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Electronic Submission – RITguidelines@aer.gov.au

AER Consultation Paper – Review of the cost benefit analysis guidelines and RIT application guidelines

Dear Ms Jolly,

Energy Networks Australia (ENA) welcomes the opportunity to respond to the Australian Energy Regulator’s (AER) Consultation Paper on its latest review of the cost benefit analysis (CBA) guidelines and Regulatory Investment Test (RIT) application guidelines.

ENA is the national industry body representing Australia’s electricity transmission and distribution and gas distribution networks. Our members provide over 16 million electricity and gas connections to almost every home and business across Australia. This response is on behalf of ENA electricity transmission and distribution members.

The AER’s latest review of the guidelines follows the introduction in the National Electricity Rules (NER) of ‘changes in Australia’s greenhouse gas emissions’ as a new category of market benefit in the Integrated System Plan (ISP), RIT-T (transmission) and RIT-D (distribution) assessments, as well as updates arising from recent (and planned) Rule changes associated with the Australian Energy Market Commission’s (AEMC) Transmission Planning and Investment Review (TPIR). The AER has also flagged the potential to include additional guidance relating to its Direction Paper on Social Licence for Electricity Transmission projects.

There are several concurrent AER processes on foot relating to incorporating the Value of Emissions Reductions (VER) in RIT assessments and to expected engagement in relation to social licence, and assessing the costs associated with social licence activities more broadly. It is important that the update to the CBA and RIT guidelines is consistent with these related processes, and that any overlap in guidance is minimised to avoid duplication and retain the key focus of the guidelines on the ISP and RIT assessments.

It is also important to recognise that the valuation of greenhouse gas emissions (and in particular the scope of emissions captured in that valuation) and engagement on social licence both remain evolving fields, in which methodologies, data sets and experience are being developed. The CBA and RIT guidelines should remain flexible and should not prevent network businesses learning from this experience and adopting new approaches and methodologies as they emerge. ENA strongly encourages the AER to adopt a ‘permissive’ approach in updating its guidelines in

these areas, which sets out principles and examples but is not binding or overly prescriptive, so that it does not restrict the evolution of best practice in these key areas.

In this regard, in relation to including the value of changes in greenhouse gas emissions in the ISP and RIT assessments:

- » ENA supports the approach proposed by the AER that estimates the benefit that an investment provides from reducing generator emissions relative to the base case, where material (rather than adding an additional cost in modelling generator dispatch). However, the AER should not require this benefit to be estimated using wholesale market modelling, if a more proportionate approach would be adequate, which will be the case for most (if not all) repex and distribution investments which do not typically adopt wholesale market modelling. Further, as discussed below, the guidelines should also enable changes in emissions outside of generator emissions to be quantified, where they are material;
- » ENA supports the continued inclusion of a carbon budget in Australian Energy Market Operator's (AEMO) ISP modelling, recognising that this may reduce the incremental difference in greenhouse gas emissions between options considered in the ISP and RIT-Ts;
- » The guidelines should not restrict quantification of changes in greenhouse gas emissions to generator emissions:
 - quantification of changes in SF6 emissions, which may be material for repex investments, should be permitted;
 - network investments may also have an impact on broader emissions outcomes, for example through supporting electrification or the uptake of EVs, or where different investment options affect the timing of connection of additional industrial and mining loads;
 - where robust methodologies and data sets emerge which make quantification of changes in emissions more broadly across the Australian economy and/or embodied emissions feasible, the quantification of this benefit category in the ISP and RIT assessments should be able to incorporate these broader emissions impacts, where they are material and attributable to network investments;
 - guidance on quantification approaches may emerge from other processes, such as the Clean Energy Regulator's National Greenhouse and Energy Reporting (NGER) Scheme and AEMO's future Inputs, Assumptions and Scenarios Reports (IASR);
 - ENA suggests the AER develop a list of possible greenhouse gas emission impacts, with an opt-in rather than opt-out approach for inclusion in the RIT assessment, where these impacts are material and can be estimated with confidence.

