12 June 2024
Ms Stephanie Jolly
Executive General Manager
Australian Energy Regulator

Lodged electronically via RITguidelines@aer.gov.au

Dear Ms Jolly,

Review of the cost benefit analysis guidelines and RIT application guidelines – consultation paper

Nexa Advisory is a full-service advisory firm, working with public and private clients including renewable energy developers, investors and climate impact philanthropists to help accelerate efforts towards a clean energy transition.

We welcome the opportunity to share our perspectives and insights on the review, given the relevance to recent reforms across transmission planning and financing, community engagement and emissions inclusion in the National Energy Objectives. The AER has a critical role to implement these reforms and help overcome the roadblocks in these areas, while enabling timely and efficient transmission buildout.

We welcome much needed reform and improvement to the regulatory processes which enable the critical network infrastructure required for our energy transition. However, we consider that the RIT remains far from optimal to efficiently deliver the major transmission required. As noted in the Consultation Paper:

The purpose of the Guidelines is to establish additional requirements, and provide further guidance, for AEMO and RIT proponents (network businesses) in relation to the application of this cost benefit analysis within the framework set out in the NER.

The AER must ensure the key guiding principles of any changes are timeliness and simplicity in the regulatory process. Where possible, it should consider where the RIT could be streamlined – rather than be further complicated by additional incremental requirements.

Value of emissions reduction

While the Ministerial Council on Energy (MCE) statement and interim guidance provided by the AER has addressed initial questions around the value and scope, the application of emissions benefits in the RIT and CBA is a critical step in modernising the regulatory process.

Of the AER's proposed approaches, we support the inclusion of the Value of Emissions Reduction (VER) at the cost-benefit analysis stage, rather than as an input to modelling – on the basis of being the most reflective of reality. The VER is a decision-making tool for market bodies to consider the impact emission benefits. It is not an explicit carbon price which would create a tangible incentive and impact planning, investment or operation.

Additionally, emissions outcomes are already a key output of market modelling undertaken across the industry, including in the ISP. When incorporating emissions benefits, the Guidelines should therefore refrain from changing existing methodologies to quantify emissions – but rather, focus on the valuation of these emissions (via the VER) within the cost-benefit assessment. This should be achieved in the simplest method possible.

We appreciate the complications surrounding the existing inclusion of carbon budget constraints of AEMO's Integrated System Plan (ISP) – and the potential for differences between this implied carbon value and VER. In addition to not accurately modelling short-run and long-run development realities, explicitly incorporating VER as an input to modelling would fundamentally alter the ISP's scenarios and methodology, without further improving outcomes or better addressing the NEO.

As such, calculating the emissions benefit at the assessment stage – as the difference between counterfactual and base case, multiplied by the VER – is the most accurate methodology, while balancing emissions reduction with the other National Energy Objectives.

Social licence

Building social licence remains a key issue of Australia's energy transition, as exemplified by the recent work undertaken by government, market bodies and industry[1]. This work is supporting better quality, more comprehensive engagement than what has been stipulated under the previous approach to the RIT-T. There is now a clear opportunity for the AER's assessment to support best practice through the assessment process.

There is a clear distinction between the roles of detailing the standard for community engagement and regulating this engagement through the assessment process to ensure standards have been met; the AER should focus on the latter. It is unnecessary

[1] Including: the Australian Energy Infrastructure Commissioner's Community Engagement Review; related work undertaken by the Australian Government Department of Climate Change, Energy, the Environment and Water – including the First Nation Clean Energy Strategy and Community Engagement and Benefit Sharing Guidelines; Energy Charter's Queensland Renewable Energy Code; and community engagement work being undertaken through jurisdictional schemes in Queensland, New South Wales and Victoria.

to establish additional requirements that are above and beyond what the Federal and State Governments are undertaking, as this is outside of the AER's remit.

