

5 June 2024



Ms Stephanie Jolly
Executive General Manager
Australian Energy Regulator
By email: RITguidelines@aer.gov.au

24-28 Campbell St
Sydney NSW 2000
All mail to
GPO Box 4009
Sydney NSW 2001
T +61 2 131 525
ausgrid.com.au

Dear Stephanie

Ausgrid response re Review of the cost benefit analysis and RIT application guidelines

Ausgrid welcomes the opportunity to respond to the AER's consultation paper, which commences its review of the cost benefit analysis and Regulatory Investment Test (**RIT**) application guidelines. This review is an important step in providing a framework in which transmission and distribution networks can take account of emission reductions in their investment decisions.

Ausgrid operates a shared electricity network that powers the homes and businesses of more than 4 million Australians living and working in an area that covers over 22,000 square kilometres from the Sydney CBD to the Upper Hunter. As a member of Energy Networks Australia (**ENA**), Ausgrid supports ENA's submission to the AER's consultation paper.

Ausgrid is a strong advocate for the recent changes to the National Electricity Objective and the accompanying changes to the National Electricity Rules (**NER**) that recognise the national and international imperative to reduce greenhouse gas emissions. As an organisation, we are committed to take action to reduce our emissions, which are tracked annually through the publication of our Carbon Emissions Performance Reports.

As explained in the attached submission, our view is that the consultation paper is too narrowly focused on emissions produced by generators, rather than considering the broader role that networks can play in reducing emissions. Ausgrid therefore recommends that the AER broadens its proposed approach to ensure that the RIT application guidelines recognise the full potential of network investments in promoting emissions reductions, including reductions in Sulphur Hexafluoride (**SF6**) emissions and line losses; investments that enable our customers to reduce their emissions; and investments that promote the electrification of other sectors, such as transport.

In addition to discussing the approach to estimating the benefits of emissions reductions, the AER proposes changes to the RIT-T guidelines to address the recent Rule changes relating to financeability; concessional finance; early works; and the feedback loop process. Ausgrid supports the AER's approach in bringing the RIT-T guidelines up to date with these developments and the responses to specific questions provided by the ENA.

We also support the AER's inclusion of social license considerations in the RIT-T, noting the following key points:

- Ausgrid supports the inclusion of the costs and benefits of social license in the RIT-T analysis where applicable, noting that there may not be social license issues for all RIT-T projects. By formalising the requirement to consider the costs and benefits of social

Connecting communities,
empowering lives

license, the RIT-T guidelines will encourage project proponents to commit appropriate levels of resources to securing and maintaining social license where applicable.

- Social license activities will need to be tailored to each project and the affected communities, noting that each project raises its own specific issues. It follows that the RIT guidelines should set out the principles for assessing the costs and benefits of social licence, rather than providing guidance on best practice social license activities or engagement plans (which will continue to evolve over time).
- Social license activities may be shared between the project proponent and the relevant jurisdictions, particularly in relation to REZ developments.¹ It would be useful if the RIT guidelines recognised that multiple players may be involved in social license activities and how the costs and benefits should be assessed in these circumstances.

The attached submission focuses on the issues arising in relation to emissions reductions and the questions raised in the consultation paper on that topic. If you have any queries in respect of this submission, please contact Fiona McAnally at fiona.mcanally@ausgrid.com.au in the first instance.

Regards,



Tim Jarratt
Group Executive – Market Development and Strategy

¹ Noting that treatment of transmission projects under the NER may be replicated under jurisdictional REZs.

Attachment A: Submission to the AER's review of the cost benefit analysis and RIT application guidelines

Ausgrid welcomes the opportunity to lodge this submission in response to the AER's consultation paper on the above review. We note that this is the first stage of the AER's consultation process, in which the AER is formulating its approach with the assistance of stakeholder submissions as it prepares its draft guidelines in August 2024.

This attachment focuses on the issues raised in the consultation paper on estimating emissions reduction benefits.

