Review of the cost benefit analysis guidelines and RIT application guidelines

Draft amendments – explanatory statement

August 2024

AUSTRALIAN ENERGY REGULATOR

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Email: aerinquiry@aer.gov.au
Tel: 1300 585 165

AER reference: AER23006981

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Summary

This explanatory statement sets out our reasons for the draft amendments that we have made to the Cost Benefit Analysis (CBA) and Regulatory Investment Test (RIT) application Guidelines, taking into account stakeholder submissions we received in response to our consultation paper that was published in April 2024, as well as feedback heard at our stakeholder forums held in May and June 2024. [1]

The Australian Energy Market Operator (AEMO) uses a cost benefit analysis in developing the Integrated System Plan (ISP) in its national planning function for the National Electricity Market (NEM). The objective of the ISP is to identify the optimal development of the national electricity market to facilitate the coordination of network, generation and storage investment to meet projected demand. Network businesses and AEMO (for Victoria), as jurisdictional planners, must also conduct a cost benefit test to identify the most efficient way to deliver specific projects before building electricity network infrastructure.

AEMO and network businesses, in carrying out their respective functions, follow guidance we prepare on matters including analysis and consultation. We are also responsible for compliance and enforcement in respect of the legally binding elements of the Guidelines.

The energy transition and recent changes in community awareness and support for network infrastructure projects have resulted in a need to update network regulation processes, including these Guidelines. This is related to a large amount of work that is being conducted by jurisdictions, market bodies and market entities to facilitate the timely investment in the NEM to support the energy transition.

The amended Guidelines include:

- definitions to include changes in emissions as a class of market benefit
- guidance on using value of emissions reduction as a modelling input
- guidance on the scope of emissions when valuing changes in emissions
- guidance on how community engagement should inform option selection
- guidance on how community engagement should be reported in the RIT
- guidance on the treatment of concessional finance in the RIT
- guidance on the timing of a feedback loop request
- guidance on the treatment of early works costs in the RIT
- administrative changes to other sections of the guidelines.

[1] AER, *Consultation Paper – review of the cost benefit analysis and RIT application guidelines*, 24 April 2024.

1 Background

1.1 The AER's network planning guidelines

Our Guidelines set out the cost-benefit tests that network businesses (RIT proponents) must undertake before building electricity network infrastructure. The purpose of the tests is to assess options that could address an identified need in the electricity network, and then identify the credible option that maximises the net economic benefits in the National Electricity Market (NEM).

In accordance with the National Electricity Rules (NER), we are responsible for publishing the Regulatory Investment Test – Transmission (RIT-T) and Regulatory Investment Test - Distribution (RIT-D) guidelines. The guidelines set out:[2]

- the purpose of RITs
- which projects are subject to RITs
- the cost benefit assessment required as part of a RIT, including guidance on the selection of reasonable scenarios, selection of credible options and the preferred option, and treatment of uncertainty risks and externalities
- the process to follow in applying the RITs including stakeholder consultation steps
- the process for reapplying a RIT following a material change in circumstances
- calculating different classes of market benefits, using worked examples – this includes benefits associated with voluntary load curtailment, involuntary load shedding, costs to other parties, timing of expenditure, option value and energy losses
- the dispute resolution process – this includes guidance on the requirements and procedure for making a RIT dispute, along with guidance on what we take into account in making a determination.

We also provide guidance to the Australian Energy Market Operator (AEMO) on how to undertake cost-benefit assessments for new transmission investments considered in its ISPs, and to network businesses on how to undertake cost-benefit assessments for actionable ISP projects. This guidance is provided in our CBA guideline.

1.2 Scope of this review

This review considers changes to the Guidelines that are:

- relevant to valuing emissions reduction in the Integrated System Plan (ISP) and RIT as a class of market benefit.[3]
- required by recent or planned changes to the National Electricity Rules (NER), including:

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2 AER, *RIT–T application guidelines, September 2017; AER, RIT–D application guidelines*, September 2017.

3 AEMC, National Electricity Amendment (Harmonising the national energy rules with the updated national energy objectives) Rule 2024 No. 1, 1 February 2024.

  - enhanced community engagement by RIT-T proponents.[4]
  - treatment of concessional finance benefits.[5]
  - guidance on the treatment of costs for early works that are undertaken concurrently with a RIT-T for an actionable ISP project.[6]
  - guidance on the timing and basis for ISP feedback loop assessments by AEMO in relation to final RIT-Ts for actionable ISP projects.[7]
- changes or matters raised in the AER's Directions Paper on Social Licence for Electricity Transmission Projects, clarifying how social licence issues can be considered in the regulatory investment test for transmission (RIT-T).[8] This includes:
  - how this may affect the identification of credible options.
  - how this relates to the classes of costs and benefits and the feasibility of options.
  - effective community engagement by RIT-T proponents.

The Guideline Review only considers the effect of those requirements and matters identified above on the ISP and RITs, with any other effects being outside the scope of the review. 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.

1.3 Consultation process and next steps

The final guidelines and this final decision along with the explanatory statement incorporate feedback from the written submissions we received in response to our draft amendments. A summary of the issues raised in these submissions can be found in Appendix A.

Table 1 sets out the next steps for this review before publication of the final guideline amendments in November 2024.

Table 1 Indicative dates for the guideline review process

Process step	Expected date
Draft guidelines published	9 August 2024
Virtual public forums	August 2024
Submissions close	20 September 2024
Final guidelines published	November 2024

4 AEMC, National Electricity Amendment (Enhancing community engagement in transmission building) Rule 2023 No. 5, 9 Nov 2023.

5 AEMC, National Electricity Amendment (Sharing concessional finance benefits with consumers) Rule 2024 No. 7, 21 March 2024.

6 AEMC, Bringing forward early works to improve transmission planning draft determination, May 2024.

7 AEMC, National Electricity Amendment (Improving the workability of the feedback loop) Rule 2024 No. 4, 7 March 2024.

8 AER, Directions paper - Social licence for electricity transmission projects, October 2023.

1.4 Invitation for submissions

The subjects covered by the review are each individually important, and we invite stakeholders to engage with the subjects individually (if desired) as well as providing feedback on questions identified for consultation.

Submissions will be accepted until **20 September 2024**. The AER will also run public forums by theme in August 2024, with registration via the AER website.

We prefer stakeholders send submissions electronically to: RITguidelines@aer.gov.au

Alternatively, stakeholders can mail submissions to:

Ms Stephanie Jolly
Executive General Manager
Australian Energy Regulator
PO Box 12241
George Street Post Shop
BRISBANE QLD 4003

We prefer all submissions be publicly available to facilitate an informed and transparent consultation process. We will therefore treat submissions as public documents unless otherwise requested.

We request parties wishing to submit confidential information to:

- clearly identify the information that is subject of the confidentiality claim, and reasons for the confidentiality claim.
- provide a non-confidential version of the submission, in addition to a confidential one.

We will place all non-confidential submissions on our website at www.aer.gov.au. For further information regarding our use and disclosure of information provided to us, see the ACCC/AER Information Policy, June 2014 available on our website.

Please direct enquiries about this paper to RITguidelines@aer.gov.au

We look forward to engaging with all stakeholders on these important updates to our Guidelines to support the energy transition and prepare the future of network regulation.

2 Changes in emissions as a market benefit

This section provides our reasons for making amendments to include changes in emissions as a market benefit in the ISP and RIT.

In order to be readable as an accompanying document to the guideline amendments, the structure of this section reflects the structure of the guidelines. It first addresses changes to definitions and inputs before discussing the amendments to the method for estimating market benefits. Given this structure, we have included comments from stakeholders into the discussion. The stakeholder submissions are further summarised in Appendix A.

2.1 Requirement to update the guidelines

The NER requires system planning and investment decisions to be made using a cost-benefit test to ensure that investments serve the National Electricity Objective (NEO).

Energy Ministers reformed the National Energy Laws to introduce an emissions reduction element into the national energy objectives. These changes took effect in late 2023.[9]

The NEO now requires AEMO and RIT proponents (RIT-T and RIT-D) to consider changes in Australia's greenhouse gas emissions in the ISP and RIT, respectively. In the NER, the description of "net economic benefit" has been updated so that in addition to benefits to participants in the NEM, it also includes benefits from a change in greenhouse gas emissions whether or not those benefits are to NEM participants.[10]

To consider changes in greenhouse gas emissions in the cost-benefit test, it is necessary to quantify the economic benefit of emissions reduction. On 28 February 2024, Australia's Energy Ministers, collectively known as the MCE, agreed to a method to derive the interim value of greenhouse gas emissions reduction (VER) to be used in considering or applying the national energy objectives[11].

On 22 May 2024 we issued AER guidance on valuing emissions reduction, as contemplated in the amendments to the national electricity laws.[12] This guidance binds the AER and RIT proponents to the method of calculating the VER.[13] The VER is in dollars per tonne of avoided greenhouse gas emissions. On 19 July 2024 Energy Ministers agreed to extend the

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9 Energy and Climate Change Ministerial Council, Energy Ministers Sub-Group meeting communique, May 2023.

10 AEMC, National Electricity Amendment (Harmonising the national energy rules with the updated national energy objectives) Rule 2024 No. 1, 1 February 2024.

11 AEMC, MCE statement about the interim value of greenhouse gas emissions reduction, 28 February 2024.

12 AER, Valuing emissions reduction - Final guidance and explanatory statement, 22 May 2024

13 The guidance that we have issued so far on the application of the amended objective does not mean we have finalised our position for the purposes of the CBA and the RIT application guideline updates. Should the method for estimating emissions reduction benefits in the already issued guidance be inconsistent with the updated CBA, RIT-T and RIT-D application guidelines, we will update that guidance to maintain consistency.

interim VER to 30 June 2026, and issued an amended statement.[14] As the only change was to the dates of expiry and issuance, and our guidance does not rely on these dates, the AER published the amended statement without updating our guidance.

2.2 Changes to definitions

The updated definition of 'net economic benefit', and the inclusion of changes in Australia's greenhouse gas emissions as a market benefit for the ISP and in the RIT-T and RIT-D, make it necessary to update each of the guideline documents.

Therefore, changes were made in each of the guidelines for alignment with the NER. These changes were required by the rule change that updated the NER to match the updated NEO. Stakeholders have not made any comments on these changes at the consultation paper phase but are invited to raise any comments they may have through submissions on the draft amendments.

2.3 Selecting inputs

2.3.1 The Value of Emissions Reduction

Through this review we are providing guidance on how to include a benefit from changes in Australia's greenhouse gas emissions in the cost benefit analysis for the ISP, and the cost benefit test for transmission and distribution investments.

