

Early Works, Concessional Finance and Feedback Loop

Review of the cost benefit analysis guidelines and
RIT application guidelines – Virtual public forum

We would like to start by acknowledging the Traditional Custodians of country throughout Australia and their connections to land, sea and community. We pay our respect to their Elders past and present and extend that respect to all Aboriginal and Torres Strait Islander peoples today.

Housekeeping

- Short question time after each presentation → Any time remaining at the end for Q/A for all topics at the end
- Managing questions through Slido and the 'Raise hand' function on Teams
- Can join the chat two ways:
 - Through slido.com with the number #3609284
 - Or through the link: <https://app.sli.do/event/ooESCW4wsXBgaGaLGS6r5h>

Structure of presentation

1. Welcome and Background – Stephanie Jolly, Executive General Manager – Consumers, Policy and Markets
2. Topics:
 - Sharing concessional finance benefits with consumers – Eugene de Guingand
 - Guidance on early works – Matthew Simpson
 - Improving the workability of the feedback loop test – Ali Hassan
3. Next steps
4. Q&A

Introduction

2024 CBA and RIT Guideline review

- Value of emissions reduction
- Social licence
- Incorporating recent changes to the National Electricity Rules (NER)

AER responsible
for CBA and RIT
guidelines

- Maintenance
- Enforcement including dispute determinations
- Publication

Guidelines
necessary for

- Efficient regulation
- Timely investment
- Clear engagement
- Meeting consumer expectations

Recent NER changes

Concessional finance by 31 December 2024

- Ensure lower costs are flowing to consumers as expected
- Clarifies how best to include these agreements in RITs

Accounting for early works costs in the RIT-T – TBA

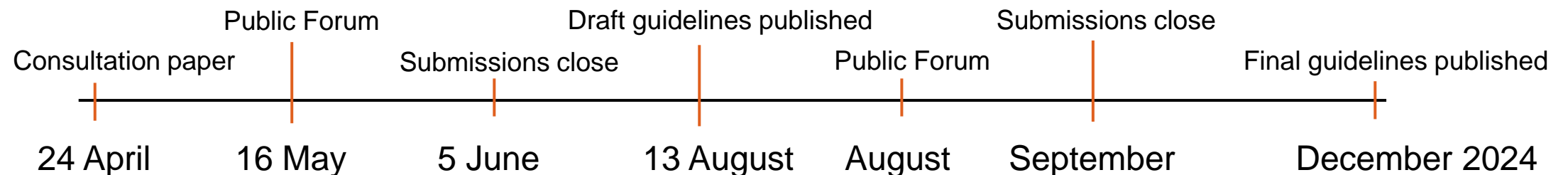
- Improve cost estimation accuracy
- Avoid unnecessary delays in the RIT-T process

Workability of the feedback loop by 14 March 2025

- Provide surety on AEMO's role
- Clarifies when it is appropriate to administer the test.

- We are seeking stakeholder submissions by 5 June 2024.

- Indicative timeline:



Sharing concessional finance benefits with consumers

- AEMC finalised a rule change in March 2024 to allow for the benefits of concessional finance (loans below market interest rate) to flow through to consumers in the form of lower network tariffs.
- The rule change was requested by the Minister for Climate and Energy in the context of the Commonwealth Government's Rewiring the Nation fund.
- This guideline update is interested with how concessional finance should be reflected at the project planning stage as opposed to how the networks' revenue should be adjusted after the agreement is finalised.

Scope of the guideline update

The NER requires the AER
to

include guidance and worked examples on external funding contributions

The AEMC recommends
the AER

- provide guidance on when external funding contributions can be treated as 'expected' and relied on in the economic assessment process.
- include concessional finance in the guidance and worked examples

AER Preliminary view

Should concessional finance be included in a RIT-T or RIT-D?

- Yes, when the intent of the finance is to provide a benefit to consumers in the form of a lower network tariff.
- No, when the benefit is retained by the network.

What evidence does a RIT proponent provide of a concessional finance agreement?

- If a RIT includes concessional finance benefits but the AER has not been formally notified of a concessional finance agreement, the proponent must provide a signed statement that the report contains the most up to date financing.

What happens if the concessional financing doesn't eventuate?

- Where concessional finance flowing to consumers was expected and accounted for in a RIT does not eventuate, a RIT proponent would need to consider whether this constitutes a material change in circumstances.

Our questions to stakeholders

What clarification can we provide to help you respond to the following questions?

Where in the RIT guidelines would worked examples be useful?

What level of evidence is necessary to be confident that a concessional finance agreement will be put in place before it should be included in a RIT?

What non-confidential details of a concessional finance arrangement should proponents include in their report?

Questions

Please remember to add any questions or comments in the Sli.do chat.

