-T.

In this case, we reviewed AEMO's process and consider AEMO complied with its obligations under the NER when applying the RIT-T for Western Victoria project. This includes the cost benefit analysis undertaken as part of the Western Victoria RIT-T.

It is important to note however that, RIT-T proponents are required<sup>1</sup> to reapply the RIT-T if they consider that there has been a material change in circumstances, such that the preferred option identified in the Project Assessment Conclusions Report fails to remain as the highest ranked option. We will engage further with AEMO as the procurement process progresses to understand AEMO's approach to considering its obligations under of the National Energy Rules.

### **RIT-T framework**

I also understand that you have concerns with the current RIT-T framework. This includes the current CBA methodology and the limited nature of types of benefits considered.

As noted above, RIT-T proponents are required to apply the RIT-T framework as prescribed in the NER for the purposes of identifying the network or non-network investment option with the highest net economic benefits for those who produce, transport and consume electricity in the National Electricity Market (NEM). Accordingly, the AER's role, as an economic regulator, is to ensure that RIT-T proponents comply with obligations of the NER, the RIT-T and associated application guidelines.

The issues you raise involve a broader policy discussion. Any consideration regarding changes to this framework would need to be considered by the Australian Energy Market Commission (AEMC) through a rule change. The AER is working closely with the AEMC as part of its broader work on the coordination of generation and transmission investment implementation. This includes understanding whether any changes are required to the economic regulatory framework for transmission networks, closely monitoring this transition to identify any tensions in the current framework. We will raise your concerns as part of this process.

We hope our response satisfied the concerns raised in your correspondence. If you have any queries, please contact Sebastian Roberts, General Manager, Transmission and Gas at [Sebastian.Roberts@ aer.gov.au](mailto:Sebastian.Roberts@ aer.gov.au)

Yours sincerely

A handwritten signature in black ink, appearing to be 'CS', with a long horizontal stroke extending to the right.

Clare Savage  
**Chair**

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<sup>1</sup> NER cl. 5.16.4 (z3) and (z4)