

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

Final amendments – explanatory statement

November 2024

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# Summary

This explanatory statement sets out our reasons for the final amendments that we have made to the Cost Benefit Analysis (CBA) and Regulatory Investment Test (RIT) application Guidelines. This statement sets out the updated discussion of key issues considered in our consultation paper published in April and in the draft amendments that were published in August 2024, taking into account stakeholder submissions we received in response to our draft amendments, as well as feedback heard at our stakeholder forums held in August 2024.<sup>1</sup>

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 path of the national electricity market to facilitate the coordination of network, generation and storage investment to meet projected demand. Network businesses and AEMO (as the Victorian jurisdictional planning body) 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 including support for network infrastructure projects have resulted in a need to update network regulation processes, including these Guidelines. Our guideline updates provide additional guidance following recent law and rule changes which are aimed at ensuring emissions reduction benefits are effectively captured in system planning, supporting effective pursuit of social licence, ensuring consumers receive benefits from concessional finance and improving the efficiency of the transmission development process.

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
- minor administrative changes to other sections of the guidelines

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<sup>1</sup> 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 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) application guidelines, in addition to the tests themselves. The application guidelines set out:<sup>2</sup>

- 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 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.

Clauses 5.16.2(h), 5.17.2(i) and 5.22.5(c) of the NER allow the AER to establish requirements for AEMO and RIT-T and RIT-D proponents.

Within the Guidelines, we classify guidance as 'requirements', 'considerations' or 'discretionary' elements. This framework is set out with a table of binding requirements in Appendix A of the CBA guidelines and Appendix C of the RIT-T and RIT-D guidelines.

The other guidance that we provide in our CBA guideline, and RIT-T and RIT-D applications is discretionary.

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<sup>2</sup> AER, *RIT-T application guidelines*, September 2017; AER, *RIT-D application guidelines*, September 2017.

## 1.2 Scope of this review

This review has considered 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.<sup>3</sup>
- required by recent or planned changes to the NER, including:
  - enhanced community engagement by RIT-T proponents.<sup>4</sup>
  - treatment of concessional finance benefits.<sup>5</sup>
  - guidance on the treatment of costs for early works that are undertaken concurrently with a RIT-T for an actionable ISP project.<sup>6</sup>
  - guidance on the timing and basis for ISP feedback loop assessments by AEMO in relation to final RIT-Ts for actionable ISP projects.<sup>7</sup>
- 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).<sup>8</sup> This includes:
  - how social licence may affect the identification of credible options.
  - how social licence relates to the classes of costs and benefits and the feasibility of options.
  - effective community engagement by RIT-T proponents.

The Guideline Review only considered the effect of those requirements and matters identified above on the ISP and RITs. 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

The final guidelines along with this 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.

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

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

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

<sup>6</sup> AEMC, National Electricity Amendment (Bringing early works forward to improve transmission planning) Rule 2024 No. 17, 5 September 2024.

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

<sup>8</sup> AER, Directions paper - Social licence for electricity transmission projects, October 2023.

## 2 Changes in emissions as a market benefit

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

### 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 NEO. These changes took effect in late 2023.<sup>9</sup>

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.<sup>10</sup>

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 referred to 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.<sup>11</sup>

On 22 May 2024 we issued AER guidance on valuing emissions reduction, as contemplated in the amendments to the National Electricity Law.<sup>12</sup> This guidance binds the AER and RIT proponents to the method of calculating the VER. The VER is in dollars per tonne of avoided greenhouse gas emissions. On 19 July 2024, the Energy Ministers agreed to extend the interim VER to 30 June 2026 and issued an amended statement.<sup>13</sup> 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 draft amendments

We have reviewed stakeholder feedback received through consultation on the draft amendments (both written submissions and the public forum) on our draft guidance and positions in relation to the changes in Australia's greenhouse gas emissions market benefit class. We have made changes to the RIT and CBA guidelines to:

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

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

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

<sup>12</sup> AER, Valuing emissions reduction - Final guidance and explanatory statement, 22 May 2024

<sup>13</sup> AER, MCE statement about the interim value of greenhouse gas emissions reduction, 19 July 2024.