In relation to social licence, ENA:

- » supports consideration of social licence in the ISP and RIT-T in assessing whether an option involving greenfields development is 'credible', but suggest the guidelines make clear that this is not generally a relevant consideration for repex projects and brownfields investments;
- » does not think additional categories of costs (or benefits) need to be added to the RIT to capture social licence costs, as efficient spending on obtaining and maintaining social licence already forms part of an option's direct costs;
- » notes that social licence costs will be specific to particular options and are likely to be difficult to forecast at the RIT-T stage, as the required activities may change as the project progresses and stakeholder views develop:
 - As the purpose of the RIT-T is to choose between options, but not to identify the costs of each option beyond the level necessary to choose, ENA notes that social licence costs are not generally required to be extensively developed at the RIT-T stage;
- » supports a principles-based approach to guidance on stakeholder engagement, applied to actionable ISP projects, future ISP projects and Renewable Energy Zone (REZ) developments only, under which Transmission Network Service Providers (TNSP) can develop their own engagement approach on a project-by-project basis, in consultation with the affected communities. ENA does not support further prescriptive guidance being provided in the CBA or RIT-T guidelines on stakeholder engagement.
 - As the AER recognised in its Directions Paper on social licence, there are already best practice engagement frameworks which TNSPs can refer to, including those in the Energy Charter, the IAP2 Public Participation Spectrum and the Australian Energy Infrastructure Commissioner's Community Engagement review.

Each of the above points is expanded on in the attachment, in responding to the specific questions posed by the AER.

Overall, ENA notes that the AEMC's TPIR review was intended to streamline transmission build to enable a faster energy transition. It is important that in furthering the recommendations from that review the AER's guidelines do not add unnecessary obligations on TNSPs that run counter to this objective.

ENA looks forward to engaging with the AER on the further development of its updated guidelines. Should you have any queries on this response please feel free to contact Verity Watson, vwatson@energynetworks.com.au.

Yours sincerely,



Dominique van den Berg
Chief Executive Officer

Attachment

Including an emissions reduction benefit in the ISP and RIT

- » How should emissions reduction benefits be included in the RIT and cost benefit analysis guidelines?
- » Do you have any views on the option to include the VER in the inputs to market modelling as a cost (\$/MWh) on fossil-fuel generators in terms of both its application and the potential outcomes from its application?
- » Do you have any views on the implications of the current carbon budget methodology remaining in place at the ISP input stage while the VER contributes to the assessment of the relative net benefit of different development pathways and investment options?
- » Are there alternative approaches to estimating an emissions reduction benefit, and if so, what are the advantages and disadvantages of alternative approaches that should be considered?
- » Which additional material factors should be considered in modelling emissions? How should data to support these factors be sourced? Should the AER consider including specific guidance on any of the factors?

ENA supports guidance and worked examples being provided in the AER's guidelines on the quantification of benefits associated with changes in Australia's greenhouse emissions, to reflect the additional benefit category that has been added to the National Electricity Rules (NER). ENA notes that the benefit category in the RIT-T refers to *changes* in Australia's greenhouse gas emissions, rather than only *reductions*, and suggests the AER's guidelines also refer to *changes* in emissions.

ENA considers that the guidance set out by the AER should provide flexibility and should not be binding, in light of evolving practice and data sets in this area.

ENA agrees with the AER's statement that emissions reduction benefits only need to be quantified where they are expected to be material and suggests this is included in the guidelines.

- » ENA suggests that the AER clarify that materiality should be assessed in relation to whether the inclusion of an emissions benefit is expected to impact the identification or timing of the preferred option.¹ Similar reductions in emissions across options will not impact option selection, even if these emissions reductions are large, and so should not need to be quantified.
- » Further, ENA suggests that if some changes in emissions can currently only be estimated with poor precision (e.g., scope 3 emissions), making their impact on option rankings not robust, they should not be considered material and not be required to be included in the ISP or RIT assessments.

¹ In line with the AER's statements in its *Directions Paper on Social Licence for Electricity Transmission Projects*, October 2023, p.14-15.

Changes in generator emissions

The AER proposes that emissions reductions benefits should be estimated as the benefit that an investment provides from reducing **generator emissions** relative to the base case. Specifically, the AER suggests that market modelling be carried out for both the investment case and the base case, with any reduction in emissions between these cases valued at the VER published by the Ministerial Council of Energy, and discounted for inclusion as a market benefit.

ENA agrees with the AER's proposed framework for valuing changes in generator greenhouse gas emissions (although, as discussed below, ENA considers that a proportionate approach that does not require market modelling should be permitted, and that the guidelines should also enable changes in emissions outside of generator emissions to be captured in the quantification of the emissions benefit category, where they are material).

Further, ENA agrees that an approach that includes the VER as an additional cost in dispatch should not be recommended, as it would result in ISP and RIT modelled outcomes departing from reality.

