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Friday, 20 September 2024

Australian Energy Regulator

Lodged via email: RITguidelines@aer.gov.au.

## AER's CBA and RIT Guidelines consultation paper

Transgrid welcomes the opportunity to respond to the Australian Energy Regulator's (**AER**) draft amendments of the cost benefit analysis (**CBA**) guidelines, as well as its instruments and application guidelines for its regulatory investment tests (**RIT-T & RIT-D**). The CBA and RIT guidelines (**guidelines**) provide guidance to proponents conducting a RIT, which is a cost-benefit test that network businesses must undertake before building or replacing electricity network infrastructure.

As the jurisdictional planner, operator and manager of the transmission network in NSW and the ACT, Transgrid has a responsibility to ensure that we perform and consult with stakeholders on major investments before proceeding to invest in our network. We strongly believe that it is important that any investment we make serves the National Electricity Objective (**NEO**) and ensures that we do so transparently and collaboratively.

Transgrid is broadly supportive of the AER's work in reviewing the CBA and RIT Guidelines, specifically:

- The inclusion of changes in emissions as a market benefit in the ISP and RIT. Specifically, the flexibility that the AER has provided in their approach.

- The incorporation of social licence and community engagement activities with the instrument. We believe gaining social licence is fundamental to timely and least cost investment.

- Sharing of concessional finance with consumers.

As an ENA member, we support ENA's submission to this review. The rest of our submission outlines several key issues that are of significance to Transgrid.

## Changes in emissions as a market benefit

Key aspects in the AER's draft approach on changes in Australia's greenhouse gas emissions includes:

- A principles-based approach on data selection to allow RIT proponents flexibility to select sources of data as industry standards and policy settings change. The AER has placed the onus on the Australian Energy Market Operator (**AEMO**) and RIT proponents to defend their choices through their own consultation processes.

- Requirement for AEMO and RIT proponents to consider direct emissions in the NEM (from generation and network infrastructure) in the analysis for the RIT and ISP, unless they can demonstrate that they are either not relevant or not material. This includes a requirement to consider SF6 gas emissions.
- Indirect emissions may be considered where material and relevant, noting that embodied emissions should be assumed to be Australian emissions (even if the material or product is expected to be purchased from an overseas origin), consistent with treatment by Infrastructure Australia and NSW Treasury. When including emissions changes in other sectors, the changes must:
  - be the direct result of the project
  - should only be included to the degree that those emissions reductions are the sole result of the project (through allocation to multiple investment decisions)
  - be estimated using a reasonable approach.

Transgrid broadly supports these key aspects of the AER's draft decision, and we believe it provides flexibility for TNSPs to appropriately account for the evolving practice and data sets related to quantifying greenhouse gas emissions. Importantly the AER's draft approach provides TNSPs the flexibility to quantify changes in indirect emissions, where they are assessed as material and allows for a simple approach to embodied emissions.

Furthermore, the AER's draft approach on inclusion of changes in Australia's greenhouse gas emissions did not:

- Include the value of emissions reduction (**VER**) in the inputs to market modelling as a cost on fossil-fuel generators as it would narrow the ability to explore options and would not represent a real driver of dispatch in the NEM.
- Allow use of a different rate for discounting benefits from changes in emissions given that the guidelines already allow use of sensitivity analysis to explore the effects of varying discount rates.

We support these exclusions as we agree with the rationale provided which highlights that these two aspects may lead to unrealistic outcomes. Furthermore, where emissions are a potentially material class of market benefits, we broadly support the inclusion of energy market related emissions being calculated via market modelling. We understand this would involve assessing both the investment and base cases, with any reduction in emissions in the investment case relative to the base case valued at the Interim VER for inclusion as a market benefit.

Overall, we support the AER's position that NEM generation emissions as a potential material class of market benefit should be incorporated whenever market modelling is required as part of the RIT process.

### Social licence and community engagement

Transgrid supports the AER's work in exploring ways to integrate social licence and related activities into the guidelines. We broadly support the proposed draft amendments to the CBA and RIT-T guidelines.

### Credible option

The AER has proposed that social licence considerations should form part of the analysis of whether an option is credible. Transgrid is supportive of this approach. As outlined in the draft amendments, community opposition or sentiment should not be determinative to whether an identified option is credible considering that social licence is built over time.

The AER further explains that 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 therefore should not be considered as a credible option.