- clarify the scopes of emissions and how they should be included
- clarify how materiality is to be considered for the changes in emissions benefit class
- improve clarity regarding consistent inclusion of market benefits across options
- impose requirements on RIT proponents and AEMO when assessing changes in emissions benefits.

We have also made minor changes within guidelines to improve readability, but which do not otherwise change the requirements or considerations.

### **Clarification of the inclusion of different scopes of emissions**

We have included additional guidance regarding the inclusion of additional scopes of emissions. This guidance was set out in the draft amendments explanatory statement but not fully included in the guidelines. We now set out that when including those scopes of emissions, the changes in emissions should:

- be the direct result of the project
- only be included to the degree that those emissions reductions are a result of the project
- be estimated using a reasonable approach and data that meets the principles set out in the inputs chapter.

For clarification, we note that the first of these considerations is that there must be a direct link between the changes in emissions included in the RIT or ISP analysis and the decision to invest in the network project(s). The second consideration adds that, where this direct link is established, those changes in emissions should be included only to the extent that they are an effect of the investment decision.

We have made this change to improve clarity of our intended requirements from the draft amendments and in response to Justice and Equity Centre's (JEC) concerns regarding double counting of changes in emissions benefits.

We recognise that JEC also expressed concern with potential for double counting of benefits in assessing changes in direct emissions. JEC provided an example of a transmission investment facilitating a renewable energy generation project and therefore receiving a benefit from reducing emissions, but the renewable energy generator could also be credited with a benefit of changing emissions (e.g. through government subsidies).

We consider that the risk of double counting benefits associated with changes in direct emissions in the manner that JEC is proposing is not likely to be material. As JEC notes, benefits from emissions can be credited elsewhere in the NEM outside of the project(s) being considered in a RIT or ISP. However, the NER (cl. 5.22.3(b)(1)) requires that AEMO must consider adopting government policies from the MCE targets statement. Additionally, RIT proponents would typically adopt government policies when undertaking energy market modelling as recommended in section 3.8.1 in the RIT-T and RIT-D guidelines and to align its approach with the ISP. Therefore, emissions reduction benefits that are credited to other projects in the NEM should be captured by assuming the existence of those government policies in both the base case and the credible option (or candidate development path) states of the world.



In JEC's example, the renewable energy generator which is credited with reducing emissions would likely be built (or a renewable generator in a different area which meets the requirements of government policy) in both the base case and credible option states of the world where government policies are assumed to be met. Therefore, to the extent that those projects provided by government policy reduce emissions in both the base case and credible option states of the world, options or candidate developments paths considered in the RIT or ISP will not be able to capture these emissions reduction benefits.

Where there is additional renewable generation built which is beyond the requirements of government policy, benefits from changes in emissions may be credited to the network investment decision. In such a case, one could think of the policy tools (such as subsidies) being exhausted and therefore those additional renewable generation projects would not be credited with reducing emissions.

The second change we have made is including additional description of the scopes of emissions which were previously included in the explanatory statement for the draft amendments, but not in the guidelines. This change was recommended by AEMO in their submission, and we agree that the suggested amendment adds clarity regarding the scopes which RIT proponents and AEMO may include.

We also considered including reference to more additional scopes of emissions when giving examples, in response to submissions from AEMO and Energy Networks Australia (ENA). The additional scopes we considered were:

- embodied emissions in assets outside the project
- emissions associated with losses.

We have not included a specific reference to these scopes in the final amendments, because:

- Embodied emissions in assets outside the project are currently not well defined and difficult to account for. Reporting and data methodologies for these scopes are undergoing rapid change and may be better understood in the future.
- Emissions associated with losses are direct emissions from generation for the purposes of the RIT. This is because we set the boundary of the analysis as the NEM. However, where market modelling has not been conducted, an estimation of the impact of changes in losses may be one way to estimate changes in direct emissions from generation.