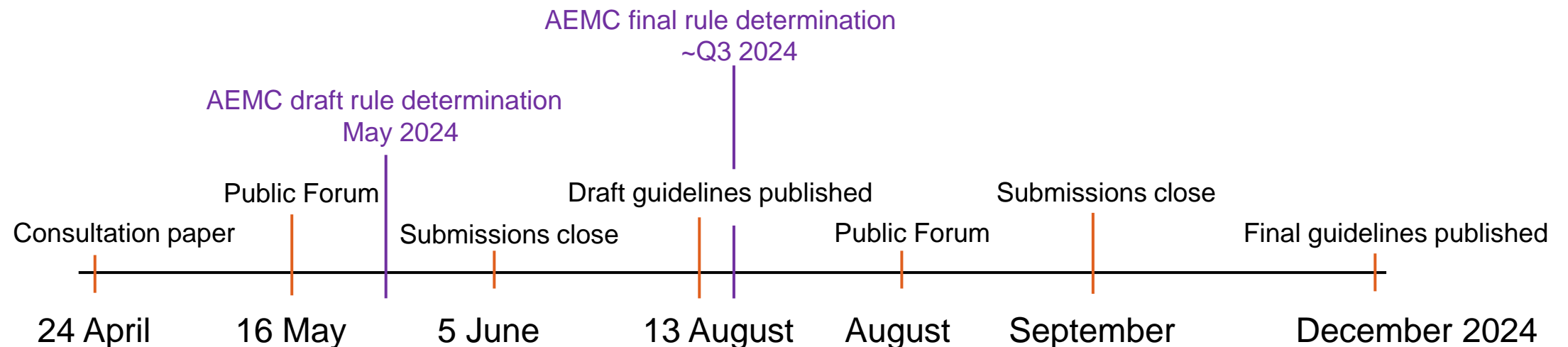
Next topic: Changes to early works and contingent project applications before the completion of a RIT-T

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

Early works refer to activities undertaken by a TNSP before construction of a preferred option aimed at improving cost estimate accuracy or efficient delivery as specified by the most recent ISP.

AEMC currently considering a rule change proposal (ERC0380) for early works:

- Based on AEMC TPI review
- Would allow approved early works to be undertaken before the completion of the projects RIT-T
- Indicative timeline:



TPI review recommendations on early works

Allow networks to apply for contingent project (i.e. funding) for early works without a completed RIT-T

Only applies to actionable ISP projects

Cost materiality thresholds still apply

Only funding for early works costs, defined as costs that:

- Improve the accuracy of overall cost estimates for that project; or
- Facilitate the project being delivered within the timeframes specified by the most recent ISP.

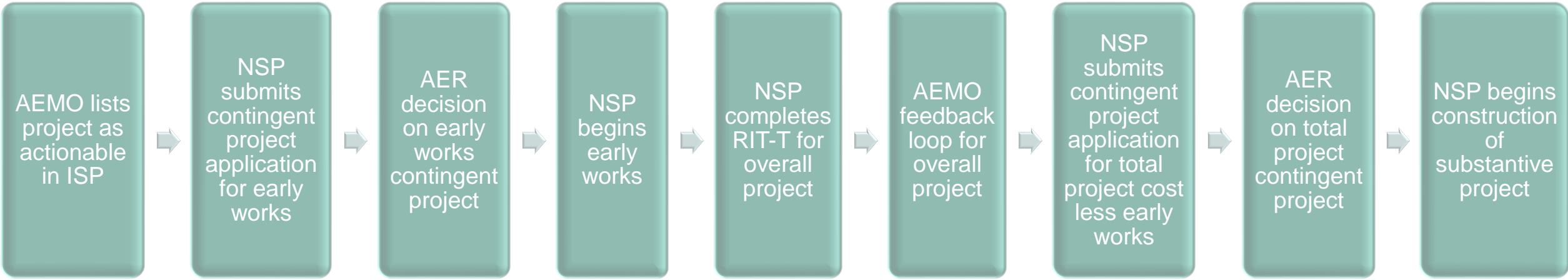
Must still complete RIT-T for substantive project before applying for funding for substantive works

Must take into account early works costs already approved / spent when completing RIT-T

Submissions on these matters should be made to the AEMC.
Our focus is on how any rule change might affect the CBA and RIT application guidelines.

Early works within project planning and approval process

Our CBA and RIT application guidelines are relevant here



Not the scope of our review of the CBA and RIT application guidelines – we may consider issuing guidance on these aspects at later date

Early works and the CBA & RIT guidelines – proposed approach

If new rules are made to allow funding for early works before completing the RIT, what updates do we need to make to the CBA and RIT application guidelines?

Will provide guidance on how to consider costs from approved early works contingent projects in RITs for actional ISP projects.

Will provide guidance on how to transparently report early works costs already incurred and forecasts of early works costs still to be incurred.

Will update worked examples of staged ISP projects and interactions with early works contingent projects

What feedback are we seeking?

While we are limited to guideline updates in line with the rule change, we are seeking feedback in your submissions on:

Is there anything we can expand upon now to help you in respond in your submissions?