Changes in generator emissions are likely to most often arise where an option impacts market dispatch. Where this is not the case, the AER guidelines should clarify that generator emissions are likely to not need to be quantified, consistent with the other benefit categories related to wholesale market outcome.²

The approach proposed by the AER is relatively straightforward and transparent, and would be unlikely to impose an additional burden on RITs where market modelling is already being undertaken. It is also consistent with the approach AEMO is adopting for the 2024 ISP.

However, ENA suggests that a proportionate approach to estimating changes in generator emissions should also be permitted under the guidelines, where the cost of undertaking wholesale market modelling is disproportionate to the scale, size and potential difference in benefit from changes in emissions across options. This is in line with the proportionate approach to estimating changes in fuel costs in Appendix A of the current RIT-T Guidelines. This simplified approach is likely to be more applicable for repex RIT-Ts and RIT-Ds (where wholesale market modelling is not typically undertaken), in the limited cases where these investments may affect generator dispatch outcomes.

In quantifying changes in generator emissions, generator emissions intensity factors can be sourced from the Clean Energy Regulator, which is the source AEMO currently adopts in its ISP modelling. ENA suggests it would be preferable (and provide flexibility over time) for the AER guidelines to require the use of a reputable external data source for the ISP, and for NSPs to adopt the same source in their RITs. This

² AER, *Application guidelines, Regulatory investment test for transmission*, August 2020, Section 3.6.1.

flexibility would allow AEMO to switch away from the Clean Energy Regulator's dataset if a better dataset were to become available.

ENA supports the continued adoption of carbon budgets in the ISP as this is likely to result in more realistic modelling outcomes. Where carbon budgets are included in the ISP, all development paths are likely to have similar emissions, but with potentially different timing. This means that the incremental benefit of different emissions will be lower. It may be worth the AER guidance highlighting this point, to manage expectations around the materiality of the emissions benefit category.

SF6 emissions

The AER's guidelines should not limit the emissions benefits that can be quantified to changes in generator emissions. The RIT emissions benefit category has been drafted to be broader than carbon emissions only (to include all greenhouse gas emissions), and also broader than changes in emissions affecting parties in the National Electricity Market (NEM) (and instead refers to changes in greenhouse gas emissions Australia-wide).

ENA suggests that the AER guidelines should explicitly permit the option to include changes in SF6 emissions, where material for a RIT assessment (and whether or not changes in generator emissions are also quantified for that RIT). SF6 is used in electrical transmission and distribution equipment for voltage electrical insulation, current interruption, and arc quenching. Ageing equipment often leaks SF6, which is the most potent greenhouse gas known and traps 23,500 times more infrared radiation than CO2.³ As such, small amounts of SF6 can have a disproportionate impact on climate related goals.

The risk of equipment leaking SF6 can often be reduced through maintenance and replacement or repair, or through sub-station redesign. Changes in SF6 emissions may therefore be material for repex RIT-Ts and RIT-Ds, where the benefit from reducing emissions would be evaluated against the cost of the investment. A value of SF6 emissions can be derived from the published VER for carbon emissions.

ENA notes that the AER's final *Valuing emissions reduction guidance*⁴ states that quantifying emissions in RITs should be consistent with the ISP, and that the emissions reduction must fall within the scope of emissions considered by the ISP. It is not clear to ENA that this guidance would enable NSPs to take into account SF6 emissions, as these emissions are not currently considered by AEMO in the ISP. It may therefore be necessary to update this guidance to reflect the ability to include SF6 emissions.

³ Environmental Protection Agency (USA), *Sulfur Hexafluoride (SF6) Basics*, available at [https://www.epa.gov/eps-partnership/sulfur-hexafluoride-sf6-basics#:~:text=Greenhouse%20Gas,-Sulfur%20hexafluoride%20\(SF&text=Over%20a%20100%2Dyear%20period,atmospheric%20lifet ime%20of%203%2C200%20years.](https://www.epa.gov/eps-partnership/sulfur-hexafluoride-sf6-basics#:~:text=Greenhouse%20Gas,-Sulfur%20hexafluoride%20(SF&text=Over%20a%20100%2Dyear%20period,atmospheric%20lifet ime%20of%203%2C200%20years.)

⁴ AER, *Valuing emissions reduction, AER guidance and explanatory statement*, May 2024, p. 6.