1. Regulatory requirements

Ausgrid strongly supports the recent changes in the National Electricity Objective which recognised the central role of the electricity sector in achieving target reductions in Australia's greenhouse gas emissions, in the long-term interests of electricity consumers. In taking the first step to implement this change, the AEMC amended the NER which, amongst other things, clarified the definition of 'net economic benefit', as explained below:²

The final rule also clarifies in these instances that the benefits of emissions reduction (and the costs of increased emissions) can be considered beyond those who produce, consume or transport electricity. This change ensures that the benefits of emissions reduction and costs of emissions increases, which accrue to a broad range of parties beyond the electricity sector, can be adequately considered when an assessment of net economic benefits is undertaken as required by the NER.

The AEMC further explained that:³

By referring to broad emissions targets not limited to the electricity sector, the updated NEO makes clear that emissions considerations (which include benefits of emissions reductions and costs of emissions increases) apply at the national level and are not constrained to a single market. Clauses in the NER that limit consideration of net economic benefits to within the electricity system need to be amended, in the case of emissions reduction benefits, to align with the updated NEO.

The AEMC therefore amended the definition of net economic benefit in the NER to include the value of changes in greenhouse gas emissions outside the electricity sector, as set out below:⁴

net economic benefit:

The sum of:

- (a) the net economic benefit, other than of changes to Australia's greenhouse gas emissions, to all those who produce, consume or transport electricity in the NEM; and*
- (b) the economic value of changes to Australia's greenhouse gas emissions, whether or not that value accrues (directly or indirectly) to the service provider, producers, users or end users.*

² AEMC, National Electricity Amendment (Harmonising the national energy rules with the updated energy objectives) Rule 2024, February 2024, p.19.

³ AEMC, National Electricity Amendment (Harmonising the national energy rules with the updated energy objectives) Rule 2024, February 2024, p.22.

⁴ National Electricity Rules, Chapter 10 Glossary, definition of 'net economic benefit'.

Ausgrid notes that the AEMC's conclusion that emissions reductions should be considered broadly, extending beyond the electricity sector, contrasts with the AER's proposed approach in its consultation paper to estimating the value of emissions reductions. Specifically, the AER focuses on the sum of emissions produced by all generators, with and without the proposed network investment. The consultation paper, however, does not consider the broader scope for emissions reductions that could be facilitated by network investments.

2. Scope for emissions reductions

As a distributor, Ausgrid takes a broad perspective in contributing to emission reduction targets, including through targeted reductions in our direct and indirect emissions produced through our activities, including SF6 emissions and line losses.

SF6 is a synthetic gas, which in its pure state is stable, inert, colourless, odourless and non-toxic. The gas possesses exceptional thermal stability, high electric strength and arc quenching properties. SF6 has non-condensing characteristics at low temperatures that make for an excellent insulating medium for enclosed high voltage switchgear. However, it is a particularly harmful greenhouse gas, which is estimated to be 23,500 times more potent than carbon dioxide.

Given the high impact of SF6 emissions, it is essential that the AER's guidelines for assessing the value of emissions reductions captures this potential source of value. For Ausgrid, the recognition of SF6 emissions in the cost benefit assessment could enable the replacement of older equipment with higher leakage rates with newer (lower volume) SF6 equivalents or SF6 free alternatives, as they become more commercially viable.

Ausgrid may also have opportunities to reduce its emissions by undertaking investments that reduce line losses. Ausgrid recognises that emission reductions from lower line losses may be captured by the AER's proposed approach, as they would result in lower emissions in the generation market. We would, however, welcome the AER's clarification on this matter in the RIT guidelines.

In addition to Ausgrid's efforts to reduce its own emissions, there are opportunities for investments that will assist our customers in reducing their emissions. In our view, the regulatory framework should also promote these investments by allowing the benefits of emissions reductions to be captured in the cost benefit assessment. The following examples illustrate the broad range of investment opportunities that could facilitate lower emissions:

- **Customer Energy Resources.** Ausgrid is identifying investment opportunities to promote the efficient use of Customer Energy Resources to optimise solar exports on our low voltage network and improve network utilisation, which will contribute to reduced greenhouse gas emissions.
- **Industrial and commercial customers.** Identifying investment opportunities to work with our larger customers to help them decarbonise in accordance with the NSW Government's roadmap.

