

8 September 2023

Australian Energy Regulator (AER)  
By online submission

Dear Sir or Madam,

**AER draft amendments to the cost benefit analysis guidelines and RIT application guidelines**

The Australian Energy Market Operator (AEMO) welcomes the opportunity to comment on the Australian Energy Regulator's (AER's) proposed amendments to the cost benefit analysis guidelines and RIT application guidelines.

These amendments are of importance to AEMO in its roles as National Transmission Planner responsible for preparing the Integrated System Plan (ISP) and triggering the Regulatory Investment Test for Transmission (RIT-T) for actionable ISP projects, and also as Victorian Transmission Planner responsible for applying the RIT-T to augmentations of the Victorian Declared Shared Network.

AEMO continues to support the non-prescriptive approach RIT reopening triggers, and see the principles proposed should balance the rigour with the risk of materially impacting the timely delivery of ISP projects. We support the strengthening of the RIT-T guideline by mandating proponents *must consider* the AACE classification framework for projects over \$100m, and have suggested further improvements below. Similarly, we agree with the proposed approach to including the definition of early works put forward by the AEMC's Transmission Planning and Investment Review (TPIR).

We have provided additional detail on the questions asked in Appendix 1 below.

If you would like to discuss anything further, please contact Tom Livingstone, Manager – Transmission Reform ([Tom.Livingstone@aemo.com.au](mailto:Tom.Livingstone@aemo.com.au)).

Yours sincerely,



Kevin Ly  
**Group Manager – Reform Development & Insights**

## APPENDIX 1: AEMO'S VIEWS AND INSIGHTS ON THE DRAFT AMENDMENTS

This section discusses AEMO's views and insights related to specific questions posed or where views are sought on the proposed amendments.

### RIT reopening triggers

In AEMO's submission to the AER's Review of the Cost Benefit Analysis Guidelines and RIT application guidelines<sup>1</sup> (19 June 2023), AEMO agreed with the proposed non-prescriptive approach, noting the AER was obliged to introduce guidance on this. We continue to support this position as it is proposed in the draft guidelines.

We consider that the principles proposed to guide TNSPs will balance the need for rigour with the principle of avoiding 'analysis paralysis' and unnecessarily delaying the development of efficient transmission investments when developing reopening triggers, as noted in our previous submission. We also want to stress our view that the impact of delays to transmission investments will reduce the likelihood of aligning with the National Electricity Objective as it relates to price and the achievement of emissions reductions targets.

### Cost estimation in RITs

As noted in our submission to the AEMC's Material change in network infrastructure project costs rule change, AEMO believes the AACE international cost estimate classification system is a reasonable standard for estimation. Regardless of whether RIT proponents use this classification framework or not, it is important they consider the circumstances in which estimate is done. As such, we support the draft amendments which propose that RIT proponents "must consider" using the AACE classification, and are required to provide reasons for doing so where this is not the case. In addition to what is proposed, we also think that the TNSPs should state the accuracy (regardless of which classification they use) and should state the class of estimate when using AACE.

Regarding a potential binding obligation for sensitivity analysis, we previously noted AEMO does not consider that a binding obligation should be imposed on RIT-T (non-actionable ISP projects) proponents to conduct sensitivity analysis on the estimated costs of credible options in the RIT application guidelines. This was guided by the fact that we took the view that this would likely be unnecessary if the AACE international cost estimate classification system is used as a standard, and further guidance on how (if at all) sensitivity analysis should influence decision making was provided. Given the draft amendments involve ensuring RIT proponents must consider using the AACE classification, or provide reasons for not doing so if they decide not to, it is unclear whether the draft amendment to require all proponents to perform sensitivity testing by varying one or multiple inputs and assumptions will provide the outcomes sought.

### Early works

We agree with the proposed approach to include the AEMC's definition of early works and are of the view that all potential activities that should be included in the scope of the early works are consistent

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<sup>1</sup> [AEMO – Submission to AER Review of the cost benefit analysis guidelines and RIT application guidelines consultation paper](#)  
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with this definition. Perhaps an additional method of providing clarification on the definition could be to include an example of the Determination for Humelink in August 2022<sup>2</sup>. The AER approved expenditure for steel tower assembly design and prototype testing. Using this example in the guidelines and explaining how it fits within the definition of early works would be a useful way of further explaining the definition.

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<sup>2</sup> [AER determination – Humelink, August 2022.](#)