Where worked examples would be most helpful.

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

Any other guidance stakeholders would like to see prescribed in the guidelines on how to treat early works.

Questions

Please remember to add any questions or comments in the Sli.do chat.

Next topic: Improving the workability of the feedback loop.

Improving the workability of the feedback loop

Feedback loop assessment acts as a safeguard for consumers

- Written approval from AEMO that the preferred RIT-T option aligns with the optimal development path (ODP) outlined in the most recent ISP, and;
- The costs of preferred option do not change the status of the actionable ISP project as part of the ODP.

The AEMC's final rule:

Enables the feedback loop to be assessed with the most recent ODP in a **draft ISP** or final ISP.

Requires the AER to amend its CBA guidelines to provide guidance on the timing of a feedback loop request.

Is not applicable to projects that have already passed feedback loop.

Applies to existing actionable RIT-Ts that have not requested feedback loop.

Proposed approach

- We propose to amend the CBA guidelines to:

Give effect to a 40 business day timeframe for AEMO to complete feedback loop.

(NER Requirement)

- Includes ability to extend by up to a further 60 business days if the assessment is complex.

Allow the contingent project application process and feedback loop assessment to proceed concurrently.

(NER Requirement)

- Aim is to reduce delays in the regulatory process.

Provide guidance on the timing of feedback loop request.

- Intended that a TNSP should not submit a feedback loop request between the publication of the final IASR and the publication of the draft ISP.
- AEMO would retain the discretion to undertake the feedback loop during this time where necessary.

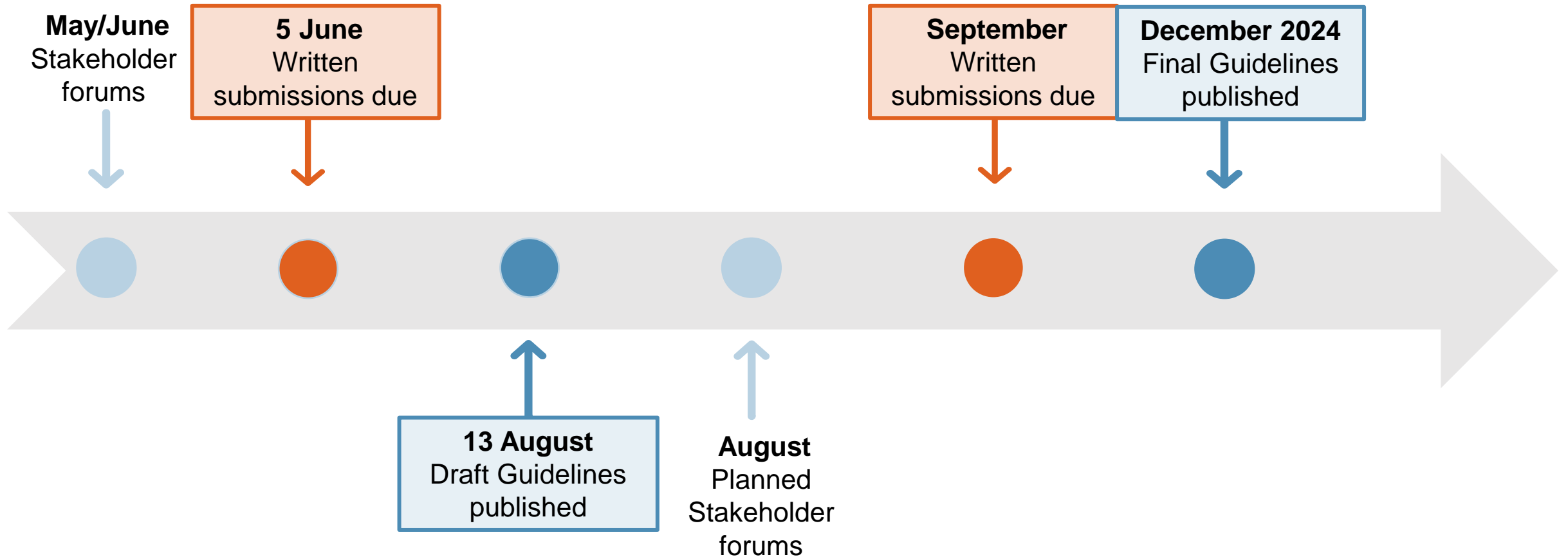
- **We are seeking stakeholder views on the proposed amendments to reflect the AEMC's final rule on improving the workability of feedback loop.**

Questions

Please remember to add any questions or comments in the Sli.do chat.

Next topic: Next Steps.

Next Steps



Note: Social License Expert forum on Monday, 20 May – 3:30pm to 5:30pm.
Social License Broader Stakeholder forum on Monday, 3 June – 4pm to 6pm

Slido Link: #3609284

Q&A

Thank you for attending today

Please email your submissions by 5 June:
RITguidelines@aer.gov.au

Please reach out with any questions:
RITguidelines@aer.gov.au