Outside the electricity sector, the electrification of the transport sector is a further source of emissions reductions, as recognised in the NSW Government's Electric Vehicle (**EV**) strategy. This strategy explains that increasing the number of EVs on NSW roads and powering them with renewable energy will help to reduce emissions across the transport sector, contributing towards the State's objective to achieve net zero emissions by 2050. Ausgrid considers that the regulatory framework should support efficient investments that facilitate the NSW Government's EV strategy.

3. Ausgrid's proposed approach

Given the above observations, our view is that the AER's approach to valuing emissions reductions should be broader than currently indicated by the consultation paper. In particular, the RIT guidelines should ensure that:

- Network companies are able to undertake investments to reduce emissions in SF6 by recognising the potency of these emissions in the cost benefit analysis and applying the AER's Value of Emissions Reduction (**VER**) to the carbon dioxide equivalent volume. This could be achieved by applying the multipliers that are available from the Clean Energy Regulator that convert different greenhouse gas emissions to the common base, i.e., carbon dioxide <https://cer.gov.au/schemes/national-greenhouse-and-energy-reporting-scheme/about-emissions-and-energy-data/global>
- Network companies should be able to undertake efficient investments that enable our customers to reduce their emissions. This can easily be achieved by allowing the inclusion of emissions reductions in the cost benefit assessment in addition to generation emissions.
- Network companies should be able to recognise the value of emissions reductions that can be achieved through the electrification of other sectors, such as transport.

Ausgrid considers that it would be appropriate to provide a degree of flexibility in the RIT guidelines by providing guidance on how the calculations should be undertaken, rather than specifying the details of the calculation in each case. For example, the following principles could be noted in the RIT guidelines:

- The project proponent may include the value of emissions reductions that accrue to a broad range of parties beyond the electricity sector.
- The project proponent must use a reasonable method for estimating emissions reductions, with references to credible source data.
- The project proponent must ensure that its approach to estimating emissions reductions is free from error, including avoiding any double counting of emissions reductions.
- Where the emissions reductions relate to gases other than carbon dioxide, a multiplier should be used as published by the Clean Energy Regulator to convert to carbon dioxide equivalent volumes.
- The project proponent should apply the AER's VER in estimating the value of the change in emissions for each credible option to address an identified need.

Questions – emissions reduction benefits

How should emissions reduction benefits be included in the RIT and cost benefit analysis guidelines?

Please refer to section 1 of Attachment A. In summary, Ausgrid's view is that emissions reductions beyond the electricity sector should be included in the cost benefit assessment. This approach is consistent with the Rules requirements. Emissions other than carbon dioxide should be also included and valued by applying the appropriate multiplier to convert into equivalent carbon dioxide volumes, priced at the applicable VER. A degree of flexibility should be provided in the RIT guidelines, setting out calculation principles rather than fixed methods.

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?

Ausgrid agrees with the observation in the consultation paper that the application of the VER in the market modelling will not reflect generator's actual costs. This is likely to distort the cost benefit assessments that are made in relation to network investments, to the detriment of consumers.

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?

Ausgrid's view is that it is appropriate for the ISP to set carbon budgets that reflect jurisdictional and NEM wide targets for emissions reductions. We agree with the consultation paper that the use of carbon budgets in the ISP does not conflict with the inclusion of an emissions reduction benefit in the cost benefit analysis for networks. Furthermore, a decision to remove carbon budgets from the ISP modelling would lead to unrealistic development pathways that are inconsistent with the policy position adopted by State and Federal Governments.

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?

As explained in our submission, the approach described is valid in assessing the impact of emissions in the generation sector, but it does not capture emissions reductions more broadly, as required by the definition of 'net economic benefit' in the NER. In section 1.3 of our submission, we explain how the approach outlined in the consultation paper could be broadened to include emissions beyond the electricity sector and gases other than carbon dioxide.

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?

Ausgrid's view is that it should be open to the project proponent to include different sources of emissions, including fugitive emissions, providing that the data and the methodology employed are reasonable in the circumstances. Where appropriate, the project proponent should rely on well accepted sources of information, including the Clean Energy Regulator.