The draft guideline amendments to each of the CBA guideline, RIT-T application guideline and RIT-D application guideline include the VER as an input to the analysis. In May 2024, we published guidance which binds RIT proponents to use the method contained in the MCE statement to derive a VER. Given RIT proponents are bound by this guidance, the VER must be adopted as a measure of the cost of emissions for the purpose of calculating the benefit from changes in emissions. We have amended the guidelines to reflect this requirement. Additionally, to maintain consistency between the ISP and RITs, we have extended the requirement upon AEMO within the CBA guidelines to use the VER consistent with that guidance.

Changes in Australia's greenhouse gas emissions are a class of market benefit for the purposes of the ISP and RIT. AEMO and RIT proponents must calculate this class of benefit (unless these benefits are not material) in assessing the investment option that maximises the net economic benefit to meet the identified need. This assessment compares states of the world with and without each investment option, in each defined scenario.

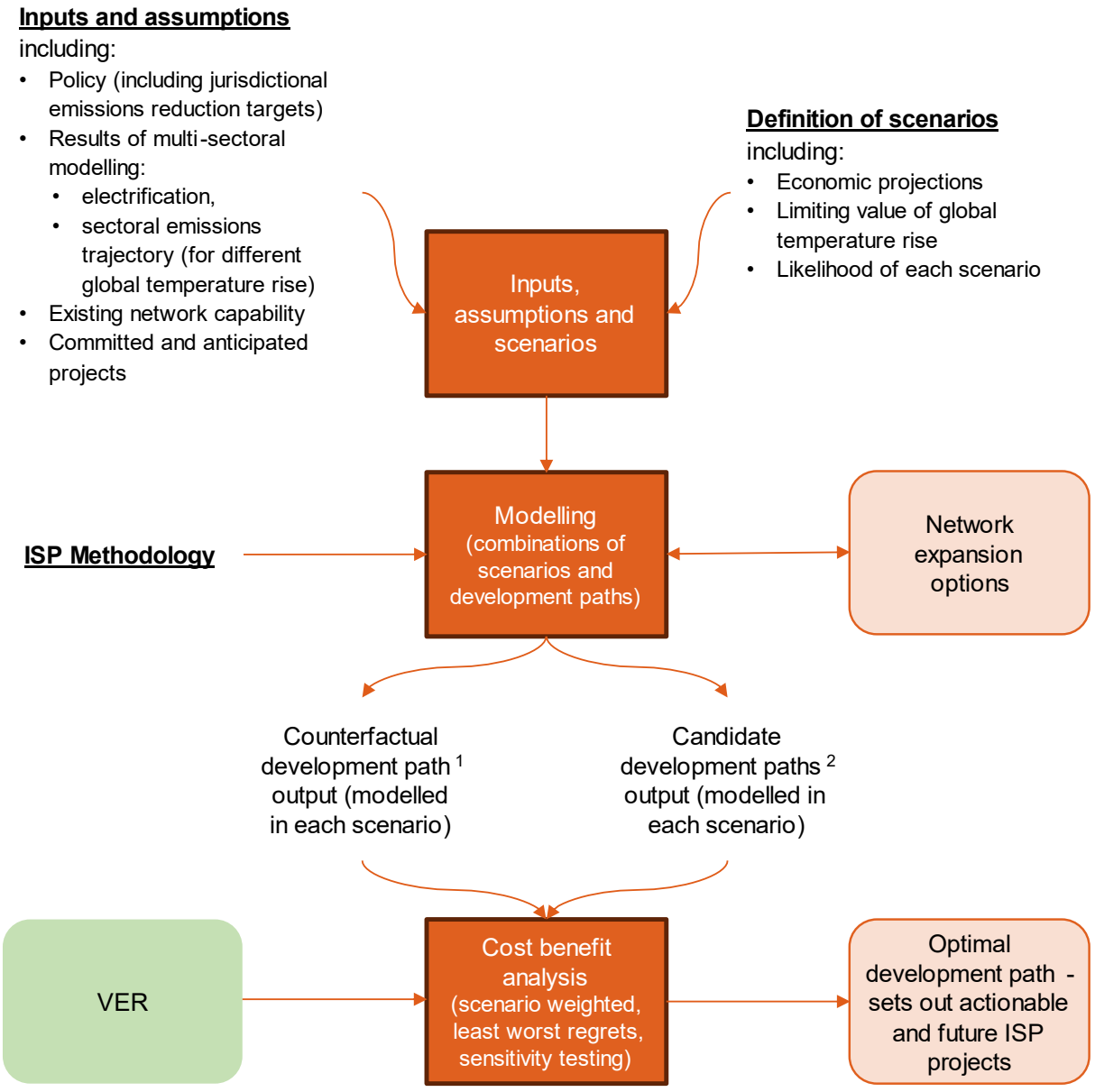
Our consultation paper also considered the option of including the VER as an input to market development modelling in addition to using it in the calculation of net benefits for the purpose of ranking the candidate options. However, our view is that including the VER in market modelling would narrow the ability to explore options and would not represent a real driver of dispatch in the NEM.

[14] AER, MCE statement about the interim value of greenhouse gas emissions reduction, 19 July 2024

Stakeholders generally agreed that including the VER as a cost on generators within the market modelling would lead to unrealistic dispatch outcomes since it is not a real cost faced by generators.[15]

Figure 1 shows where in the process the VER should be used as an input. The diagram shows the ISP process, and the VER would be used in a similar place in the RIT processes as an input to the estimation of market benefits.

Figure 1 The VER is an input to the cost benefit analysis or test (ISP process shown, similar for a RIT)



Note 1: The counterfactual development path models only existing committed or anticipated network investments

15 AEMO, ENA, Transgrid, Ausgrid, ENGIE, NEXA, submissions to 2024 review of the CBA and RIT guidelines consultation paper, June 2024.

Note 2: A candidate development path models a set of network investments. Timing of investments may vary across the scenarios.

2.3.2 Discount rates

After careful consideration, we have decided not to amend the guidelines to allow using a different rate for discounting benefits from changes in emissions. We note that there is an expectation in the CBA guidelines and RIT guidelines that AEMO and RIT proponents conduct sensitivity analysis on the discount rate, and they may choose to select a different sensitivity range to investigate the effects of using a higher or lower discount rate for the market benefit from changes in emissions.

Stakeholder submissions, as well as feedback from jurisdictions and the other market bodies support maintaining a single rate which is related to the cost of capital, or is a commercial rate, with a lower bound of the regulated rate.[16] Some submissions highlighted a potential benefit from applying a low or no discount rate when discounting changes in emissions benefits as a way of providing a continuous incentive to reduce emissions over the assessment period.[17]

Since at least 2007 the discount rate for climate change policy modelling has been an area of international interest, with some suggesting a social discount rate which is lower than the market discount rate. A lower discount rate would place more importance in decision making on achieving emissions reductions over the life of the project, while a higher discount rate would promote options that result in earlier emissions reductions over those which achieve reductions later in their life cycle.

The Stern Review used a rate of 1.4% but was criticised for doing so because it does not ground the consumption discount rate in observed or expected interest rates nor in estimates of the opportunity cost of capital.[18] The Garnaut review used a rate closer to 4%, and Treasury used real rates of 4–8% in modelling the Carbon Pollution Reduction Scheme.[19]

The VER is an estimate of the marginal cost of carbon abatement that is consistent with national emissions targets in each year. It represents the additional cost of carbon abatement that emissions from a project impose elsewhere in the national economy to stay within the annual emissions budget. As the VER is a value that has effect in the same year as the corresponding emissions, our view is that the VER should be discounted in the same way as other project costs and benefits.

The discount rate in the ISP is required to be appropriate for the analysis of private enterprise investment in the electricity sector across the National Electricity Market (NEM), and is required to be consistent with the cash flows that the ISP is discounting. The 2024 ISP uses a rate of 7% with a sensitivity of 3–10.5%.[20]

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16 AEMO, ENGIE, submissions to 2024 review of the CBA and RIT guidelines consultation paper, June 2024.

17 Transgrid, ENA submissions to 2024 review of the CBA and RIT guidelines consultation paper, June 2024.

18 Stern, N., The Economics of Climate Change: the Stern Review, 2007.

19 Garnaut, R., The Garnaut Climate Change Review: Final Report, 2008; Australian Treasury, Australia's Low Pollution Future - The Economics of Climate Change Mitigation, 2009.

20 AEMO, 2024 Integrated System Plan, June 2024.

RIT proponents are required to use the discount rate from the most recent Inputs, Assumptions and Scenarios Report (IASR) unless they provide demonstrable reasons why a variation is necessary, and in that case must still use a commercial discount rate that is appropriate for the analysis of a private enterprise investment in the electricity sector and consistent with the cash flows being discounted.

2.3.3 Additional inputs

Our consultation paper asked stakeholders how data should be sourced to support the calculation of emissions reduction, including any additional material factors.

The guidelines specify a principles-based approach to the selection of data, with additional requirements for the Value of Customer Reliability, the discount rate and the VER. This principles-based approach allows AEMO and RIT proponents flexibility to select new or updated sources of data as industry standards and policy settings change. It also places the onus on AEMO and RIT proponents to defend their choices through their own consultation processes, and enables the AER to focus our regulatory oversight and dispute resolution role on the quality of process and analytical justification used by proponents rather than critiquing individual inputs. RIT proponents are required to adopt the inputs and assumptions from the IASR and defend their choices of inputs only where it deviates from or adds to those in the IASR.

Energy Networks Australia (ENA) and Transgrid expressed a preference for the guidelines to be flexible and non-binding to reflect evolving practice and data sets. Additionally, they considered that it would be preferred if the guidelines require a reputable external data source for the ISP which could then be adopted by NSPs when applying the RIT.[21]

Transgrid also submitted that, where RITs consider emissions at a greater level of granularity than the ISP, RIT proponents should be able to use wider data sets.

Stakeholders were supportive of using Clean Energy Regulator data (the current source from the 2024 ISP) for generator emissions intensity factors.[22] However, ENGIE noted that CSIRO's GenCost analysis could also be used for new plant.[23] We consider that the current guidance in the CBA guidelines provides an appropriate balance between flexibility to adopt up-to-date data sources (as preferred by submissions) and onus on AEMO to defend its selection of inputs. The RIT guidelines also provide flexibility to adopt different assumptions than the IASR where the RIT proponent can provide demonstrable reasons why a variation is necessary. Therefore, we view this guidance as adequate to cover situations where RIT proponents require more granular data than is included in the IASR.

