



Part of Energy Queensland

3 June 2024

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

Dear Ms Jolly,

2024 Review of the cost benefit analysis and regulatory investment test guidelines

Ergon Energy Corporation Limited (Ergon Energy) and Energex Limited (Energex), both distribution network service providers (DNSPs) operating in Queensland, welcome the opportunity to provide a response to the Australian Energy Regulator's (AER) 2024 Review of the cost benefit analysis (CBA) and regulatory investment test (RIT) guidelines.

In its consultation, many of the questions posed by the AER do not apply to DNSPs, and therefore, we instead offer the following comments and responses:

- Whilst CBA and RITs play an integral part in transmission network service providers' (TNSPs) and DNSPs' investment planning, we believe the drivers and key considerations are sufficiently different between each party to justify separate (future) consultations.

This will allow for consultations and questions to be more targeted and in return, elicit more meaningful responses from each sector's participants.

For example, specific issues in the AER's consultation that did not lend itself well to DNSPs included:

- the preliminary AER guidance requires wholesale market modelling to be undertaken. However, wholesale market modelling is not often undertaken by DNSPs;
- the granularity of development areas for RIT-Ds has its own specifics, also from stakeholder engagement perspectives, compared with RIT-Ts and Integrated System Plan (ISP) related projects;
- the discussion on carbon budgets predominantly focussed on ISP modelling but it would be useful to understand the impact on RIT-Ds; and
- the discussion on social licence is focussed on RIT-Ts, despite DNSPs also needing to consider this in its (community) investment planning and the interaction with market benefits.

- Whilst we agree with the AER's efforts in trying to maintain consistency in the calculation of emissions across the NEM, we believe its calculation of the emissions reductions should incorporate approximate reductions that proposed investments may deliver to other sectors.

We therefore propose that other sectors' approximate emissions be included in the emissions benefit calculation, such that the formula would become:

Emissions benefit

= VER x (Base case emissions – Investment case emissions – Other Sector emission reductions)

An example of how a distribution investment could contribute to other sectors' decarbonising is the case of a project to augment a distribution feeder (e.g., reconductoring it with more capable, lower resistance conductors). The increase in capacity could, for example, allow more electric vehicle chargers to be connected and therefore reduce greenhouse gas emissions associated with the transport sector.

- With regards to modelling, it is critical that precise algorithms and adequate inputs are used to accurately model the wide-ranging scenarios and impacts in RIT planning.

An example is distributed energy resources which:

- for battery energy storage systems operating during maximum demand periods, reduce energy losses, peak load and emissions;
 - will have flow on impacts to other sectors (e.g., industry, agriculture, transport); and
 - contribute to the achievement of government renewable energy targets.
- We note that the inclusion of the value of emissions reduction (VER) as an input to fossil-fuel generators' costs is not in the AER's current proposed approach because it may not be reflective of reality since a VER is not a real cost faced by fossil-fuel generators. Furthermore, the AER contends that the VER may influence the merit order within the model that may not reflect the merit order that would eventuate.

However, the operation of fossil-fuelled generation by a DNSP is different to that of a dedicated NEM generator which typically has a suite of different generation options.

We support the VER being applied to RIT-D (as a benefit to alternative network options) in comparison to proponents' use of emissions-intensive solutions (such as a diesel generator that helps reduce a network constraint).

- With regards to concessional finance, it is important that this is explored and verified/ secured as early as possible so that the sharing of benefits with consumers can be included in the CBAs in RITs and used to support market benefits and proponents' social licence obligations.

This letter does not contain any confidential information and may be published.

Should the AER require additional information or wish to discuss any aspect of this submission, please contact either myself, or Lindsay Chin on 0459 642 052.

Yours sincerely

A handwritten signature in blue ink that reads "Alena Christmas".

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