

18 September 2024

Ms Stephanie Jolly
Executive General Manager
Australian Energy Regulator

Sent via email: RITguidelines@aer.gov.au

Review of cost benefit analysis and Regulatory Investment Test guidelines – Draft Decision

Dear Ms Jolly,

SA Power Networks welcomes the opportunity to comment to the Australian Energy Regulator (AER) on the *'2024 Review of cost benefit analysis and Regulatory Investment Test guidelines'* (the Draft Decision).

We welcome the AER's review, and largely support the proposed amendments, with some key exceptions. We encourage the AER to continue to refine the Regulatory Investment Test for Distribution (RIT-D), so that it is efficient and practical in how it provides public transparency, and testing for non-network alternatives, particularly as the energy market continues to transition to net zero.

Assessing Emissions Reduction in the Integrated System Plan (ISP) and RITs

We welcome the continued work to factor emissions reduction into the regulatory framework, enabling networks to make efficient investments which contribute to the lowest-cost pathway to net zero. More specifically, we support the proposed methodology for using the Value of Emissions Reduction (VER) in the ISP and RIT process, in particular:

- the use of the VER to assess emissions differences between credible options, rather than applying it uniformly to all cost assessment;
- the requirement to consider direct generation and network emissions when they are material and relevant, with worked examples to guide interpretation; and
- the non-obligatory consideration of indirect and non-NEM emissions, given the challenges in quantifying these emissions and the uncertainty around responsibility for addressing them.¹

Beyond these changes, further clarification is needed on two factors:

1. when considering materiality, focus should be placed on whether the VER would likely affect the RIT outcome, rather than if any options generate material emissions. The submission from Energy Networks Australia (ENA), which we support, has provided suggested wording to clarify this; and
2. while recognising the complexity of the non-obligatory emissions scope, worked examples would aid networks in understanding the type of data and practice the AER expects in RIT analyses.

¹ Like most networks, we are developing our understanding of emissions accounting via our environmental, social and governance (ESG) reporting. We are developed in accounting for our Scope 1 and 2 emissions. For Scope 3 emissions and emissions in other sectors, it is more difficult to gather accurate data and precisely account for emissions requiring coordination with and cooperation from multiple third parties.

Considering concessional finance in project costs

The Draft Decision's amendments to incorporate concessional finance are reasonable, ensuring that in these circumstances, the concessions are passed through to customers via a reduction in the cost of an investment subject of the RIT-D.

However, clarity is needed on the potential treatment of situations where expected external financing agreements (either concessional finance, or funding from 'other parties'² as currently provided for in the RIT-D) are not ultimately ratified. This is noting that external funding (e.g. via the Australian Renewable Energy Agency, ARENA) may not be confirmed until the conclusion of a RIT-D process. It may be most practical to ensure that, in such situations, the preferred option of the RIT-D can simply revert to the next most optimal investment option, should the analysis outcome be sensitive to the external financing. Avoiding a full recommencement of the RIT-D process would:

- avoid the risk of timing delays jeopardising a network's ability to address the identified need for customers within the necessary time-frames; and
- minimise administrative / regulatory burden and costs on networks, third-party alternative service providers, and other stakeholders, and ultimately customers.

Changes to consumer engagement expectations

We recognise the merit of ensuring that, as participants in the energy market, we are appropriately considering our social licence and engaging with customers and broader community stakeholders on their preferences. In recent years SA Power Networks has significantly expanded the coverage and sophistication of its engagement processes, both in the development of its Regulatory Proposals as well as business-as-usual strategy and decision making.

The current principles-based engagement requirements in the RIT-D and Application Guidelines have functioned well, providing flexibility for networks to innovate and customise their engagement approach. We are not aware of any clear problem at the distribution network level that the AER is seeking to resolve in departing from this current principles-based approach.

However, the new clauses proposed in the Draft Decision appear reasonable. This is providing that these clauses retain flexibility for networks to determine the situations where further and broader engagement via the RIT-D process is required, and that the AER is practical in the extent of documentation it requires of networks in this regard. This is important because:

- to date, as it pertains to the RIT process, issues of social licence appear to be more pronounced for transmission network investments given the larger scale land use issues. We have not observed concerns raised by our stakeholders on the level of engagement in RIT-D processes;
- many RIT-Ds typically do not present broader community effects outside of the parties that are the subject of the economic benefits and costs being assessed (e.g. a RIT-D responding to the reliability need to replace assets within an existing substation);
- RIT-D projects may have already been subject of a distributor's stakeholder engagement in developing their 5 yearly Regulatory Proposals – noting that, typically, most RIT-Ds have been to action projects that were consulted on and included within a distributor's Regulatory Proposal and AER Determination, i.e. the RIT-D has followed the AER Distribution Determination rather than the reverse;
- in RIT-Ds that involve land acquisition / new developments:

² AER, *Regulatory Investment Test for Distribution – Application Guideline (2023)*, 4.1 Consumer and non-network engagement, p.63.



- distributors already need to consult with stakeholders around planning and development approvals,³ and
- some caution is needed on the timing of the public release of a distributor's network needs, in order to prevent speculation driving above-market and inefficient price increases which ultimately would increase costs to customers.

We welcome the opportunity to continue to work with the AER to ensure that the cost benefit analysis and Regulatory Investment Test guidelines best serve the needs of customers.

Should you have any queries on the matters raised in this letter, please contact Bruno Coelho, Manager Regulatory Strategy on 0419 666 389 or bruno.coelho@sapowernetworks.com.au

Yours sincerely



Jessica Morris
Chief Customer & Strategy Officer

³ Under the Planning, Development and Infrastructure Act (2016), for significant development projects (e.g substation construction) we are required to gain approval from the State Commission Assessment Panel (SCAP) as delegated by the State Planning Commission. The SCAP manages public engagement as a neutral party, ensuring local residents understand the proposed build and impacts and can provide feedback, shaping the panel's determination. We further consult directly affected customers on an ad hoc basis, where effected by the project delivery / construction.