We have included the use of some data used in estimating the market benefit in the worked examples. This includes using the VER and converting emissions of greenhouse gases to carbon dioxide equivalent.

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21 ENA, Transgrid, submissions to 2024 review of the CBA and RIT guidelines consultation paper, June 2024.

22 ENA, Energy Australia, ENGIE, submissions to 2024 review of the CBA and RIT guidelines consultation paper, June 2024.

23 CSIRO, GenCost 2023–24 Final Report, May 2024.

2.4 Estimating the market benefit

To calculate the benefit of emissions reduction, the annual values of emissions reduction (the VER) are multiplied by the quantity of emissions reduction in each year in the cost-benefit test. Annual emissions reduction benefits would then be discounted and included in the calculation of net market benefit for each investment option (for a RIT) or each candidate development path (for the ISP).

Stakeholders sought flexibility on how calculations are undertaken rather than specifying the details in the interest of retaining flexibility to remain compatible with new and improved methodologies and best practice strategies. We consider that since the binding requirements introduced in the draft amendments are limited to the use of the VER and the nomination of limited scopes of emissions that must be considered, proponents have enough flexibility to adapt their approach to the specific projects they are assessing.

Further, stakeholder submissions expressed a desire for worked examples given this is an evolving area and requires flexibility and agility.[24] We have proposed some worked examples in the draft amendments, and invite stakeholder comments.

2.4.1 Flexibility to conduct modelling

In our consultation paper we relied on the concept that market development modelling would provide an estimate of emissions in each state of the world. However, some stakeholders submitted that wholesale market modelling is not practical for application on many RIT-D and asset replacement projects, as it is not normally undertaken and the effort would be disproportionate to the benefit. It is not our intention to impose additional requirements on the method of deriving the states of the world, given that there are differing requirements between the guidelines and market modelling is not required in every situation. However, proponents will need to estimate the changes in emissions for each state of the world with respect to the base case in order to calculate the benefit from changes in Australia's greenhouse gas emissions.

2.4.2 Scopes of emissions

Our draft amendments require AEMO and RIT proponents to consider direct emissions in the NEM (from generation and network infrastructure) in the cost benefit analysis for the RIT and ISP. Indirect emissions may also be considered where material and relevant.

Scopes of emission are an analytical structure in which we consider greenhouse gas emissions with respect to a project or operation. We draw lines at useful boundaries based on where and in what capacity greenhouse gases are emitted, and how those emissions relate to the project or operation under consideration. This may be for example within/without a geographical or operational boundary.

The NER specify that the market benefit of emissions reductions relates to changes in Australia's greenhouse gas emissions. That is to say, the changes in emissions are not limited to the NEM, and are not limited to direct emissions from generation. The net

[24] ENA, submissions to 2024 review of the CBA and RIT guidelines consultation paper, June 2024.

economic benefit is also not limited to those who produce, consume or transport electricity, to the extent that the benefit is from a change in emissions.

This definition leads us to consider changes in emissions that are a result of the investment under consideration, but that may be outside the NEM.

The consultation paper asked stakeholders for input on how and whether we should consider scopes of emissions other than from generation. Stakeholders have provided clarification of the different scopes of emissions that we are considering, both in the public forum and in submissions. It was noted that a standard approach to defining the different scopes of emissions is of limited helpfulness in the RIT because those scopes would only explain the difference between indirect and direct emissions. Here we describe the different scopes of emissions that have been identified specifically in the context of the RIT.

While the scope of the market benefit for changes in emissions is Australia, the method for cost-benefit analysis in the guidelines generally considers a modelling boundary of the NEM. It is also useful to consider the boundary of the project when estimating changes in emissions. We note the difference between direct emissions from NEM assets and indirect emissions (that occur in other parts of the supply chain).

For the purposes of our analysis we identified and considered several scopes of emissions:

1. Direct emissions from generation in the NEM

   These are the process emissions that result from generation to produce electricity to load, at the emissions intensities for each different technology or unit.

2. Direct emissions in the NEM other than from generation

   These are emission that are incurred for the operation of NEM assets, for example sulphur hexafluoride for the insulation of switchgear in operation. Given its global warming potential 23,500 times that of carbon dioxide, and its use in aging technology, SF6 will be material in some asset replacement and RIT-D projects. We note that the published VER is for carbon dioxide equivalent.

3. (Indirect) fugitive emissions from the extraction and transport of fuel

   The emissions from mining coal or extracting and transporting gas in a pipeline may be material, and may be accounted for through the selection of an emissions intensity factor for the fuel user that includes these emissions.

4. (Indirect) embodied emissions in construction materials for the project

   Greenhouse gases are emitted in the production of construction materials. For infrastructure this notably includes concrete and steel. Some resources exist to simplify the estimation of these emissions, for example the Clean Energy Regulator maintains a list of lifecycle emissions for different products, and Infrastructure Australia, Infrastructure NSW and others publish lists of carbon dioxide equivalent measurements for various infrastructure projects. This includes default values and assumptions for emission from transporting materials and the carbon cost of material in its full life from construction to decommissioning. This may help proponents estimate ‘whole of life’ emissions without needing to undertake full analysis on emissions factors.

5. (Indirect) embodied emissions in assets outside the project

   There are also embodied emissions in assets outside the project that may change as a result of the project, for instance if a wind farm were constructed only if the project goes ahead.

6. Emissions associated with losses

   Where losses are higher in a system, the emissions intensity at the load point is higher than at the generator. When modelling is conducted with the boundary set as the NEM, the losses are already included in the analysis because all generated electricity is included regardless of losses. If a smaller boundary were used, then losses would need to be factored into the calculation of emissions from the system.

7. Emissions in other sectors that change as a direct result of the project

   Sometimes, the construction of a project may result in changes in the use of electricity, which can result in changes in greenhouse gas emissions. For example, a distribution network may be augmented to provide capacity for an aluminium recycling plant to electrify its furnaces or increase capacity. The resulting change in greenhouse gas emissions would be partially attributable to the network investment decision.

Our position on scopes of emissions for the RIT

In the draft amendments we have identified two scopes that must be considered in each RIT, on the basis of materiality and relevance. This position is informed by submissions, input from jurisdictions and alignment with approaches of other Australian authorities. These scopes also correspond to mandatory disclosure and reporting requirements, and businesses have good knowledge of how these should be estimated.

We have put in a requirement that AEMO and RIT proponents must consider the following scopes unless they can demonstrate that they are either not relevant or not material:

- direct emissions from generation
- direct emissions other than from generation.

The direct emissions from generation are the most material scope of emissions in the electricity sector. These are the emissions that are typically modelled through market modelling, as outlined in the 2023 ISP methodology. As fossil fuels are replaced by renewable generation in the NEM, direct emissions from generation may no longer be the most material scope of emissions.

Stakeholder submissions, both on this guideline review and on previous consultation processes, noted that in particular SF_6 emissions should be considered material and relevant to many RIT assessments. Those submissions suggested that the draft amendments should be specific about the treatment of SF_6 emissions. We have done this by making the consideration of these emissions a requirement, and by providing examples that nominate SF_6 emissions as relevant to the market benefit.

While the above scopes of direct emissions are the only scopes we are making it a requirement to consider, we encourage AEMO and businesses to include any other scopes that are material and relevant.

However, we make the following qualifications to considering other scopes:

- Embodied emissions should be assumed to be Australian emissions, consistent with treatment by Infrastructure Australia and NSW Treasury. NSW treasury guidance is that; ‘In practice, the origin of construction materials will generally be unknown at the time of the CBA. To ensure consistent practices, all CBAs are therefore required to make a

technical assumption to include emissions arising from the use of construction materials (known as embodied emissions) regardless of where the materials are produced.'[25]

- When including emissions changes in other sectors, the changes in emissions must:
  - be the direct result of the project, and
  - should only be included to the degree that those emissions reductions are the sole result of the project (through allocation to multiple investment decisions), and
  - be estimated using a reasonable approach and data that meets the principles set out in the inputs chapter.

Regarding emissions from other sectors, stakeholders noted that there are some double counting risks. The question is whether the benefit can be allocated to concurrent changes in the production, transmission, distribution or use of the electricity. There must be clarity where in the energy value chain the emissions reduction is accounted for to avoid double counting. We consider that by adopting the above qualifications, the risk of double counting is mitigated as long as the benefit is correctly apportioned to the project.

2.4.3 Interaction with emissions modelling methods

In deciding how the benefit of emissions reduction is calculated and used in the cost-benefit tests, we also considered how using the VER as proposed interacts with the other methodologies in place. Currently, only the ISP has a published methodology for considering emissions in modelling network planning and investment.

In the ISP, the market modelling methodology and scenario definition includes carbon budgets which are used at both a state level and a NEM-wide level. These budgets are guided by current policies[26] and, for the NEM-wide carbon budget, multi-sectoral modelling undertaken by CSIRO. The NEM-wide carbon budgets are used as a proxy for different paces of decarbonisation,[27] and are a main source of differentiation between possible future scenarios.

In the ISP methodology, carbon budgets are set for periods between key milestone years as the cumulative emissions of a linear trajectory between the two milestones. The carbon budgets effectively constrain the development and utilisation of fossil-fuel generation, by simulating an additional cost for generators based on their emissions.

The use of NEM wide carbon budgets is based on inputs that remain valid for each ISP scenario. It is a way of modelling the electricity sector while limiting global temperature rise as defined in the scenario. Without including a carbon budget there may be less of a spread of emission trajectories across the scenarios which would diminish the ability to capture

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25 NSW Treasury, TPG23-08 NSW Government Guide to Cost-Benefit Analysis, February 2023.

26 According to NER 5.22.3, when determining how the ISP would contribute to achieving the NEO, AEMO must consider the emissions reduction targets stated in the targets statement (published by AEMC). AEMO may also consider a current emissions reduction target which is not set out in the target statement. This includes jurisdictional policies which are sufficiently developed to enable AEMO to identify the power system impacts and where certain criteria are met (as specified under 5.22.3(b)(2).

27 It is assumed that policy measures would be taken in the future to ensure jurisdictional targets are met and to enable the paces of decarbonisation required by the scenarios.

uncertainty when mapping the possible different future states of the world. As such, we consider the use of carbon budgets enriches the analysis.