However, there appears to be a misalignment between the AER's outlined intent in the draft guidelines. To align with the intent of the proposed amendments, we would encourage the AER to consider the language set out in section 3.2.5 of the RIT-T draft application guideline and the CBA draft guideline (page 60). This is because the intention of the AER may not be appropriately reflected in these sections.

We believe the identification of credible options should be informed by early community engagement and the RIT proponents should not be expected to rule out an option as credible due to low community support during the early stages of the project.

## Community engagement

### Actionable ISP projects

The AER has placed binding requirements on RIT-T proponent for actionable ISP projects to determine and apply the most appropriate best-practice framework in developing their stakeholder engagement plan. Furthermore, the AER require RIT proponents to publish a stakeholder engagement plan as soon as practicable before the publication of the Project Assessment Draft Report (**PADR**).

Transgrid supports the proposed changes. Transgrid has adopted the Australia Energy Infrastructure Commissioner (**AEIC**) community engagement review recommendations[1] and comply with the recently released Department of Climate Change, Energy, the Environment and Water (**DCCEEW**) national guidelines on community engagement and benefits[2]. Our on the ground experience coupled with the guidance contained in national guidelines ensures we can provide clarity, engage appropriately and early, identify affected stakeholders and report transparently.

### Non-actionable RIT projects

The AER has suggested that community engagement requirements for actionable ISP projects should also apply to RIT-T proponents of non-actionable ISP projects.

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[1] Can be found on: Community Engagement | aeic

[2] Can be found on: Energy Ministers release National Guidelines for Community Engagement and Benefits for Electricity Transmission Projects | energy.gov.au

Transgrid is a strong supporter of community engagement and gaining social licence. However, we are concerned that applying the same principles and processes for actionable ISP projects to non-actionable RIT projects may increase costs to consumers with no benefit to either consumers or communities. In our experience, non-actionable RIT projects will not always require the same level of stakeholder engagement as actionable ISP projects. For example, replacement projects often yield little to no community interest given the nature of these projects i.e. minimal impact to communities. For these projects, TNSPs would be best placed to determine the level of engagement needed. Transgrid would welcome further discussions on this matter with the AER.

**Costs and benefits**

The AER provided worked examples to clarify what costs associated with social licence are expected to be included in the RIT. The AER have not provided for benefits as market benefits in the RIT are limited to benefits to those who produce, consume or transport energy in the NEM.

Transgrid broadly supports the inclusion of costs associated with social licence in the RIT-T. However, we would encourage the AER to reconsider the inclusion of social licence specific cost classes rather than being included in each of the cost categories.

Transgrid welcomes the outlined worked examples in the guidelines as they provide greater clarity on the inclusion of costs. These include community benefit sharing programs, minor route adjustments, legislated additional landholder payments and the cost of community engagement are useful.

## Sharing concessional finance benefits with consumers

The AER has stated 'w*here a concessional finance agreement is included, the TNSP is required to provide sufficient detail about the concessional finance agreement it has entered into in its RIT-T'*[3] Furthermore the AER has proposed that where a TNSP has not yet entered into a concessional finance agreement and expects to do so, a TNSP is still required to take into account the value of the benefit to flow to consumers in the RIT-T options analysis, in the event it does occur.

Transgrid broadly supports the incorporation of concessional finance into the CBA guidelines. We recognise the importance of the ISP projects to the National Electricity Market and have sought funding by the Clean Energy Finance Corporation (**CEFC**) under the Federal Government's $20 billion Rewiring the Nation (**RTN**) program for a few ISP projects, namely VNI West CPA 1 and Humelink CPA 2.

We recognise that preliminary discussions for concessional funding begins approximately a year before the contingent project application (**CPA**) to the AER, however the details of a financing agreement are not known until the CPA decision has been made by the AER. Therefore, incorporating the details of a financing agreement in a RIT-T would be unfeasible given:

- In our experience, the details of a financing agreement are not known until the CPA stage and,

[3] Cost benefit analysis guidelines - Draft guidelines to make the Integrated System Plan actionable page 76

- any discussion with financing bodies during the RIT-T stage is principles-based and does not include cashflow requirements, rates, capex or opex profiles.

Given this, we would encourage the AER to consider the benefits and costs of requiring TNSPs to speculate about the details of a potential future financing agreement during the RIT-T process.

We look forward to working with the AER to continue to ensure that any proposed amendments are fit-for-purpose and are in the best interest of consumers. If you or your staff require any further information or clarification on this submission, please contact Zainab Dirani, Policy Manager at zainab.dirani@transgrid.com.au.

Yours faithfully

Monika Moutos
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