Emissions changes in the wider economy and ‘scope 3’ emissions

The AER is seeking views on how changes in greenhouse gas emissions in the wider economy and the treatment of embodied (i.e., ‘scope 3’) emissions could be included in the ISP and RIT assessments, and what guidance may be appropriate to include in the CBA and RIT-T/RIT-D guidelines.

ENA agrees with the AER that the quantification of emissions benefits should be based on the use of common, publicly available data, and should utilise robust and accepted methodologies.

Further, ENA recognises that methodologies and public data sets for quantifying emissions in the wider economy and for estimating embodied emissions are not yet well progressed. However, the field is evolving, with new data sets and methodologies being developed, including in the context of Australian businesses needing to report their emissions impacts.

ENA is therefore of the view that the CBA and RIT-T/RIT-D guidelines should be sufficiently flexible to allow quantification of broader emissions impacts where these are expected to be material and where there are reasonable, justifiable, and practical methodologies and robust data sources available to quantify those impacts.

There are a number of external processes where a common approach to the estimation of emissions more broadly may emerge, such as the Clean Energy Regulator’s National Greenhouse and Energy Reporting (NGER) Scheme and, potentially, AEMO’s 2025 IASR. Once there is settled guidance from such sources on the quantification of these broader aspects of emissions impacts, the AER’s guidelines should allow these to be applied in RIT assessments.

Consideration of emissions impacts outside of the NEM may be material for some network investments:

- » For example, network infrastructure that allows electrification and supports EV uptake may have emissions reduction benefits, where it is the network investment that results in emissions reduction rather than other drivers (such as government policies). Quantification of these benefits should be included where they are expected to differ materially between options, and where reasonable, justifiable, and practical methodologies allow.
- » It may also be material to value emissions for infrastructure related to connecting high emissions industries. Given that NSPs have an obligation to connect customers, all options may result in the same impact on emissions between the base and option cases, making the difference in emissions between options immaterial to the selection of the preferred option. However, when options involve different timing of connections, options with delayed timing will have a different emissions impact.

In relation to scope 3 emissions, ENA notes that it will be important to consider how such emissions are quantified. Inclusion of scope 3 emissions may preference the use of imported materials (in which Australian emissions are zero) over domestically

produced products. This could result in projects having greater market benefits if imported materials are used.

Further, ENA notes that where economy-wide emissions impacts are quantified in RITs there is a risk of double counting emissions benefits that are not directly attributable to the network investments. For example, if investment by a generator or major load is justified based on emissions reductions, such reductions should not also be included in a RIT assessment.

These are both issues which the AER's guidelines could potentially provide guidance on. However, it is not *necessary* for this guidance to be provided, to the extent that there are methodology issues which are still being worked through. Rather, the AER could provide principle-level guidance that these issues need to be addressed in quantifying broader emissions changes, and that in doing so NSPs should draw on robust methodologies and public data sources. This would allow the approach to quantification to evolve as such methodologies become established, without requiring a further update to the guidelines.

ENA therefore suggests the AER develops a list of possible greenhouse gas emission benefit impacts, with an 'opt in' rather than 'opt out' mechanism for inclusion in the RIT market benefits assessment, where these impacts are material and can be estimated with confidence.

Other issues

ENA notes that the current sections of the guidelines that cover the exclusion of externalities from quantification in RIT assessments should be reviewed to acknowledge that changes in greenhouse gas emissions can now be included in the RIT quantification.

The AER has also asked whether the emissions benefit category should be discounted in the NPV assessment, and, if so, whether a different discount rate should be used to the commercial discount rate assumption applied to other benefit categories. ENA does not have a strong view on this issue, but understands that the rationale for not discounting these benefits would be to provide a continuous incentive to reduce emissions throughout the assessment period. ENA notes that the adoption of different annual VER values means that there will still be a different benefit from reducing emissions at different times, even if the emissions benefit category is not discounted.

The AER raised in its webinar the question of whether the emissions discount rate should be the same or different to the standard commercial discount rate. ENA notes that currently the guidelines require the same commercial discount rate (i.e., as determined in the IASR) for all costs and benefits in the RIT assessments.

Social licence

Identifying credible options in a RIT-T assessment

- » What factors or criteria should a RIT-T proponent consider when determining whether a project:
 - is going to be delayed, or is not likely to proceed such that the project is no longer technically feasible?
 - is not likely to be delivered in sufficient time to meet the need?
- » What might be some objective measures of any factors identified above?
- » If initial community engagement indicates that an option may not be credible, what further engagement or other action should a transmission business undertake to determine if an option may later become credible?