The Justice and Equity Centre (JEC, formerly known as the Public Interest Advocacy Centre) suggested the VER should only be used in RITs not part of the ISP given there is a dynamic value of emissions reduction (implied through multiple carbon budgets) which is dependent on a complex set of variables. We acknowledge the complexity of using one VER for different scenarios and remaining target consistent, however we consider our guidance allowing AEMO to adopt carbon budgets adequately retains the characteristics of each scenario.

The Centre for Independent Studies (CIS) submitted that carbon budgets and a VER should not both be adopted since the VER has no substantive effect when a carbon budget restricts carbon emissions in both the CDPs and the counterfactual development path. We consider that the use of a carbon budget does not conflict with valuing emissions differences using the VER. We understand that in some cases there may be limited additional benefits from reducing emissions beyond the benefits that are implicitly included through adoption of a carbon budget (i.e. the benefits that a project provides in meeting the carbon budget at lower system costs).

3 Social licence

In general, we consider that social licence refers to the level of acceptance of an organisation and its activities by a community.

Social licence is linked to general awareness and acceptance of a project within a community and is directly linked to a project's credibility. Successful project proponents have clear strategies and programs to form good relationships and acknowledge these are built over time.

Chapter 3 is separated into three sections relation to social licence: credible options, community engagement and costs and benefits. Each section introduces the matter that our draft amendments to the CBA and RIT guidelines intend to address, presents views expressed by stakeholders, and presents a proposed position that has been informed by stakeholder views.

3.1 Credible option

A credible option is an option (or group of options) that:[28]

1. addresses the identified need
2. is (or are) commercially and technically feasible
3. can be implemented in sufficient time to meet the identified need

and is (or are) identified as a credible option in accordance with clause 5.12.2 of the NER.

In our consultation paper, in identifying a credible option, we stated that that a RIT-T proponent should establish how social licence issues have been considered to meet each of these criteria.

Submissions supported the inclusion of social licence considerations to inform whether an option is credible having regard to the criteria in the rules. However, stakeholder feedback also expressed the view that community opposition should not be determinative as to whether an identified option is credible on the basis that social licence is built over time.

The ENA also submitted that in determining whether a project is likely to be delayed or not proceed, the AER should highlight that qualitative and quantitative information is important. The ENA further submitted that the guidelines could provide examples of the factors that could be considered, such as desktop analysis of the deliverability of options based on social, environmental and cultural heritage factors.[29]

Some stakeholders identified that the expected changes to early works will allow RIT proponents to engage meaningfully with local communities in the early stages of project design, including option identification.

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28 NER cl. 5.12.2 (s).

29 ENA, submissions to 2024 review of the CBA and RIT guidelines consultation paper, June 2024, p. 9.

Draft amendments

Taking into account stakeholder feedback, our position on social license and the identification of credible options is that:

- As social licence is something that is built over time, a RIT proponent would not be expected to rule out an option as non-credible due to low community support during early stages of the project
- The identification of credible options should be informed by any early community engagement,[30] for example during preparatory works, and
- The delivery timeline of any option would be informed by an appreciation of the extent of support and opposition in the community. If the most likely timeline (assuming social licence activities are able to improve community acceptance) would not deliver in time to meet the system need then an option may not be credible on that basis.

The consultation paper proposed the expectation that a proponent will establish how social licence issues have been considered in their assessment of whether an option is credible or not. We consider that the current planning framework is flexible enough to account for social licence considerations. However, Stakeholders raised concerns about the expectation of 'achieving social licence' to make an option credible in the context of unknown requirements and expectations. Our amendments propose an approach tailored to the circumstances of a project with expectations around early engagement with the community to inform the identification of a credible option as discussed below.

Through conducting early engagement, a RIT proponent may identify that meeting their community engagement expectations may impact the delivery date of a credible option. For example, if a particular option faces significant community concern, that may result in a later delivery date than other options. A later delivery date may impact the net present value of benefits.

Where there is evidence from early community engagement that the implementation of an option is likely to be subject to significant community opposition such that the costs are likely to be significantly higher to address community concerns than other options for similar benefits or lower benefits, this option may not be economically or technically feasible and so not a credible option.

In some cases, a RIT proponent may also identify minor adjustments (e.g., minor design specification changes) that improve the community support for an option, and consequently bring forward the delivery date.

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30 These stakeholders contain local landowners, local council, local community members, local environmental groups and traditional owners. This list is consistent with the updated definition of interested parties in the NER, but is not intended to be an exhaustive list.

3.2 Community engagement

The Australian Energy Market Commission (AEMC) rule change on community engagement requires RIT proponents to engage with stakeholders who are reasonably expected to be affected by the development of an actionable ISP project.[31]

Our consultation paper did not propose preliminary positions about how engagement should be approached by proponents of actionable or non-actionable RITs, however sought views from stakeholders on a range of topics. Most stakeholders emphasized the need for clarity, early engagement, identification of impacted stakeholders, and transparent reporting on how feedback is addressed.

Stakeholders held mixed views on whether the guidance should be principles-based or prescriptive. Some stakeholders raised that there are already a number of guidelines in development to inform best practice, while others raised that principles-based approaches will improve flexibility and encourage engagement beyond meeting the bare minimum.

Along with the submissions, most stakeholders who attended public forums stressed the importance of early and meaningful engagement with stakeholders to build trust and ensure their views are considered throughout the project lifecycle. However, some stakeholders expressed concern that less apparent stakeholders might not be identified through the RIT process, and others emphasized that a transparent engagement process will allow trust to be built and ensure relevant voices are identified and heard through community networks.

Stakeholders have raised concerns about the expected scale of community involvement necessary for projects of differing sizes.[32] As below, we expect proponents to identify the key stakeholders for a project, having regard to the likely impact on the community. The level of expected engagement may depend on community interest and the impact of the project. Projects to replace existing parts of the network or minor augmentation projects therefore may require lesser engagement, when compared to large RIT projects.

Early engagement with stakeholders was a key area of feedback in submissions. To address this, our draft amendments provide guidance on the timing of a stakeholder engagement plan to clarify the timeliness of the community engagement requirements. This engagement should follow on from any engagement undertaken by AEMO in developing the ISP.

We believe that the level of engagement necessary to consider social licence implications for credible options should also be consistent with the complexity and potential controversy of the project. We agree with the positions expressed by Energy Users Association of Australia (EUAA), Transgrid and the Australian Renewable Energy Alliance (RE-Alliance) that projects may face delays if social licence issues are not adequately identified and the position of ENA that the level of engagement should be commensurate with the size of and community interest in the project. As an example, an asset replacement investment or upgrade may not require the same level of consultation as a novel and actionable ISP project.

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31 AEMC, National Electricity Amendment (Sharing concessional finance benefits with consumers) Rule 2024 No. 7, 21 March 2024.

32 ENA, submissions to 2024 review of the CBA and RIT guidelines consultation paper, June 2024, p. 9.

The stakeholder engagement plan is a method that proponents of actionable ISP projects must use and is optional in the engagement strategy of non-actionable RIT-T and RIT-D. Most stakeholders supported the use of a stakeholder engagement plan, while some raised that it should not be a binding requirement for RIT-T and RIT-D proponents. AEMO noted that the current engagement process can often feel dismissive for local communities.

Amendments to the Cost Benefit Analysis guidelines for actionable RITs

Our draft amendments place a binding requirement on a RIT-T proponent for actionable ISP projects to determine and apply the most appropriate best-practice framework in developing their stakeholder engagement plan along with implementing and updating the plan as consultation unfolds. They will also be required to explain why this framework is the most appropriate best practice for the particular project.

A RIT-T proponent for an actionable ISP project should specifically show how their engagement responds to the community engagement expectations in the Rules, which are directly referenced in the draft amendments.[33]

Our draft amendments to the CBA guidelines require RIT proponents to publish a stakeholder engagement plan as soon as practicable before the publication of the Project Assessment Draft Report (PADR) and report against the plan throughout the RIT process.

As part of their stakeholder engagement plan, RIT proponents are required to describe their methods for identifying stakeholders, provide a timeline of engagement activities and demonstrate how the engagement meets community expectations including best practices. Stakeholder mapping is an important part of stakeholder identification. However, the AER believes that the best practice approach to stakeholder mapping will vary between projects. Furthermore, there are currently multiple ongoing processes to develop best practice engagement guidelines, including from the Energy and Climate Change Ministerial Council. The changing best-practice landscape underscores the benefits of principles-based guidance in the CBA guidelines.

Our draft amendments require proponents to detail in their engagement plan how they have applied the identified framework to develop their approach to stakeholder mapping. This measure ensures transparency around the identification process of stakeholders reasonably expected to be affected by the project.

Additionally, the amendments require RIT proponents to report on their engagement activities throughout the project. They must describe how they engaged with consumers and other stakeholders, addressed issues identified in the stakeholder engagement plan, and responded to relevant concerns raised during the engagement. Proponents must also demonstrate how their approach has maintained continuity from the most recent engagement plan. If there are changes in the engagement approach, proponents are expected to consider publishing an updated plan.

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33 NER cl. 5.10.2.

These amendments aim to ensure that stakeholder engagement is conducted in a transparent, inclusive, and effective manner. By requiring comprehensive engagement plans, detailed reporting, and early engagement, the AER seeks to address stakeholder concerns and promote best practices in community engagement for RIT projects.

Amendments to the RIT-T guidelines for non-actionable RITs and RIT-D guidelines

AEMC's rule change for community engagement only applies to RIT-Ts for actionable ISP projects.[34]

Some stakeholders expressed that engagement requirements should be binding for proponents of non-actionable RIT projects, whilst others raised that non-actionable RITs will not always require comprehensive stakeholder engagement.

We agree that the community engagement requirements for actionable ISP projects should also apply to RIT-T proponents of non-actionable ISP projects. However, if a RIT proponent decides that a project will not require community engagement, they must give reasons for this in their RIT report.

Our draft amendments require RIT–T and RIT-D proponents to describe in each RIT–T report how they have:

- engaged with consumers, as well as other stakeholders, and
- sought to address any relevant concerns identified as a result of that engagement.

If they have not engaged with stakeholders, the proponent must describe how they plan to, or why they have decided it is not necessary to engage with stakeholders.

If a RIT-T or RIT-D proponent decides to engage with stakeholders, they should consider applying the community engagement expectations set out in the NER for proponents of ISP actionable projects.[35]

These amendments allow a RIT proponent to adopt a plan of the appropriate detail and complexity for any project as long as they can demonstrate the plan will meet best practice engagement principles for the project's context.