While we have chosen not to include a specific reference to these scopes of emissions in the guideline, we have included their descriptions and the inclusion of these scopes is open to proponents as long as they are material to the outcome of the analysis and they meet the requirements as set out above.

### **Assessing and demonstrating materiality**

Our draft amendments allowed AEMO and RIT proponents to exclude changes in direct emissions from estimates of market benefits, on the condition that AEMO and RIT proponents demonstrate why changes in direct emissions are unlikely to be material. We received feedback from stakeholders that centred around addressing two related questions:

- What is considered material for the changes in emissions market benefit?
- How does a RIT proponent or AEMO demonstrate materiality?

On the first question, Ergon and Energex suggested it would be useful for network service providers (NSPs) to have guidance on what would be considered material (e.g. a dollar threshold or a certain percentage of total project costs). ENA considered that guidance for demonstrating materiality should be made in relation to whether or not quantifying this benefit is expected to lead to a change in the RIT outcome (i.e. a change in the preferred option or whether the preferred option has a positive or negative net market benefit).

We note that the current guidance (under sections 3.6.1 of the RIT-T and RIT-D guidelines and 3.3.4 of the CBA guidelines) states that materiality of a benefit class is considered on the basis of whether its inclusion would affect the outcome of the RIT or the ISP. However, we have included a suggested change from ENA which provides clarity on this in sections 3.7.3 in the RIT-T and RIT-D guidelines and 3.3.5 in the CBA guidelines. This change includes the words “to the RIT outcome” as the basis by which immateriality can be demonstrated for direct emissions to not be included in the ISP or RIT. On the question of how to demonstrate materiality, ENA proposed that a qualitative justification for demonstrating materiality should be allowed. Both ENA and Energex expressed concern that a requirement to undertake a quantitative analysis to determine materiality of direct emissions would excessively increase the burden on RIT proponents.

Section 3.6.1 of the RIT-T and RIT-D guidelines and section 3.3.4 of the CBA guidelines allow for RIT proponents and AEMO to not include a class of market benefit where it can provide reasons why it is unlikely to affect the outcome of the RIT or the ISP. Therefore, we consider that the guidelines already allow for a RIT proponent or AEMO to not include the changes in emissions benefit where it can provide qualitative reasoning that it is unlikely to affect the outcome of the RIT or ISP.

It is only where emissions are considered to be material, that RIT proponents or AEMO must demonstrate that direct emissions are not material if they are not included in the RIT or ISP respectively.

### **Consistent inclusion of market benefits across options**

JEC submitted that, where RIT proponents include benefits from changes in emissions that occur outside of the NEM, they should be included consistently across all credible options. JEC considers that this would prevent RIT proponents from including benefits of changes in emissions from other sectors for only some options which would bias the RIT outcome.

We agree that emissions from other sectors (where included) should be included consistently across all options (or candidate developments paths) in the RIT (or ISP) to prevent a potential bias towards a particular option or candidate development path. Further, we consider this potential for bias could extend to other scopes of emissions.

We have amended the RIT and CBA guidelines to introduce a requirement that all included classes of market benefits are to be applied consistently across options.

## **Requirements on how to include changes in emissions benefits**

We have included two new requirements on RIT proponents and AEMO related to the approach to including changes in emissions benefits.

The first requirement is that, where changes in emissions benefits are included, direct emissions within the NEM must be included unless demonstrated to be immaterial to the RIT outcome.

The second requirement is that RIT proponents and AEMO must quantify the changes in emissions benefit using the approach set out in the changes in Australia's greenhouse gas emissions section of appendix A of the RIT-T and RIT-D guidelines. That is, that the change in annual emissions between the base case and the credible option be estimated and multiplied by the VER to arrive at the annual benefit from changes in emissions.