ENA and its members are acutely aware of the impact energy infrastructure has on communities' way of life and importance of community acceptance to deliver the many kilometres of new transmission infrastructure required into the future.

We agree that consideration of the potential for community opposition to lead to a project not going ahead or being delayed is relevant in considering whether an option is credible, particularly for projects relating to greenfields investments. Incorporating this assessment as part of the RIT process enables TNSPs to demonstrate how the values, priorities and concerns of communities hosting transmission infrastructure inform and influence decision making.

ENA therefore supports the AER providing additional guidance on this issue. However, the guidelines should be clear that social licence is not a relevant issue for all RIT-Ts. For example, it is unlikely to be relevant in considering repex or brownfields investments. Such projects involve the replacement of existing network infrastructure along or within the same easement or site, and typically received very low interest from all stakeholders including local communities. It is important that the AER's guidance provides flexibility and is not binding for all RIT-Ts. Considering social licence impacts would materially increase the costs of conducting these RITs and provide no additional benefits to consumers and communities.

In updating its guidance, it may be more straightforward for the AER to focus on the impact in both cases on whether an option can be implemented in time to meet the identified need. This would avoid having to amend the existing guidance on when an option is technically or commercially feasible, to accommodate an option not going ahead due to social licence concerns.

In determining whether a project is likely to be delayed or not likely to proceed, ENA encourages the AER to highlight in the guidelines that both qualitative and quantitative information is important. The relevant information is likely to be unique for each project, as circumstances and community stakeholders differ depending on the corridor associated with a credible option. The guidelines could provide examples of the factors that could be considered, such as a desktop analysis of the deliverability of options based on social, environmental and cultural heritage factors. This analysis could include Strategic Land Use assessment and Multi-Criteria Analysis, where

relevant. However, the guidelines should present these as examples rather than being prescriptive, to align with the needs, preferences and views of different stakeholders affected by an individual project.

In assessing whether previously determined non-credible options from a social licence perspective may become credible in future, ENA suggests that the guidelines not be prescriptive about requiring further engagement activities. ENA is of the view that community sentiment is generally unlikely to materially change and does not consider that non-credible options are likely to become credible in future, unless there is a clear specific issue that may change (which could then be identified as a re-opening trigger for the assessment). In general, ENA considers that if an option has been assessed as non-credible, it should not be revisited without a compelling reason, in order to enable to timely delivery of an option that is credible.

The AER may want to consider what jurisdictions are doing in assessing potential social licence issues associated with REZ developments, as consistency in the factors considered between jurisdictional frameworks and the ISP/RITs would be a desirable outcome.

In updating the guidance, the wording of the section of the current guidelines on the treatment of externalities should also be reviewed to recognise that impacts on visual amenity or other human or environmental factors may impact social licence, and so may be taken into account in determining whether an option is credible, even though these externalities are not able to be directly quantified.

Costs and market benefits in ISP and RIT-T assessments

- » Is there a need to clarify costs and benefits that may be included in the RIT-T to address social licence issues? What worked examples would be useful?
- » Are any additional classes of costs and market benefits necessary to address social licence issues, and available within the framework provided by the Rules?
- » How could the effect of delays on the costs and market benefits of each credible options be assessed and justified?
- » If a RIT-T were to include forecast expenditure on social licence activities to address an identified reduction in market benefit due to project delay, what justification would be required to demonstrate this expenditure will reduce the potential project delay?

Social licence costs are likely to differ between projects, as they will be dependent on the specific circumstances. Consequently, although it may be helpful for the AER to include a list of potential social licence costs in the guidelines (which could reflect the list in the Consultation Paper), this list should not be presented as exhaustive. Similarly, although worked examples may be helpful, they should be presented as illustrative only, as it will be appropriate to consider social licence costs in the context of the specific issues raised by the community for each project.

ENA also notes that social licence costs may be difficult to estimate early, at the RIT-T stage, and the social licence activities (and associated costs) are likely to change as the project progresses. As the purpose of the RIT-T is to choose between options, but

not to identify the costs of each option beyond the level necessary to choose, ENA notes that social licence costs are not generally required to be extensively developed at the RIT-T stage.

ENA does not consider that additional RIT-T cost (or benefit) categories need to be introduced to accommodate social licence costs, as efficient spending on obtaining and maintaining social licence already forms part of an option's direct costs.