3.3 Costs and benefits

The AER's directions paper, informed by the AEMC's Transmission Planning and Investment Review Stage 2 report, recommended that the AER provide additional guidance to stakeholders on how the costs associated with building and maintaining social licence for major transmission projects should be considered and assessed as part of the RIT-T.[36]

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34 NER cl. 5.10.2.

35 NER cl. 5.10.2.

36 AER, Directions paper - Social licence for electricity transmission projects, October 2023.

Costs

Our preliminary position was that the costs associated with social licence activities can be included in the RIT assessment. We sought views from stakeholders on how the guidelines can be clarified to ensure that RIT proponents understand how to include these costs.

Stakeholders supported the inclusion of worked examples to help clarify what costs are expected to be included in the RIT. Some stakeholders specifically sought guidance on what level of cost accuracy will be required for social licence activities.

Our draft amendments state that costs associated with social licence activities may be included in each of the cost categories, and are not separate to those cost categories. In some cases these costs may include community benefit sharing programs, minor route adjustments, legislated additional landholder payments or the cost of community engagement.

We have introduced worked examples to the RIT guidelines to improve clarity around how RIT proponents should include costs associated with:

- community benefit sharing
- stakeholder engagement
- state legislation.

Benefits

Our preliminary position was that market benefits in the RIT are limited to benefits to those who produce, consume or transport energy in the NEM. Other benefits that are external to the market (except for the benefits of greenhouse gas emissions reduction) are not included in the RIT (e.g., improved amenity to a community from rerouting a transmission line).

Some stakeholders sought inclusion of benefits related to social licence in the RIT, however this is inconsistent with how market benefits are defined in the NER.

We have not added any classes of benefits or worked examples of the inclusion of benefits associated with social licence in the RIT.

4 Sharing concessional finance benefits with consumers

A government funding body may provide concessional finance to a proponent where the interest on the funds provided is at a below market interest rate.

The structure of this section reflects the reasoning behind the approach taken to drafting guidelines amendments as required by the AEMC's rule change. This includes an explanation of our position and their intended effect on how concessional finance agreements should be implemented in the RIT process. Following this is a discussion of stakeholder views providing greater context to our positions.

4.1 Approach and key elements of amendments in draft guidelines

Following the implementation of the AEMC's rule change on concessional finance agreements and feedback received through written submissions and the public forum, the AER have reached the following positions.[37]

Concessional finance agreements were included as external funding contributions to the CBA and RIT guidelines as suggested by the AEMC's rule change determination. We have included worked examples which emphasise this.

Project proponents must provide sufficient detail about the concessional finance agreement it has entered into in its RIT such that it can articulate how the value of the concession is to or would be shared with consumers. But a TNSP should also take into account the value of the benefit to flow to consumers in the RIT-T options analysis, in the event it does not actually proceed with a concessional finance agreement. It is expected these provided details are commensurate with the same requirements as is required by NER clauses 6A.3.3 (RIT-T) or 6.2.9 (RIT-D).

- the name of the government funding body
- a description of the expenditure in relation to the concessional finance provided
- a statement concerning how the benefit will be passed onto consumers, either as:
  - an adjustment to the regulatory asset base, including a description of the asset as well as the value, timing and details of the adjustment to be made to the regulatory asset base and relevant asset lives of the associated assets
  - an amount to be passed through to transmission network users including the amount or methodology in each regulatory year for each regulatory control period that the amount will be passed through or
  - a combination of the two mechanisms above

[37] AEMC, National Electricity Amendment (Sharing concessional finance benefits with consumers) Rule 2024 No. 7, 21 March 2024.

- if the concessional finance agreement was entered into by a related entity of the Network Service Provider (NSP), the name, Australian Company Number (ACN) and contact details of the entity that is party to the agreement is required
- any conditions the concessional finance agreement is conditional on
  - for the purposes of the RIT, the NSP should provide written notice to the AER (as part of a report) that they believe the conditions for a concessional finance agreement will be satisfied.

By requiring this information, when it is available, the AER addresses broad stakeholder support for greater transparency around these agreements.

The AEMC's rule change requires guidance on when finance can be treated as expected. This is especially important given these agreements can affect project timing and option rank if the agreement does not eventuate. Our position seeks to avoid situations in which a RIT needs to be reapplied. To this extent, we outline that only agreements that are likely to be executed (as stated by the NSP) should be included in a RIT. Guaranteed concessional finance agreements can be included, as well as conditional agreements. This is on the basis that they can be reasonably assumed to be executed at a later stage by the proponent. Agreements can also be included at a later point of the RIT at the discretion of the proponent if they provide information that reasonably suggests the agreement is executable at a later date.

In cases where concessional finance is not guaranteed but still likely, sensitivity analysis should be undertaken to model the outcomes of an option with and without concessional finance. This should provide greater certainty in the overall process and should limit the need to reapply the RIT in cases where finance does not eventuate. The proponents should have reasonable confidence about their suite of preferred options in that context. Incorporating sensitivity testing allows proponents to include concessional finance agreements that are likely to occur but would otherwise not be signed and finalised until it is too late to include in the RIT process.

We do not intend to provide guidance on the negotiation process or to add any expectations from this on proponents. It is our view that this gives the proponents flexibility to negotiate agreements in such a way that the concessional finance agreements that are drafted are likely to go ahead and provide value to consumers. Alternatively, RITs can be undertaken without including concessional finance agreements.

4.2 Key themes raised in stakeholder submissions

Required information for inclusion of a concessional finance agreement in the RIT

When considering the level of evidence of a concessional finance agreement that a proponent needs to include in a RIT or credible options, our position was informed by the requirements present in the AEMC rule and the voluntary presentation of information by proponents. ENA communicated that judgment on concessional finance agreements should be on the best information available. We also noted a preference from consumers and consumer advocates for a clarification of what we mean by 'transparency' during the public forum on this topic. Though we advocate for greater transparency, through more information about the agreements and their functions, it is not our intention to require publication of

confidential information. We chose to include this as stakeholders noted the variability of these arrangements and the uncertainty of inclusion makes more specific guidance unfit for purpose.

RE-Alliance and the EUAA wrote that there is a need for greater transparency and we have included expectations of the details proponents should provide for concessional finance agreements during the RIT phase. It is intended that this will reduce the variability of agreements and bring a greater degree of standardisation to the negotiation and inclusion of these agreements earlier in the RIT process.

Appropriateness of including a concessional finance in the RIT process

The EUAA contended that RIT and ISP projects should be assessed absent any effects of concessional finance, as projects should deliver positive net benefits without them. We consider that concessional finance agreements typically are mechanisms to further support and increase the competitiveness of specific options within projects that are viable and increase its net benefit in the same manner as an external funding contribution which are allowable in the instrument before this review. We note other stakeholders like Energy Queensland, Transgrid and ENA supported the ability to include concessional finance agreements early in the process where appropriate. While it is additional funding from an external source (government funding body), under the objectives of the AER and the NEO, electricity consumers will be better off if concessional finance is used and benefits are passed through to consumers. The agreement will lower the cost of a process and pass through the savings to consumers. Even if it changes the ranking of the credible options the new credible option with concessional financing will have the maximum net benefits. We accept the need to ensure that concessional finance agreements are going to be honoured due to the risk of a material change in circumstances for a project if expected financing does not eventuate.

Stakeholders also had differing opinions on when a concessional finance agreement could be reliably included in the RIT given its ability to affect option choice and not be realised if conditional. Our position is that relevant details of an agreement are provided to the AER, with written assurances, to provide a reasonable level of certainty of an agreement in the early stages of a RIT. This approach is consistent with the other requirements of the rule change, and addresses submission content seeking clarity on reporting requirements and certainty. The guidelines direct a proponent to prefer not including a concessional finance agreement if it is too unlikely to be executed. Further, given the length of a RIT process, a proponent is able to include or exclude concessional finance agreements as more information becomes available later into the process and provides greater certainty to the agreement's inclusion or exclusion. This position is not consistent with submissions from ENGIE and ENA concerning funding certainty. However, when combined with sensitivity testing suggested above, we believe this process should limit the need to reapply the RIT-T in cases where unexpectedly finance does or does not eventuate. This is because proponents should have reasonable confidence about preferred options in that context.

5 Improving the workability of the feedback loop

The AEMC's rule change for improving the workability of the feedback loop provided specific requirements and changes for the AER to incorporate into the guidelines. Our amendments and positions primarily give effect to these changes. This chapter sets out our general approach to this issue followed by a discussion of stakeholder feedback.

5.1 Approach and key elements of amendments in draft guidelines

Consistent with the requirements and recommendations set out in the AEMC's final rule on improving the workability of feedback loop, the draft CBA guidelines reflect the following amendments:

- Guidance that a TNSP should not submit a feedback loop request between the publication of the final IASR and the publication of the draft ISP – unless AEMO, at its discretion, agrees to undertake the feedback loop during this time.
- Amendments to give effect to and be consistent with the 40-business day timeframe for AEMO to complete the feedback loop. This includes the ability for AEMO to extend the period by up to a further 60 business days if the feedback loop assessment involves complexities or difficulties. This amendment is prescribed in the rule change.
- Allowing the contingent project application process and feedback loop assessment to proceed concurrently to limit delays in the regulatory process. This amendment is prescribed in the rule change.
- Enabling the feedback loop to be assessed against the most recent optimal development path in a draft or final ISP which is underpinned by the most up-to-date inputs, assumptions and scenarios.

5.2 Key themes raised in stakeholder submissions

Stakeholders supported the preliminary positions in our consultation paper and the changes to our guidelines necessary to give effect to the rule change. We consider that the amended guidelines provide appropriate flexibility for AEMO and proponents, as supported by AEMO's, ENA's and Transgrid's submissions.

Ausgrid's submission sought worked examples of projects where the feedback loop timeline is extended for 60 days. We do not consider this necessary in the guidelines as such a situation is entirely context and content driven, with the discretion for this decision residing with AEMO. As such, we are unlikely to be able to provide a realistic and reliable example.

The EUAA submitted that the feedback loop process should not just confirm that a project is part of the optimal development path but should also confirm that the project provides net benefits. However, the ISP is a whole of system plan that ensures that the combination of all projects optimises outcomes for consumers. As such, a project passing implies benefits for consumers.

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

The Commonwealth Government has proposed changes to the NER to allow transmission businesses to undertake early works before completing, or commencing, a RIT–T for actionable ISP projects. On 23 May 2024, the AEMC published its draft determination on this rule change.[38] For administrative efficiency and to limit stakeholder consultation fatigue, we are consulting on updates to our guidelines to reflect the AEMC's draft determination, with the expectation that the final rule will be published before the end of our guideline review.

