



Anthea Mahoney
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

By email: RITguidelines@aer.gov.au

14 June 2024

Dear Ms Mahoney,

2024 Review of the cost benefit analysis guidelines and RIT application guidelines - Consultation Paper

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Australian Energy Regulator (“the AER”) in response to the Consultation Paper on the 2024 Review of the cost benefit analysis guidelines and RIT application guidelines (“the Paper”).

The ENGIE Group is a global energy operator in the businesses of electricity, natural gas and energy services. In Australia, ENGIE has interests in generation, renewable energy development, and energy services. ENGIE also provides electricity and gas to retail customers across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

Importance of a level playing field in regulatory investment tests (RITs)

In recent years, early estimates of the costs of traditional “poles and wires” projects – especially for large transmission projects - have often been materially underestimated. This creates the risk that an inappropriate decision is taken as a result of the RIT process, either to proceed with a project that does not deliver net benefits or to choose an option which is not in fact the cheapest option. In the case of potential third party solutions, their tenders are likely to be required to be firm, whereas the transmission network service provider (TNSP)¹ makes no such commitment with respect to the cost estimates of in-house options at the RIT stage. It’s important therefore that RIT cost estimates take into account the likely costs of a project as far as possible in order that there can be a fair comparison between different options. This principle informs several of our comments on the detailed issues raised in the Paper.

¹ Noting that in Victoria, the RIT is carried out by AEMO rather than the incumbent TNSP

Implementing the Value of Emissions Reduction (VER)

ENGIE acknowledges the logic of incorporating an imputed value on the emissions reduction associated with a RIT proposal, noting that in most cases the emissions reduction is indirect, and results from an estimated change in the generation mix facilitated by the proposed project. Given this, there is value in modelling more than one scenario to obtain a plausible range for estimated emission reduction.

ENGIE does not support the idea of imputing a cost directly to fossil fuelled generation in modelling dispatch outcomes, given that is not how dispatch is carried out in practice. Rather, energy market modelling should be carried out as usual and then the emissions of the base case and the investment case(s) calculated from the results of the modelling. AEMO's emissions factors for existing generation are adequate for this purpose, and it should not be difficult to derive emissions factors for new plant from CSIRO's GenCost analysis (assuming this is the basis for the fuel and capital costs for new plant, too).

A practical approach to discounting the value of future emissions incurred or saved is to convert the emissions for each year of the model outputs into a dollar value using the relevant VER value (or taking the mean of the two calendar years included in a financial year where necessary) and then to use the same discount rate as for other costs and benefits. There is an argument in principle that emissions should be discounted at a very low rate; however, there is no widely accepted discount rate for this purpose.

Similarly, there are no standardised embedded emissions factors to apply to the resources required to construct different RIT options (or indeed new generation that may or may not result from the proposed object) and so it is simplest to ignore them for now.

Distribution level RITs (RIT-Ds) are less likely to result in changes in centralised dispatch, although they may lead to the displacement of grid electricity with distributed energy resources (DER). Where the evaluation of a RIT does not require market modelling, then a standard grid emissions factor in tCO₂e/MWh should be used for each year of the analysis. If AEMO does not currently produce future grid emissions factors as a matter of course, then it should be requested to do so as an adjunct to its forecast modelling, so that there is a standard third party source for this estimate. It's more challenging to estimate emissions factors for DER. While there may be cases where DER is assumed to be rooftop PV and a zero emission factor is appropriate, this may not always be clear-cut, for example if a project facilitates more use of distributed storage which may be charging from the grid at times. Accordingly, DER emissions factors should be considered on a case by case basis.

Accounting for social licence costs

ENGIE notes that obtaining social licence for large infrastructure projects has become more challenging and costly. We agree that a realistic estimate of the costs to obtain social licence should be included in RITs. This will largely be an issue for transmission RITs (RIT-Ts), but some major distribution projects may also need to account for such costs. The actual costs incurred in the case of successful projects is likely to be the best guide to future costs, subject to adjustment for inflation etc., and so there may be merit in some party (the AER or if not, the Energy Networks Association on behalf of its members) compiling a database of costs. Over time this will allow for analysis to understand in more detail the drivers of social licence costs.

Estimated payments to landholders should also be included even in cases where they are funded by governments rather than TNSPs, as these are a necessary cost of the project.

Ideally, a detailed breakdown of costs should be included in RIT documents so that they can be evaluated by stakeholders for reasonableness. However, ENGIE recognises that a high level of granularity could lead to a situation where for example a budget for a community fund that is yet to be agreed becomes the minimum expectation for that local community as the TNSP has revealed how much it is willing to spend on such a fund.

Given that social licence is a necessary hurdle that needs to be cleared before a project can proceed, a realistic estimate of the time required to obtain social licence should also be included in the modelling, as well as a scenario in which a material delay occurs due to the difficulties of obtaining social licence. However, ENGIE considers that the time taken to obtain social licence is not simply inversely correlated with the expenditure on social licence and so we would be sceptical of any assumptions that a project can be accelerated simply by spending more than usual on obtaining social licence.

Treatment of concessional finance

ENGIE agrees that concessional finance should only be taken into account in cases where the benefits of the concessional finance are explicitly going to be shared with consumers. To avoid the risk that the costs of a project are underestimated at the point of applying the RIT, it should also only be taken into account where a commitment to provide concessional finance has been made.

Should you have any queries in relation to this submission please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Jamie Lowe', is positioned below the text 'Yours sincerely,'.

Jamie Lowe

Head of Regulation,
Compliance, and Sustainability