The impact of a project delay due to social licence concerns could be reflected in the RIT-T through modelling the additional costs that may be associated with later delivery of the project (for example, to reflect real cost escalation), as well as the market benefit estimation being based on a later commissioning date of the option. However, these differences should only be quantified where they are likely to be material to the RIT-T outcome.

The AER's question on the justification required to demonstrate that forecast social licence expenditure will reduce potential project delay is more relevant to the AER's separate guidance on the assessment of social licence costs, rather than the CBA and RIT-T guidelines.

Community engagement

- » There are several areas of the Guidelines for which clarification may be provided following the updated definition of 'interested party'. We are seeking stakeholder feedback around the provision of these clarifications.
- » We are also seeking views on whether the Guidelines should be prescriptive about these matters or should set out principles within which RIT-T proponents should operate.
- » The definition of stakeholders that are "reasonably expected to be affected by the development" of the project:
 - What criteria should be used to establish when a stakeholder is 'reasonably expected' to be affected? Are there conditions to consider other than the presence of a stakeholder group in the geographical area of a project?
 - What threshold should be considered when assessing whether a stakeholder is 'reasonably expected' to be affected? To what extent are RIT-T proponents able to assess the materiality of effects on stakeholders before engaging with them?
- » How should interested parties be identified?
 - Should reasonably affected stakeholders be identified nominally, by constitution of a list in advance?
 - Should RIT-T proponents identify specific affected stakeholders, or rather ensure that the consultation addresses each category of stakeholder?
 - Is it necessary or sufficient to have representation of each category of stakeholders?

ENA supports a non-prescriptive approach to guidance on stakeholder engagement on social licence issues as part of the CBA and RIT-T guidelines, limited to principles that point to best practice outcomes. Flexibility on engagement is important as circumstances can be vastly different between projects with different community

stakeholders. TNSPs should be able to develop their own engagement methods that are fit for purpose for the affected communities.

As the AER recognised in its Directions Paper on social licence, there are already best practice engagement frameworks which TNSPs can refer to, including those in the Energy Charter, the IAP2 Public Participation Spectrum and the Australian Energy Infrastructure Commissioner's Community Engagement review.

If additional guidance is provided, ENA strongly supports it not being binding and only applying to actionable ISP projects, future ISP projects, or projects within a REZ stage, as per the final AEMC rule.⁵ If the AER decides that its guidance on social licence engagement is also to apply to projects outside of those specified by the AEMC's final rule change, ENA suggests it should apply only to major greenfields transmission. There is very limited evidence that suggests community acceptance challenges extend to repex and brownfields transmission projects, and these are already addressed through existing consultation processes. In general, such projects do not enlarge facilities, and work within sites and easements that are already zoned for electricity supply purposes.

ENA does not consider that the guidelines should seek to define 'interested parties' or how they should be identified. TNSPs have boots on the ground within communities and are therefore best placed to identify interested parties on a case-by-case basis. There are also other community engagement legislations that TNSPs must comply with, such as environmental and planning approvals, and it is important that TNSPs can form a holistic perspective on their engagement activities.

The guidelines should therefore maintain flexibility for TNSPs to identify all relevant stakeholders in their engagement activities. This is consistent with the AEMC's view in its final determination stated that:⁶

...our final rule provides flexibility for a TNSP to decide when it is most beneficial to engage with various stakeholder groups as long as all these groups have been engaged in accordance with the rules prior to the completion of the RIT-T.

ENA notes that TNSPs do not have an incentive to exclude stakeholders from this process as excluding stakeholders who may identify themselves late in the process is likely to lead to additional costs and project delays.

ENA notes that the TPIR was intended to streamline transmission build to enable a faster energy transition. Further prescriptive guidance risks adding unnecessary and potentially cumbersome obligations on TNSPs that will slow the process without providing significant additional benefits to community stakeholders.

⁵ AEMC, *National Electricity Amendment (Enhancing community engagement in transmission building) Rule 2023 No. 5*, 9 November 2023, Sched 1, clause [4] 5.10.2.

⁶ AEMC, *Rule determination, National electricity amendment (enhancing community engagement in transmission building) rule*, 9 November 2023, Box 1.