We will not update our guidelines on this issue until the final rule change determination is known. If the final rule change determination differs materially from the rule change proposal, we will undertake further consultation on appropriate updates to our Guidelines.

The draft determination would allow transmission businesses to undertake early works and recover early works costs for actionable ISP projects through a contingent project application before the RIT for the actionable ISP project has been completed (or even commenced).

This chapter sets out our general approach to this issue followed by a discussion of stakeholder feedback.

6.1 Approach and key elements of amendments in draft guidelines

The draft rule determination would define early works as activities undertaken by a TNSP in respect of an actionable ISP project:

1. prior to the construction of the preferred option, and
    a) which:
        i) improve the accuracy of cost estimates for that project; or
        ii) facilitate that project being delivered within the timeframes specified by the most recent ISP.

If it chooses to, a transmission business may submit an early works contingent project application relating to an actionable ISP project before the RIT-T for that actionable ISP project is completed. If the AER approves an early works contingent project application, the transmission business' revenue determination will then be amended to allow the transmission business to recover costs for these early works.

The draft rule determination specifies that when the transmission business undertakes the RIT-T for that actionable ISP project it must ensure that the RIT-T includes the cost of any early works approved in a contingent project determination.

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[38] AEMC, Bringing early works forward to improve transmission planning draft determination, 23 May 2024.

Consistent with the AEMC's draft rule on bringing forward early works, the draft CBA guidelines reflect the following amendments:

- Clarifying the treatment of sunk early works costs in a subsequent RIT-T – to reflect the requirement included in AEMC's draft rule determination that the RIT-T proponent must include the costs of early works, notwithstanding those costs may have been approved in an early works contingent project determination.
- Updating the transparent reporting requirements for cost estimates in a subsequent RIT-T – as under the draft rule determination project costs may no longer be entirely forecast costs, but may include some early works costs that have already been incurred.
- Updating and clarifying worked examples relating to the staging of ISP projects, accounting for the possibility of early works contingent projects.
- Consequential amendments to reflect the new definition of early works proposed to be inserted in the Rules.

6.2 Key themes raised in stakeholder submissions

Consideration of contingent project applications for early works

AEMO, ENA, Transgrid and JEC (formerly PIAC) commented on the benefits or detriments of allowing contingent projects for early works before a RIT is completed including suggesting some potential mitigants.

The merit of allowing early works contingent project applications before a RIT is completed is the subject of the AEMC's rule change process and not within the scope of the CBA guideline consultation.

ENA submitted that our consultation paper indicates that we are likely to be 'conservative' in approving early works contingent project applications submitted prior to RIT-T completion. Our approach to considering early works contingent project applications is outside the scope of the CBA guideline consultation. For the avoidance of doubt, we note that amendments to the CBA Guidelines are unrelated to the likelihood of our approval of contingent project applications.

Treatment of sunk early works costs in a subsequent RIT-T

Transgrid supported the position in our consultation paper that the costs of early works approved in a contingent project determination should be included in the cost benefit analysis in the RIT even if they are sunk. ENA understood the rationale for the AER's proposed approach to ensure that approval of costs in an early works contingent project application does not bias the outcome of a subsequent RIT-T. However, ENA also noted the risk that including sunk early works costs in the RIT-T analysis could result in an option with a lower incremental cost to consumers not being selected as the preferred option.

AEMO submitted a similar concern, noting that 'if including sunk costs in the RIT-T changes the preferred option, then consumers would pay for all sunk costs, in additional to all costs for the newly preferred option.'[39] AEMO stated that it 'does not consider it appropriate to

[39] AEMO, submission on AER consultation paper, p. 8.

make investment decisions ignoring the sunk costs that have been made. The decision should be based on what is in the consumers best interest going forward.'[40]

We recognise there is a risk that consumers may need to fund both the full cost of the preferred option and the sunk early works costs should the RIT identify a different option as the preferred option. However, we expect that maintaining a RIT and cost-benefit assessment process that does not prejudice some options over others will encourage greater efficiency and cost reductions over time – with these benefits accruing through a dynamic process impacting all RIT processes over time and not just individual RIT processes.

The AEMC's draft rule change would require TNSPs to include sunk early works costs as part of total cost estimates in the RIT-T cost benefit assessment. The AER understands the AEMC is aware of the concern raised by AEMO and ENA. The AEMC's final rule change determination is likely to resolve the issue.

In the event that the final rule change is silent on the treatment of sunk early works costs, and absent any new evidence, we would likely maintain the position that sunk early works costs should be included in estimates of overall project costs in subsequent RIT cost-benefit analysis.

Consistency of treatment in RIT-T and in the ISP

AEMO submitted that there should be consistency in the treatment of sunk costs between RIT-Ts and the ISP process. It noted that if early works are set out as a distinct stage of an ISP project (such that stage 1 relates only to early works and stage 2 relates to building the project), and the AER has approved the CPA for stage 1 early works, AEMO would typically treat that project as 'anticipated' in subsequent ISPs. If the subsequent ISP identifies stage 2 as actionable, AEMO typically considers the stage 1 early works costs to be sunk given it is treated as an anticipated project.

We concur with AEMO that consistency in the treatment of sunk early works costs between RITs and the ISP is preferable. As above, we expect the AEMC final rule change determination to address the issue. We consider that consistency can be achieved alongside a position of including sunk early works costs in overall cost estimates for actionable ISP projects.

[40] AEMO, submissions to 2024 review of the CBA and RIT guidelines consultation paper, June 2024, p. 8.

7 Administrative changes

In addition to the above amendments driven by rule changes and other streams of work, several changes were identified in the guidelines to:

1. Include in the CBA guidelines, section 1.2, in the list of requirements for the CBA guidelines that relies on NER clause 5.16A.2, the missing item on the purpose of and approach to developing RIT reopening triggers. In section 1.1 a reference to the application of the CBA guideline to RIT-T proponents in assessing a material change in circumstances.

   We have included these changes because they are requirements of the Rules, and to maintain consistency between the list in NER clause 5.16A.2 and the CBA guideline. This change is marked in the draft amendments.

2. Update outdated references, including to superseded version of guidelines.

   These are mostly changes to footnote references or superseded information. These changes are marked in the draft amendments.

3. Recover missing content in Example 15 of the RIT-D application guidelines.

   This content was all of the text required to give context to the table that was in the example.

4. Remove references to sources of Value of Customer Reliability (VCR) other than as published by the AER.

   This was only necessary in the RIT-D application guideline. The changes are marked in the draft amendments.

5. Update formatting to the latest templates and styles.

   This change, in addition to making the guidelines more consistent and readable, also corrected several issues, including for example with identifying which content was part of worked examples in the previous versions of the guidelines.

   These changes are not marked up in the draft amendments.

6. Correct editing mistakes.

   Some minor mistakes were detected and corrected. These changes are not marked up in the draft amendments.

We would welcome stakeholders notifying us of any other errors or inconsistencies that we have the opportunity to correct in the final guidelines without altering the substantive content of the guidelines.

Appendix A Submissions on our consultation paper

This attachment sets out for each topic:

1. The identified evidence base as an input to analysis and drafting
2. A summary of the stakeholder submissions

A.1 Valuing emissions reduction

Inputs and topics	Evidence and comments
Inputs from this consultation:	10 submissions on Valuing Emissions Reduction from: AEMO, Ausgrid, ENA, Energy Australia, Energy Queensland, ENGIE, EUAA, Nexa, JEC (formerly PIAC), Transgrid Summary report from stakeholder forum: 14 May 2024
Inputs from other recent consultations:	VER Guidance Note and 8 associated submissions Infrastructure Australia Guidance Note – Valuing emissions for economic analysis
Other inputs considered (non-exhaustive):	AEMC guide to applying the emissions component of the national energy objectives (March 2024) Infrastructure NSW – Decarbonising Infrastructure Delivery Policy and Measurement Guidance
Including emission reduction benefits in the RIT and cost benefit analysis guidelines.	**Stakeholder comments:** • (Total emissions base case – Total emissions candidate case) x VER and summed across model horizon is consistent with 2024 ISP • There are some double counting risks (is the benefit from the production, transmission, distribution or consumption of the electricity) • There must be clarity where in the energy value chain the emissions reduction is accounted for to avoid double counting. Consumers would likely pay for both network and electricity purchase premiums for double counted benefits.

Inputs and topics	**Evidence and comments**
	• Stakeholders seek non-binding worked examples given this is an evolving area and requires flexibility and agility • Stakeholders prefer a principles-based approach to VER which is flexible and non-binding • Stakeholders sought flexibility on how calculations are undertaken rather than specifying the details. This was suggested through a series of 'the proponent may' and 'the proponent must' statements as necessary. • Guidelines should retain flexibility to remain compatible with new and improved methodologies and best practice strategies. • JEC (formerly PIAC) suggested VER only be used in RITs not part of the ISP given there are multiple carbon budgets and states of the world. The ISP would therefore need a dynamic VER that is dependent on a complex set of variables that are given outside the ISP. • A smaller scale alternative could be allowed alongside the proposed model. Wholesale market modelling is unfeasible for most RIT-D and repex projects.
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?	**Stakeholder comments:** • It is not appropriate. Greenhouse gas emissions are an impact on society, not a cost faced by generators • Including VER as an input in market modelling is not the AER or AEMO's current proposed approach and there is a risk of double counting
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	**Stakeholder comments:** • Stakeholders supported keeping carbon budgets as is and to use them alongside VER. They serve slightly different purposes and complement each other. • CIS submitted that carbon budgets should not be used as a constraint on system emissions at the same time as a VER is used to assess the relative benefits of options. The VER provides no substantive benefit where a carbon budget is adopted and there is a risk of double-counting benefits through the interaction between the implied price and VER.