We consider that including these requirements ensures that, where changes in emissions benefits are assessed, a more consistent estimation approach will be adopted among RITs and the ISP. Consistency in estimation approaches allows for the results to be more accessible for stakeholders.

## **2.3 Discussion of other points raised in submissions**

Stakeholders were broadly supportive of the draft amendments for incorporating the changes in emissions market benefit class in the RITs and ISP. Stakeholders supported that:

- changes in emissions are only included where material to the RIT outcome
- indirect emissions are included on an 'opt in' basis
- the guidelines provide flexibility for AEMO and RIT proponents and appropriately account for evolving practice and data sets relevant for quantifying greenhouse gas emissions
- the VER is only included in the cost benefit analysis for valuing emissions (and not in the market modelling as an additional cost in dispatch)
- the worked examples for quantifying changes in direct emissions are clear.

The remainder of this section sets out discussion regarding other feedback we have received and our responses.

### **Interaction between carbon budgets and VER**

In our draft amendments explanatory statement, we proposed an approach that AEMO and RIT proponents should follow to incorporate the VER within the context of cost benefit analysis and market modelling. This proposed approach involved:

- including the VER in the cost benefit analysis to value changes in emissions
- not including the VER as an input in market modelling of capacity or dispatch
- the continued use of carbon budgets to reflect different scenario driven emissions trajectories.

In their submissions, AEMO, ENA and Transgrid supported the guidance of not including the VER in market modelling. Further, ENA stated its support for the use of carbon budgets concurrently with the VER.

The Centre for Independent Studies (CIS) submitted that combining a carbon budget and the VER effectively creates two 'prices on carbon' and confuses the analysis. It noted that where the implied price of the carbon budget and VER differ, the combination of a budget with a VER would create an asymmetry where the most stringent of the two is satisfied. CIS also noted that it was unclear why the benefit of changes in emissions should exceed zero if the carbon budget has an implied price equal to the VER.

Our guidance specifies that AEMO and RIT proponents should not include the VER as a cost when deriving states of the world (for example as a cost in market modelling dispatch). Therefore, the VER is not a constraint in the model which can limit the amount of emissions in a state of the world. Conversely, the carbon budget is a constraint and can therefore limit the emissions trajectory, but does not directly impact the cost benefit analysis.

Irrespective of whether the implied price of the carbon budget and VER are equal or differ, the carbon budget may constrain emissions (that is, emissions will be no higher than the level of the carbon budget). This will occur where the least cost solution to the modelling optimisation problem would otherwise contain an emission trajectory that exceeds the carbon budget. This is often referred to as the constraint 'binding' and in such instances, the implied price of the carbon budget will be non-zero.

We understand that the carbon budget constraint may bind in either the credible option state of the world or the base case state of the world. If it binds in both, there may be limited differences in emissions, and therefore limited additional benefits in addition to those that are implicitly included through adoption of a carbon budget (the benefits that a project provides in meeting the carbon budget at lower system costs). However, in such a case, projects may still obtain a benefit in changing the emissions trajectory by avoiding the impacts of short-term emissions.

The submission from CIS also noted the importance of capturing uncertainty of emissions trajectories and suggested that uncertainty could be captured by using a different VER to match each of the different scenarios.

We, and RIT proponents (in respect of applying the RIT), are required under NEL clause 42(2) to comply with the interim VER (consistent with the MCE statement) as provided in our separate Valuing Emissions Reduction guidance.<sup>14</sup> While the MCE statement does recommend varying the VER by 25% for the purpose of sensitivity analysis, it does not consider using different VER in the core analysis.