Planning stakeholder engagement

- » While community engagement expectations require that “reasonable endeavours” should be used, how should this be interpreted and what would be the minimum expectations for tailoring engagement materials and communication methods to meet the needs of different stakeholders?
- » The community engagement expectations include that “stakeholders (will be) provided with a range of opportunities to be regularly involved throughout the actionable ISP projects, future ISP projects and REZ stages”. Should there be guidance on what opportunities for regular involvement the RIT-T proponent could consider providing stakeholders with?
- » What requirement should the guidelines contain for a RIT-T proponent to publish an engagement plan on how it will make reasonable endeavours to satisfy community engagement expectations?
- » How can we promote continuity and avoid duplication between AEMO’s engagement work, and the engagement undertaken by the RIT-T proponents?
- » For the draft and final reports, is the normal means of consultation (by publication on proponent and/or AEMO website) sufficient to be in accordance with the expectations?
- » What should we require proponents to include about stakeholder feedback in the draft and final reports?

In response to the first two questions, ENA reiterates its view that the CBA and RIT-T guidelines should not be prescriptive on these issues, but should be limited to principles pointing to best practice engagement approaches.

The AER is proposing that TNSPs could develop a stakeholder engagement plan for each RIT-T, and report progress against that plan as part of the PADR and PACR⁷.

ENA suggests that the requirement to develop an engagement plan should be limited to actionable ISP RIT-Ts, and should not apply to RIT-Ts more broadly. In particular, there would not be any benefit for consumers in developing an engagement plan for RIT-Ts relating to repex and brownfields transmission projects.

Further, TNSPs will already be actively engaging with stakeholders in relation to actionable ISP projects, so ENA questions the benefits of publishing an additional plan. Notwithstanding, if the AER does decide to require an engagement plan to be developed, it is important that there is flexibility to deviate from such a plan during the RIT-T, as situations and stakeholder priorities change and evolve. As a consequence, cost recovery for engagement activities should not be linked to progress against an initial engagement plan. However, the initial engagement plan could be used as evidence to justify initial CPA costs.

To avoid duplication between AEMO and TNSP engagement activities for actionable ISP projects, ENA suggests that, if an engagement plan is required, that it includes a list of AEMO’s and the NSP’s engagement activities. The plan could then comment on how AEMO’s and the NSP’s consultations complement each other and prevent

⁷ Project Assessment Draft Report and Project Assessment Conclusions Report

duplication. Where there is not an engagement plan, TNSPs could still communicate this information through their own engagement activities.

In relation to the AER's last two questions above, ENA notes that RIT-Ts already highlight how points raised in submissions have been taken into account in the RIT-T analysis (rather than only providing a summary of submissions). ENA suggests that any additional guidance be limited to including in the PADR and PACR how stakeholder feedback has been reflected, rather than the AER needing to develop further detailed guidance in this area.

Sharing concessional finance benefits with consumers

- » What evidence of the likelihood of a concessional finance agreement being put in place would be necessary before a RIT-T or RIT-D proponent can or should account for the effect of the concessional finance on the capital cost of credible options?
- » Are there non-confidential details of a concessional finance arrangement that a proponent should and could provide in their report?
- » Are there any specific areas that the AER could clarify using worked examples?

ENA supports the AER's proposed approach in allowing NSPs to determine, based on the best information available at the time, whether concessional funding that it is intended to benefit customers is sufficiently likely to proceed that it should be reflected in the costs of the option in the RIT-T or RIT-D.

ENA does not consider that there would be a benefit in providing more specific guidance on the matters that should be considered in determining funding certainty, as this is likely to vary between projects. NSPs have little incentive to include the cost impact in a RIT-T/RIT-D of concessional finance agreements that are unlikely to eventuate, as this would likely lead to a material change in circumstance following completion of the RIT-T/RIT-D process, which could delay investment.

Rather than being prescriptive in the guidelines, ENA supports the AER's suggestion that the NSP provide the information it has used to come to its conclusion in the RIT documentation.

Further, where there is uncertainty on whether the agreement will be concluded, the NSP could provide sensitivity analysis in the RIT PACR/FPAR⁸ which could be used in the event of a subsequent material change in circumstance, to avoid needing to re-run the cost benefit analysis.

ENA suggests that the wording of the signed statement that the AER expects a RIT proponent to provide, if the proponent has not yet notified the AER of the concessional financing agreement applicable to a RIT,⁹ recognises that there may be

⁸ Project Assessment Conclusions Report and Final Project Assessment Report

⁹ See AER Consultation Paper, p. 24.

some uncertainty at the RIT stage on whether the agreement will be able to be concluded.

The AER's suggestion that non-confidential details of a concessional financing agreement could be included in RIT reports appears to be outside of the scope of the RIT guidelines, and is not required from the RIT assessment perspective.