Inputs and topics	**Evidence and comments**
	• Energy Australia raised that a change in the approach regarding carbon budgets would require amendments to NER clause 5.22.3 as well as potentially provisions in the NEL.
Alternative approaches to estimating an emissions reduction benefit. What are the advantages and disadvantages of alternative approaches that should be considered?	No alternative approaches proposed by stakeholders.
Scope of included emissions.	**Stakeholder comments:** In favour of a broad scope of emissions, stakeholders: • Suggest the AER guidelines should explicitly permit the inclusion of Sulphur hexafluoride (SF_6) gases. Given its global warming potential 23,500 times that of carbon dioxide, and its use in aging technology, SF_6 will be material in some repex and RIT-D projects. The published VER is for carbon dioxide equivalent. • The policy scope enables the AER to consider scope 2 and 3 emissions. • Stakeholders submitted it should be up to the proponent to include different sources of emissions provided the data is reliable. Against increasing the scope of emissions, AEMO proposed that: • scope 2 and 3 emissions are currently out of scope for the ISP; • including scope 2 and scope 3 emissions will bring complexity and uncertainty to calculations. There were also some neutral comments: • Scope 3 if implemented should be done carefully as current NEO and jurisdictional targets specify only Australian emissions are counted. This biases companies toward sourcing their materials overseas. • Want AER to be explicit about the treatment of SF_6. • Clear guidance from the AER on how to use the new benefit category, noting it was drafted to include all greenhouse emissions

Inputs and topics	Evidence and comments
	• Some changes can be estimated with low accuracy (scope 3) and should not be material. • all emissions should be counted, but trying to determine upstream fuel emissions (in the production of steel and such) is difficult and unlikely to be material. • Emissions reduction benefits should only be quantified where they are material. • AER should engage with AEMO to conduct analyses on materiality of different emissions sources. **Notable complementary sources** Infrastructure NSW suggest in their report on decarbonising infrastructure that: • SF_6 be included as 'in use' carbon for energy generation assets. • They also include a list of carbon dioxide equivalent measurements for various infrastructure projects that proponents could use to model if they wished. This includes default values and assumptions for emission from transporting materials and the carbon cost of material in its full life from construction to decommissioning. This may help proponents estimate 'whole of life' emission without needing to undertake full analysis on emissions factors. When combined with Infrastructure Australia's modelling report on estimating carbon prices, proponents have access to three likely national costs of carbon (Infrastructure Australia) and an accepted method of forecasting parts of the total emissions lifecycle of an asset (Infrastructure NSW) up to 2050 for NSW project with applications in other states. Proponents therefore have valid proportional inputs to value carbon for projects in Australia up to 2050 for costing emissions and valuing reductions in different states of the world.
Which additional material factors should be considered in modelling emissions? Should the AER consider including specific guidance on any of the factors?	**Stakeholder comments:** Stakeholders noted the following material factors related to emissions in other sectors should be considered: • Provide guidance on estimating wider economy emission reductions (e.g. from increased electrification). However, caution was advised regarding a potential risk of claiming benefits from changes in emissions in other sectors which do not eventuate.

Inputs and topics	**Evidence and comments**
	• Include a worked example of a connection of an emissions intense activity like a mine or includes the use of imported materials in which Australian emissions are zero. • Be aware of the scale of emissions reduction investments and activities that are possible and the possible effect on RITs (customer solar, EV storage and industrial partners) • Equation should include related industries: Emissions benefit = VER x (Base case emissions – Investment case emissions – Other Sector emission reductions) • AER could provide a list of emissions impacts and have them as an 'opt in' option for these assessments. • It would be useful to clarify 'materiality'
How should data to support these factors be sourced?	**Stakeholder comments:** • Allow AEMO the use of different and better datasets compared to the Clean Energy Regulator's one as they become available • Allow proponents to use new information as it becomes available
Discount rates for emissions benefits	**Stakeholder comments:** • A higher discount rate increases the relative value of early emissions reduction by increasing the relative discount of later years as compared to earlier years. It also increases relative cost for projects that are capital intensive early in their projects. VER trajectory should be set with the understanding it will be discounted under the CBA approach. • Alternatively, the AER should not prescribe how discount rates are set • Encourage AER to consider benefits of allowing alternative discount rates to allow for a continuous incentive to reduce emissions throughout the assessment period.

A.2 Social licence

Inputs and topics	Evidence and comments
Inputs from this consultation:	Twelve submissions on community engagement; Energy Queensland, Murrindindi Shire Council, Transgrid, Ausgrid, ENA, EnergyAustralia, AEMO, Energy User's Association of Australia, JEC (formerly PIAC), CIS, Nexa Advisory, ENGIE Summary reports from public stakeholder forums stakeholder forum on 20 May 2024 stakeholder forum on 3 June 2024
Inputs from other recent consultations:	Nineteen submissions on the AER's Social Licence directions paper Nineteen submissions on the AEMC's draft Enhancing community engagement in transmission building rule change
Other inputs considered (non-exhaustive):	• AEIC Community engagement review 2023 • DCCEEW guidelines on social licence 2024 • Energy Charter Better Practice Social Licence 2023 • State policies and guides on community engagement

A.2.1 Social licence – Community engagement

Inputs and topics	Evidence and comments
Specifying consultation requirements: Determining whether guidance on community engagement in the CBA guidelines should be binding	**Stakeholder comments:** Stakeholders in submissions to the AER's consultation paper and the AEMC's rule determination have highlighted inconsistencies in engagement quality both between different projects and within stages of the one project. Guidelines should be specific enough to remove ambiguity for transmission businesses and ensure affected communities are meaningfully engaged. Community members were more likely than industry to favour specific requirements over principles-based guidelines but could see value in both. A principles-based approach will enable flexibility to approach consultation based on the requirements of the project. Some stakeholders expressed that a minimum-requirements approach will disincentive engagement beyond the bare minimum, while others expressed that a principles-based approach will lead to less engagement or misinterpretation of what is required. Some stakeholders highlight that there are already a number of principles-based guidelines in development to inform best consultation practices that have undertaken consultation in development.
Specifying consultation requirements: Determining whether equivalent consultation requirements should also be included in the RIT guidelines for non-ISP RITs	**Stakeholder comments:** Non-ISP RITs will not always require comprehensive stakeholder engagement. Stakeholders raised that brownfield projects require less comprehensive consultation to gain social licence than greenfield projects. However, the AER notes that brownfield projects that consist of uprating existing lines can still raise stakeholder concerns.

Inputs and topics	**Evidence and comments**
Specifying consultation requirements: Determining whether specific engagement requirements should be prescribed at the PADR and PACR stages.	**Stakeholder comments:** Stakeholder feedback to our consultation paper has highlighted that: • engagement practices will need to change as the project route is refined. • Draft and final reports should include a summary of stakeholder feedback to date and demonstrate responsiveness to concerns. • It is important for RIT proponents to be able to have flexibility with their approach to engagement, as long as it is being informed by existing best practices.
Identifying stakeholders: that are 'reasonably likely to be affected by the development'	**Stakeholder comments:** These are individuals, groups, or organizations that are expected to experience a direct impact from the transmission project. The impact can be economic, environmental, social, or related to their health and safety. This category will generally consist of landowners, councils and groups that are geographically close to the project. Stakeholders expressed that existing best practice guidelines can be used to determine these stakeholders.
Identifying stakeholders: 'interested parties'	These are individuals, groups, or organizations that have a general interest in the transmission project. This interest can be due to professional, regulatory, or community roles they play, even if they are not directly impacted by the project. EUAA notes that there might be value in mentioning general energy consumers who will be paying for the project once it has been approved through a contingent project application.

Inputs and topics	Evidence and comments
Developing Stakeholder engagement plans: Stakeholder engagement plans	**Stakeholder comments:** Structured engagement plans help ensure that community concerns are heard and addressed throughout the project lifecycle, however these plans should be flexible to adapt to changing circumstances and stakeholder feedback. An engagement plan will help RIT proponents improve transparency and continuity of their engagement. This will assist with the route refinement process and eventually selecting a preferred option that has social licence. Murrindiri Shire council expressed that a citizens panel should be required for transmission projects to ensure RIT proponents hear a range of views, local knowledge and establish regular meetings, however the AER intends for guidance to cover these areas without a binding requirement for a citizen's panel. Private stakeholders in the general forum also specified the risk for engagement fatigue.
Developing Stakeholder engagement plans: Stakeholder engagement plans for non-ISP RITs	**Stakeholder comments:** Stakeholders from local communities broadly expressed a desire for more engagement rather than less. ENA expressed reservation about requiring an engagement plan for non-ISP RITs.

Inputs and topics	**Evidence and comments**
Ensuring transparency: Timing of engagement	**Stakeholder comments:** The majority of stakeholders believed that it was best to engage as early as possible, before different options have been identified. Others believed it should start later to avoid upsetting or worrying communities before it is absolutely necessary. This largely related to the concept of providing multiple routes, which may distress some communities or individuals, when that route may not be viable. Proponents should detail their engagement strategies, summarize feedback, and demonstrate how it influenced project decisions. This transparency builds trust and ensures accountability, making it more likely that projects will gain community support. It is also important for early engagement to clarify the route selection process and seek feedback to inform that route refinement. This will also allow for stakeholders to understand the continuity of engagement process has developed over the project life. ENGIE suggested the AER could compile a data of projects' social licence costs to aid in future cost estimation and improve transparency and reasonableness.
Ensuring transparency: Means of communicating the draft and final report	**Stakeholder comments:** No stakeholders have suggested a need for changing the way the release of the PADR and PACR are communicated, but tailored communications will likely be identified through the engagement plans to be developed by proponents. This is one of the community engagement expectations for an actionable ISP project.
Ensuring transparency: Duplication between ISP and RIT	**Stakeholder comments:** Stakeholders expressed that it is important to reduce duplicative consultation between the ISP and RIT, however no specific areas of concern were identified.

A.2.2 Social licence – Credible options

Inputs and topics	**Evidence and comments**
Social licence and credible options	**Stakeholder comments:** Stakeholders expressed in their view that a lack of social licence can never make an option not credible. Rather the guidelines should express how expenditure on social licence should proceed so that it is prudent and efficient. Further, it was suggested that social licence is not a relevant issue for all RIT-Ts with repex for brownfields investments routinely attracting little to no public attention. Considering greater engagement for these projects materially increase costs and provide no additional benefit for consumers or communities. EUAA suggested an identified ISP project not proceeding due to a lack of social licence is almost non-existent, however, project delay and inaccurate cost/benefit estimation is far more likely to occur, noting that these have not resulted in already actionable projects having negative net benefits. Where a credible option does not have social licence, it should be questioned whether the community understands the positive impacts of the project. The current method of stakeholder engagement can be broken down to 'decide, announce, defend', but with the changes to early works being undertaken concurrently with a RIT-T, TNSPs have time to do research and using this, engage meaningfully with the local community with the additional planning that is possible through early works. The feedback received from the expert forum on social licence emphasized the need to build social licence and an option's credibility over time and then demonstrate the growth in acceptance, which must be possible under new guidelines. Stakeholders in the expert forum also expressed a risk that credible and best-value options could be denied if too much weight is given to community opposite, noting there is no method to appropriately weigh grievances from different community groups.

