



Part of Energy Queensland

19 September 2024

Ms Stephanie Jolly  
Executive General Manager  
Australian Energy Regulator  
[RITguidelines@aer.gov.au](mailto:RITguidelines@aer.gov.au)

Dear Ms Jolly,

### **Review of the cost benefit analysis guidelines and RIT application guidelines**

Ergon Energy Corporation Limited (Ergon Energy) and Energex Limited (Energex), both distribution network service providers (DNSPs) operating in Queensland, welcome the opportunity to provide a response to the Australian Energy Regulator (AER) on its Review of the Cost Benefit Analysis (CBA) and Regulatory Investment Test (RIT) application guidelines.

Our submission relates to the draft RIT-D amendments and is supportive of regulatory changes that reflect the values and expectations of society, but only to the extent where these make sense, are pragmatic and do not unfairly increase the cost burden on our customers. To that end, we offer the following views.

#### **Customer engagement and Social Licence**

We strongly support the AER's draft RIT-D amendments that make stakeholder engagement plans optional for RIT-D assessments<sup>1</sup>.

This is because, compared to actionable Integrated System Plan (ISP) projects, RIT-D projects are typically far smaller in value and predominantly relate to distribution network augmentation and/or asset replacement which has significantly less of a public impact compared to large greenfield ISP projects.

Furthermore, Ergon Energy and Energex already have several measures that ensure our customers remain at the forefront of our operations and network investment consultation processes. These include:

- our Customer and Community Council exploring strategic issues relating to our customers' and communities' needs and expectations;

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<sup>1</sup> [Review of the cost benefit analysis guidelines and RIT application guidelines Draft amendments - explanatory statement](#) AER, August 2024, p18.

- our Voice of the Customer engagement where we seek feedback from our customers on our performance and proposed network investments; and
- Ergon Energy Network’s and Energex’s Reset Reference Group (RRG) whose primary focus is to ensure that customers’ needs and preferences are of paramount consideration by our business.

However, we object to the proposed amendments to section 4.1 Consumer and non-network engagement in the [RIT-D Draft application guideline](#) (Guidelines) which state<sup>2</sup>:

*“...RIT-D proponents are required to describe in each 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 consumers, the proponent must describe how they plan to, or why they have decided it is not necessary to engage with consumers...”*

This is because these changes:

- imply customer engagement is the default option<sup>3</sup>; and
- may provide the AER an avenue with which to reject or reduce DNSPs’ proposed RIT-D funding, should it not accept their reason(s) not to engage with customers.

Any increased regulatory compliance burden should be commensurate, and ideally less than, the expected benefits.

### **Greenhouse Gas Emissions**

We support the inclusion of indirect emissions (fugitive; embodied; and emissions from other sectors) being optional in RIT-Ds<sup>4</sup> because mandating these would mean RIT-D proponents would need to expend time developing skills and experience to be able to calculate these, especially when the methodologies and data sources are still evolving.

Furthermore, the definition of “materiality” is a concern because it determines whether emissions are included or excluded in RIT-Ds. It would be useful for guidance on what the AER considered “material” and “immaterial” in terms of a dollar threshold or a percentage of total costs of an option. For example, “material” could be defined as 20 percent of an option’s estimated total costs.

We are also concerned that an item can only be determined as material or immaterial by having done the analysis, which in our view, increases the resource burden to complete a RIT-D.

<sup>2</sup> [Regulatory Investment test for distribution Draft application guideline](#), AER, August 2024 p58.

<sup>3</sup> We have the same concern with proposed changes to sections 3.2.5 and 3.5.5 of the Guidelines, relating to social licence.

<sup>4</sup> Regulatory investment test for distribution Draft application guideline, AER, August 2024 p37.

## RIT-D Threshold

We note that the AER's [RIT and APR cost thresholds draft determination](#) published on 3 September 2024 includes a proposed 17 percent increase to the RIT-D threshold to \$7m. Whilst Ergon Energy and Energex will be making a separate submission to this decision, it is relevant to this consultation to advise that our costs have far exceeded the input cost changes upon which the AER's draft determination was based. For example, in the three years from 2020-21 to 2023-24, Ergon Energy's overhead conductors' unit costs have increased by an average of 29 percent<sup>5</sup>.

Effectively, this significant cost inflation has meant that a greater number of proposed investments have been captured by the cost threshold requirement to undertake a RIT-D and with the AER's implied desire to increase DNSP's customer engagement requirements, further increases the regulatory compliance burden on DNSPs and by extension, the costs passed onto their customers.

### Summary requirements table

The combined ISP, RIT-T and RIT-D consultation lends itself to confusion as to the mandatory and optional requirements placed on project's proponents.

For clarity we recommend summary tables be included in each of the RIT guidelines specifying the mandatory versus optional items. For example, for RIT-D:

Item	Required / Optional	Comment
Inclusion in the RIT-D the direct changes in greenhouse gas emissions	Required	Unless the change relative to the base case can be demonstrated to be immaterial.
Inclusion in the RIT-D the indirect changes in greenhouse gas emissions	Optional	These are optional and may be included if material.
Consumer and non-network engagement	Optional	If a RIT-D proponent chooses not to engage with consumers, the proponent must describe how they plan to, or why they have decided it is not necessary to engage with consumers.

We understand the AER's continued efforts in ensuring DNSPs' operations remain customer centric and we support this approach, provided there is a benefit to customers.

However, we are concerned that the proposed incorporation of more qualitative (versus quantitative) aspects in the RIT-D will have the effect of watering down the transparency and robustness of investment assessments and therefore, the veracity and rigorousness of the analysis behind the preferred credible option.

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<sup>5</sup> Ergon Energy 2020-21 and 2023-24 Regulatory Information Notice, Template 2.2.

We look forward to continuing to engage with the AER on its consultation related to the CBA and RIT application guidelines. Should the AER require additional information or wish to discuss any aspect of this submission, please contact either myself, or Lindsay Chin on 0459 642 052.

This submission does not contain confidential information and may be published.

Yours sincerely

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

Alena Christmas  
**Manager Regulatory Affairs**

Telephone: 0429 394 855  
Email: [alena.christmas@energyq.com.au](mailto:alena.christmas@energyq.com.au)