2024 AER cost benefit analysis and regulatory investment test guidelines review

Draft amendments fact sheet and next steps

TOPIC: Valuing emissions reduction, Concessional Finance, Feedback Loop and Early Works
Monday, August 26 · 2:30pm - 4pm AEST, online via Microsoft Teams.

Register here

On 9 August 2024, The Australian Energy Regulator (AER) published its proposed draft amendments to the cost benefit analysis (CBA) guidelines and application guidelines for regulatory investment tests (RIT-T & RIT-D) and instrument documents.

The amended Guidelines include guidance on:

- Changes in emissions as a market benefit
- Social licence in the RIT
- Sharing concessional finance benefits with consumers
- Improving the workability of the feedback loop
- Early works contingent project application before completion of a RIT-T

Our explanatory statement explains our draft amendments and how feedback received from stakeholders through submissions has informed the development of these draft amendments.

We have published draft guidelines that include these draft amendments.

Submissions and public forums

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

After submissions close, we will further develop our amendments and publish final guidelines in November 2024.

We will also be hosting public forums to provide an overview of the proposed amendments, including:

- how we have taken into account stakeholder submissions received in response to the consultation paper including feedback heard at the public forums in May and June 2024, and
- to assist stakeholders in developing their written submissions to draft amendments.

Changes in emissions as a market benefit:

Energy Ministers reformed the National Energy Laws to introduce an emissions reduction element into the national energy objectives (NEO). The NEO now requires the Australian Energy Market Operator (AEMO) and RIT proponents (RIT-T and RIT-D) to consider changes in Australia's greenhouse gas emissions in the Integrated System Plan and RIT, respectively.

Our draft amendments include:

- definitions to include changes in emissions as a class of market benefit
- guidance on using Value of Emissions Reduction (VER) as a modelling input
- guidance on the scope of emissions when valuing changes in emissions
- worked examples on valuing emission reductions in a RIT. This includes using the VER and converting emissions of greenhouse gases to carbon dioxide equivalent.

We seek views from stakeholders on the following worked examples on valuing emission reductions:

- Is there enough flexibility?
- Is there sufficient detail in the examples for network businesses?

Examples 34 and 35 (pg. 93) of the RIT-T guidelines outline how decreases and increases in emissions can be calculated.

Example 36 (pg. 94) shows how a RIT-T proponent can calculate the contribution to market benefits of direct emissions other than generation.

Equivalent examples can be found on page 84 and 85 of the RIT-D guidelines

Sharing concessional finance benefits with consumers:

These amendments arise from the Australian Energy Market Commission's (AMEC) **sharing concessional finance benefits with consumers** rule change.

Our draft amendments include guidance on when to include concessional finance benefits in the RIT and how they should be treated in the cost benefit assessment.

Our draft amendments include worked examples to help clarify what details should be provided by a RIT proponent choosing to include a concessional finance agreement in a RIT.

We seek feedback on the draft guidance and the below worked examples and ask:

- Is it appropriate to treat concessional finance as an external funding contribution?
- Cases for agreement inclusion/exclusion at the RIT stage

Example 22 (page 60) of the RIT-T guidelines shows how a concessional finance agreement can be considered in the RIT analysis and how it may affect the option ranking.

An equivalent example is in page 55 of the RIT-D guidelines

Improving the workability of the feedback loop:

Our draft amendments are primarily prescribed by the AEMC's **improving the workability of the feedback loop** rule change, including:

- Guidance that a Transmission Network Service Provider should not submit a feedback loop request between the publication of the final Inputs Assumptions and Scenarios Report and the publication of the draft ISP – unless agreed to by AEMO
- Allowing the contingent project application process and feedback loop assessment to proceed concurrently to limit delays in the regulatory process
- Do the amendments regarding feedback loop in the CBA guidelines provide sufficient flexibility for AEMO/RIT proponents?

Examples have not been included given any example would be largely context and content driven. Any further views?

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

Our draft amendments are proposed in line with the AEMC's **draft rule on bringing early works forward**, including:

- Clarifying the treatment of sunk early works costs in a subsequent RIT-T
- Updating the transparent reporting requirements for cost estimates in a subsequent RIT-T
- Updating and clarifying worked examples relating to the staging of ISP projects accounting for the possibility of early works contingent projects

We will not update our guidelines on this issue until the final rule change determination is known. If the final rule differs materially from the draft rule, we will undertake further consultation on appropriate updates to our Guidelines. We also note that the AEMC rule change is not in the scope of the guideline review.

Any further views on balancing of risks of consumers paying for early works where an alternative option

(subsequently identified as preferred) proceeds against the benefit of not prejudicing an option?

Example 12 (pg. 64) of the CBA guidelines shows how sunk costs in an early works CPA can be reported in a RIT-T. Example 21 (pg. 82) shows how an early works contingent project can be progressed for an actionable ISP project.