Inputs and topics	**Evidence and comments**
Credible option worked examples	**Stakeholder comments:** Stakeholders again emphasized the unique nature of each project (and even options within a project) and the benefits of principles-based guidelines with worked examples rather than being prescriptive. Examples should include quantitative and qualitative examples and could be expanded over time to involve common scenarios and situations. The AER could consider how social licence is being management with respect to REZ zones with consistency of factors between jurisdictions would be a desirable outcome.

A.2.3 Social licence – Costs and benefits

Inputs and topics	**Evidence and comments**
Social licence cost categories	**Stakeholder comments:** Stakeholders again asked for worked examples regardless of whether new cost categories were added or not. Generally stakeholders supported further guidance from the AER on potential social licence costs, but suggested the list be presented as not exhaustive. However stakeholders generally did not support the inclusion of new specific cost classes for social licence. An exception was a class of benefit representing support for an impacted community to offset the costs associated with social licence. NSPs supported a general use 'allowance' to target social licence engagement given the difficult of estimating costs accurately at the RIT stage. Other stakeholders contend the current cost categories ensure consumers only pay for benefits they receive which does not necessarily include social licence costs. Alternatively, social licence costs could be considered to form part of an option's direct costs. Stakeholders noted that externalities are currently not permitted. Hidden benefits such as visual amenity from undergrounding could be properly quantified and included, in a way that is acceptable in a RIT. Stakeholders attending the expert forum noted the wide range of social licence costs with engagement effectively only being the first step in identifying further costs expected by the community to build social licence. EUAA notes that the AER should determine what level of social licence cost accuracy should be achieved in the PADR and PACR, and how this identified cost accuracy can be referenced when assessing a contingent project application.

Inputs and topics	**Evidence and comments**
Measuring cost increases as a result of social licence delays	**Stakeholder comments:** Difficult due to low cost/benefit accuracy at the start of a project, and incorporating it later risks accepting any already existing delays due to social licence or correctly attributing cost increases to social licence. Stakeholders in the expert forum noted that it is not fair that excessive social licence costs (as a result of not building social licence or losing it throughout the process) is passed on to customers. However no alternative source of funding was identified. Also current social licence best practice is measured qualitatively, which makes 'objective' analysis difficult; forum participants noted both quantitative and qualitative review is necessary for assessing social licence.

A.3 Concessional finance

Inputs and topics	**Evidence and comments**
Inputs from this consultation:	6 submissions on concessional finance matters from: ENA, ENGIE Australia and New Zealand, Energy Queensland, EUAA, Nexa, Transgrid Summary report from stakeholder forum: 16 May 2024
Inputs from other recent consultations:	AEMC rule change documentation: Sharing concessional finance benefits with consumers, including 10 submissions on the draft rule and 13 submissions on its initiation.
Other inputs considered (non-exhaustive):	AEMC Transmission Planning and Investment Review (TPIR) Stage 3 Draft Report
Level of evidence a proponent needs before including concessional finance arrangements in a RIT and credible options.	**Stakeholder comments:** Stakeholders interacting directly with concessional finance agreements (like NSPs) believe: • Judgement of concessional finance should be on best information available • There is no point having specific guidance as concessional finance agreements vary widely between projects • If inclusion of concessional finance in a project is uncertain, sensitivity analysis can be undertaken to provide guidance Other stakeholders believe: • concessional finance agreements should not be included in the RIT, a project is either preferred or its not • concessional finance works as a balancing measure for accelerated depreciation which places greater burden on consumers. • An alternative opinion states concessional finance should only be included in the RIT when it is a commitment to provide finance has been made.

Inputs and topics	**Evidence and comments**
	• The AER should work with finance providers to determine the most appropriate stage of commercial agreement/contacting which can be recognised.
The non-confidential details of a concessional finance arrangement that a proponent could and/or should provide in their report	**Stakeholder comments:** Stakeholders had mixed views depending on whether they were NSPs or other entities. NSP stakeholders: • Believe the inclusion or non-inclusion of agreement information, confidential or otherwise, is outside the scope of a RIT • Propose the NSP is responsible to notify the AER when there has been a concessional finance agreement, and all mechanisms should be negotiated between the NSP and finance provider. Non-NSP stakeholders: • Call for greater transparency in concessional finance arrangements • Seek clarification on the level of transparency the AER as the regulator will expect when concessional finance agreements are included in a RIT The AEMC's final determination on this rule notes the usual time of signing a concessional finance arrangement noting the AER should expect some delay if expecting details of concessional finance as a requirement, noting some agreements are signed after the entire CBA process. It also notes the requirements for satisfying 'expected funding' may differ based on the nature of the project, with more stringent requirements needed for ISP projects were delays have larger consequences.
Concessional finance worked examples	**Stakeholder comments:** The ENA: • Supports inclusion of worked example where a concessional finance agreement has an impact on project costings. • Supports inclusion of a worked example on concessional finance discount rate interactions with other discount rates However EUAA noted:

Inputs and topics	**Evidence and comments**
	• Worked examples are unhelpful as funding providers are typically non-forthcoming with details of the agreements. • The AEMC's final determination on providing concessional finance benefits to consumers also encourage the AER to produce worked examples on what constitutes an external funding contribution and these examples include the treatment of concessional finance.

A.4 Improving the workability of the feedback loop

Inputs and topics	**Evidence and comments**
Inputs from this consultation:	4 submissions on improving the workability of the feedback loop from: AEMO, ENA, EUAA, Transgrid Summary report from stakeholder forum: 16 May 2024
Inputs from other recent consultations:	Documentation from the AEMC's rule change: Improving the workability of the feedback loop including 12 submissions to the draft rule
Other inputs considered (non-exhaustive):	N/A
Implementing guidance on the feedback loop	**Stakeholder comments:** • Support guidance of feedback loop request timing to discourage lodging feedback loop requests between an IASR and draft ISP, with AEMO retaining discretion to undertake them. • Believe guidelines should clarify that TNSPs should contact AEMO if they believe their circumstances could allow a feedback loop request between an IASR and draft ISP to avoid unnecessary delays. (less complex projects) • Proposed rewording of the updated guidelines is: "'TNSP's should not submit a feedback loop request between the publication of the final IASR and the publication of the draft ISP, unless AEMO has agreed to consider such a request (proposed addition underlined) Other suggestions included: • TNSPs should publish why they seek a feedback loop request between an IASR and draft ISP. Likewise, AEMO should publish why they reject it if they choose to do so. Suggested worked examples: • Case studies of when AEMO could reasonably extend for 60 business days to complete a feedback loop request Other feedback included:

Inputs and topics	**Evidence and comments**
	• Question the suitability of the base of data used by AEMO and TNSPs for a feedback loop request. • AEMO should have to do more for feedback loop requests (report a project still has net benefits) • The effectiveness of systems already in place should not be negatively impacted by the push for greater efficiency • AEMC's rule change process finalised on 7 March 2024 was considered in the preliminary positions of the AER in our consultation paper and has not contributed to any change in position for draft amendment.

A.5 Early works

Inputs and topics	**Evidence and comments**
Inputs from this consultation:	4 submissions on early works from: AEMO, ENA, EUAA, Transgrid Summary report from Stakeholder forum, 16 May 2024
Inputs from other recent consultations:	AEMC's draft determination on the bringing early works forward to improve transmission planning rule change
Other inputs considered (non-exhaustive):	N/A
Allowing early works prior to a completed RIT	**Stakeholder comments:** A number of submissions commented on the benefits or detriments of allowing contingent projects for early works before a RIT is completed.
	NOTE: The consideration of this issue is an element of the AEMC's rule change process and therefore not within the scope of our CBA guideline consultation.
Treatment of sunk early works costs in subsequent RIT-T cost-benefit assessment	**Stakeholder comments:** Our consultation paper noted that a position on the treatment of sunk early works costs represents a trade-off between (1) preventing early works from biasing the subsequent RIT-T assessment, and (2) preventing consumers from funding early works that do not ultimately form part of the preferred option. TransGrid supported including sunk early works costs in total cost estimates used in the RIT-T cost-benefit assessment. AEMO supported excluding sunk early works in the RIT-T's cost-benefit assessment. The Energy Networks Association acknowledged the trade-off and submitted that it expects the issue to be further considered by the AEMC in its rule-change process.

Inputs and topics	**Evidence and comments**
Consistency between RIT-T and ISP	**Stakeholder comments:** AEMO submitted that there should be consistency in the treatment of sunk costs between RIT-Ts and the ISP process. The approach that AEMO takes for the ISP and feedback loops treats incurred costs as sunk (that is, excluded from cost estimates used in cost-benefit analysis). Further, if early works are set out as a distinct stage of an ISP project, and the AER has approved the CPA for stage 1 early works, AEMO would typically treat that project as "anticipated" in subsequent ISPs. If the subsequent ISP identifies stage 2 as actionable, AEMO typically considers the stage 1 early works costs to be sunk given it is treated as an anticipated project. AEMO supports the current approach to the treatment of sunk costs for staged projects in the ISP and believes consistency with this approach would be appropriate.
	NOTE: We concur with AEMO that consistency in the treatment of sunk early works costs between RITs and the ISP is preferable, and will consider how our guidelines can promote consistency once the AEMC final rule change determination has been made.
Framework for assessing early works contingent project applications	**Stakeholder comments:** A number of submissions sought clarification on how we might consider contingent projects for early works, and the characteristics of those early works that would be approved and those that would not be approved.
	NOTE: The consideration of this issue is an element of the AEMC's rule change process and therefore not within the scope of our CBA guideline consultation.

Appendix B Shortened forms

Short form	Extended form
AACE	Association for the Advancement of Cost Engineering
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
CBA	Cost Benefit Analysis
CIS	The Centre for Independent Studies
CPA	Contingent Project Application
ENA	Energy Networks Australia
EUAA	Energy Users Association of Australia
IASR	Inputs, Assumptions and Scenarios Report
ISP	Integrated System Plan
MCC	Material change in network infrastructure project costs
NEL	National Electricity Law
NER	National Electricity Rules
NSP	Network Service Provider
PACR	Project Assessment Conclusions Report
PADR	Project Assessment Draft Report
JEC (formerly PIAC)	The Justice and Equity Centre (formerly known as the Public Interest Advocacy Centre)
REZ	Renewable Energy Zone
RIT–D	regulatory investment test for distribution
RIT–T	regulatory investment test for transmission
SF_6	Sulphur Hexafluoride
TNSP	Transmission Network Service Provider
TPI	Transmission Planning Investment
VER	Value of emissions reduction