ENA notes that the AEMC has suggested that the AER include an additional worked example of the impact of concessional finance on option costs (in the same manner as its worked examples on external finance). ENA supports the provision of a worked example, to provide clarity to NSPs and other stakeholders.

ENA's current understanding is that the present value of the difference in financing costs between the NSP's regulated cost of capital and the concessional finance rate would be calculated for the value of the investment subject to concessional finance, and that this amount would then be subtracted from the capital cost of the affected credible option(s). The discount rate applied in the RIT would remain the commercial discount rate, rather than being adjusted to reflect the concessional finance rate. This is consistent with the commercial discount rate being applied to options involving regulated investments, rather than the lower regulated discount rate (and reflects that the discount rate is applied to both costs and benefits in the RIT, some of which are attributable to NEM participants other than the NSP).

ENA notes that there appeared to be different approaches mentioned by the AER in the webinar covering this topic, and so encourages the AER to provide a worked example to ensure that there is a common understanding of the intended calculation approach.

Improving the workability of the feedback loop

- » We welcome stakeholder views on the proposed amendments to reflect the AEMC's final rule on improving the workability of feedback loop.

ENA suggests that the AER's proposed wording in the updated guidelines is amended to read:

'TNSP's should not submit a feedback loop request between the publication of the final IASR and the publication of the draft ISP, unless AEMO has agreed to consider such a request.' (proposed addition underlined)

This wording would better facilitate the AER's proposed guidance on AEMO retaining discretion to consider feedback loop requests from TNSPs during this period.

The guidelines could also set out that where TNSPs make a request for AEMO to apply the feedback loop between the publication of the final IASR and the publication of the draft ISP, that the TNSP provides reasons why it considers that AEMO could apply the feedback loop in this period. The guidelines could then require AEMO to address these reasons where it decides not to agree to such a request. This would further support the flexibility for AEMO to consider feedback loop requests during this period.

The AER proposes that the guidelines allow 40 business days for AEMO to complete the feedback loop assessment, with the ability for AEMO to extend this period by 60 business days. ENA would welcome examples of circumstances that the AER considers could require AEMO to extend feedback loop assessment beyond 40 days.

Early works contingent project application before completion of a RIT-T

- » How should early works costs already incurred, or committed through a contingent project determination, be treated in a cost-benefit analysis in a RIT?

The AER's proposed guidance on including early works costs already incurred (or committed) through a contingent project determination in the RIT-T assessment, despite their being sunk, is consistent with the Rule change proposal. ENA understands that the rationale for this approach is to ensure that approval of costs in an early works Contingent Project Application (CPA), prior to completion of the RIT-T, does not bias the RIT-T outcome.

ENA expects this approach to be subject to further consideration as part of the AEMC's Rule change process. Whilst understanding the above rationale, ENA notes that including sunk costs in a RIT-T assessment goes against economic principles. It could result in an option which has a lower incremental cost to consumers (for example, due to some early design and planning costs having already been incurred) not being selected in the RIT-T assessment, despite it being expected to provide the greatest net benefit in practice.

In the interest of an efficient and timely energy transition, the regulatory framework needs to balance these two competing concerns. There may be alternative approaches worth considering, such as a greater focus on the types of early works included in a CPA prior to completion of a RIT-T, which may reduce concerns around treating early works costs as sunk.

This is an issue which ENA intends to consider further as part of the consultation process for the Rule change.

Notwithstanding, if the AEMC's final decision is that these early works should be included in the RIT-T assessments, ENA suggests that the guidelines clarify that the sunk cost of these early works should only be included in the RIT-T assessment for those options to which those early works relate, rather than for all options. Further, the guidelines should clarify that options in the RIT-T that would require different or additional early works (ie, outside of those included in an early works CPA) should include an estimate of the cost of those early works.

ENA notes that the objective of the Rule change, which follows the AEMC's TPIR recommendation, is to enable the timely progression of transmission projects through allowing an early works CPA prior to completion of the RIT. ENA is concerned that the AER appears to flag that it is likely to be conservative in approving early works CPA applications submitted prior to RIT-T completion, to manage the risk that customers pay for activities that are ultimately not required for the preferred option. A

conservative approach to approving early works CPAs is likely to mean that the benefits intended by the rule change will not transpire, as TNSPs will not have confidence that the early works activities they may put forward in an early CPA will be approved. ENA encourages the AER to consult separately on its intended approach to approving early works costs in a CPA which is lodged prior to completion of a RIT-T, to provide TNSPs with the necessary confidence.