The AER should focus on the first two topic areas identified in the Consultation Paper: the impact of social licence on identifying a credible option; and how to consider the associated net costs/benefits. To achieve this, the Guidelines must first outline the third topic area of consultation – community engagement expectations.

The Guidelines should ensure minimum standards of engagement are set (in line with other work completed to date, such as best practice guides), rather than prescribing specific activities or definitions around engagement and impacted stakeholders. They should also reference existing engagement guidelines, such as those outlined in Footnote 1.

Changes to the Guidelines should highlight the requirement for Transmission Network Service Providers (TNSPs) to have undertaken initial community engagement, as well as outline their approach to future engagement. This could be evidenced through the development of a Community Engagement Plan or similar engagement planning documentation to be submitted in the RIT application.

This requirement could be outlined in the Guidelines – similarly to how AEMO Services (ASL) provides guidance in the qualitative assessment process of the Capacity Investment Scheme (CIS) and Long-term Energy Service Agreement scheme. That is, the AER's Guidelines could be structured similarly to those in the CIS SA-VIC Tender Guidelines (Merit Criteria 4 – Community and First Nations engagement)[2], which provide high-level guidance on:

- what is assessed;
- what is required (and at what stage of the development process); and
- what we are looking for.

This engagement plan (or similar) would also enable TNSPs to make a self-assessment around the potential implications for credible options – with current sentiment of local stakeholders being the leading proxy indicator for whether lacking social licence may result in delays.

TNSPs are also best placed to outline potential impacts on costs/benefits. Nexa Advisory has recently explored the impacts of transmission delays[3], and are currently assessing how these are impacting wholesale costs and consumer bills. This type of analysis could support the assessment of costs and market benefits associated with delivery delays of credible options (where a 'no delay' scenario is based on the timeline of project development / engagement activities which should be included within the engagement plan suggested above). This would ultimately set the engagement

[2] Capacity Investment Scheme South Australia and Victoria Tender Guidelines, December 2023, p.17
[3] Nexa Advisory, We Plan and then Don't Build, June 2024

expectations for the TNSP and provide an objective delivery target / standard to be achieved.

Concessional finance

Nexa Advisory supports the recent work and subsequent AEMC rule change to allow the benefits of concessional finance to flow through to consumers. We support the AER's preliminary position around the treatment of concessional finance within the assessment process – namely, that financing which solely benefits the TNSP is excluded within cost/benefit assessment.

The AER should work with concessional finance providers (e.g., State or Federal Government Funding Bodies, Clean Energy Finance Corporation) to determine the most appropriate stage of commercial agreement/contracting at which this can be recognised.

The proponent may also have a view around the impact of concessional finance on the delivery and timing of a credible option. It may therefore be possible to make a preliminary assessment on whether a material change in circumstances were to occur if this financing did not eventuate.

Finally, the Guidelines should facilitate transparency around the overall benefits to credible options – and by extension, consumers - provided by concessional finance.

Early works Contingent Project Application

We support the current intention of the work being undertaken by the AEMC to enable early works and more efficient deliver ISP projects. In updating its Guidelines, it is critical for the AER to support transparency of the costs (including sunk costs) and associated outcomes of these works (current or expected). This is important for both the reporting and disclosure of the project, as well as for other TNSPs undertaking early works.

Concluding comments

As noted above, Nexa Advisory's recent work explored the delays between the date major ISP transmission projects are first identified, and the most current expected delivery date. This is driven by several roadblocks - including the lengthy RIT process – and results in higher wholesale prices and consumer bills.

It is critical that the AER is cognisant that continued incremental reforms - which add complexity to the RIT – contribute to these delays. As such, we reiterate the need for simplicity throughout the Guidelines and the broader RIT process.

Thank you for the opportunity to provide input on the Consultation Paper. We welcome the opportunity to further discuss any aspect of our submission. Please contact me if you need further information.

Yours Sincerely,

Stephanie Bashir,

CEO and Principal, Nexa Advisory