### **Adjusting relative benefits of emissions reduction over modelling horizon**

In our public forums, we discussed with stakeholders issues related to adjusting the relative benefits of reducing emissions over time within the analysis. Some stakeholders recognised that emissions have a higher impact in the immediate term and therefore the benefits of

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<sup>14</sup> AER, Valuing emissions reduction - Final guidance and explanatory statement, 22 May 2024

reducing emissions earlier in the analysis should be higher than later in the analysis. Other stakeholders considered that there should be a continuous incentive to reduce emissions over the modelling period. Through the consultation process, two approaches were discussed by which these could be achieved:

1. Using a different VER with higher relative values of changes in emissions in earlier years
2. Adopting a higher or lower discount rate for the changes in emissions benefit class.

JEC submitted that the interim VER, which includes an increasing cost of emissions over time, should be reversed. We note that NEL clause 42(2) requires us to comply with the VER which is published in our separate interim Valuing Emissions Reduction guidance. We cannot adopt a different method for calculating the VER.

After considering whether to adopt an alternative discount rate for the changes in emissions market benefit, we have decided to maintain our position from the draft amendments that the discount rate should not be applied differently for the changes in emissions benefit.

We consider that 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. We also note that stakeholders were broadly supportive of this approach, and specifically of the consistency this approach provides.

### **Examples for non-obligatory scopes of emissions**

South Australia Power Networks (SAPN) submitted that worked examples would assist networks in understanding the type of data and practice that the AER expects regarding the non-obligatory scopes of emissions. However, ENA supported not including examples for the non-obligatory scopes as it considered this would be more appropriate in the future when settled methodologies have emerged.

We agree with ENA that it is premature for us to provide examples given that data and methodologies to estimate these scopes of emissions are still emerging. Therefore, we have decided not to include additional examples for non-obligatory scopes of emissions.

### **‘Opt-in’ approach for embodied emissions**

CIS submitted that allowing embodied emissions to be excluded from the calculation of VER will likely result in some options being overvalued in comparison with others. CIS further noted that including embodied emissions in the entire NEM would ensure the model makes appropriate trade-offs to minimise whole-of-system emissions.

We agree that not including embodied emissions would likely change the market benefits of the options relative the same analysis if embodied emissions were included. However, in making our decision to make the inclusion of embodied emissions optional we have considered:

- feedback from stakeholders that requiring the inclusion of embodied emissions would place a burden on RIT proponents and AEMO that is disproportionate to the outcome of most cost benefit analyses
- the objectives of the RIT and ISP to identify the preferred option or optimal development path.

If RIT proponents or AEMO consider that embodied emissions would affect the outcome of the RIT or ISP then they may be included.

## 3 Social Licence

Chapter 3 is separated into three sections in relation to social licence: credible options, community engagement and costs and benefits. Each section introduces the matter, the initial position of our draft amendments and our changes informed by stakeholder views.

Section 3.1 briefly explains the final amendments considering social licence issues in the identification of credible options.

Section 3.2 outlines our amendments on community engagement, taking into account the AEMC's rule change on community engagement in actionable RIT-Ts, but also setting out requirements for non-actionable RIT-Ts and RIT-Ds.

Section 3.3 explores changes to the amendments relating to the costs of social licence instigated by the AER's directions paper, informed by the AEMC's Transmission Planning and Investment Review Stage 2 report.

One key difference in our final guidelines compared with our draft amendments on social licence is the inclusion of a definition of social licence. Our draft amendments were based on a basic definition for social licence, namely that social licence is linked to general awareness and acceptance of a project within a community and is directly linked to a project's credibility. In response to feedback from AEMO, we have now added ECMC's definition that social licence refers to 'continued support and acceptance from a community that will be affected by an organisation, its activities or projects' to all three guidelines, to improve consistency across frameworks. This definition is consistent with how social licence has been described in our 2023 Social Licence Directions Paper and in this guideline review.

### 3.1 Credible option

A credible option is an option (or group of options) that:<sup>15</sup>

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 5.15.2 (b) or (d) of the NER.

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

Submissions to our draft amendments identified that guidance was not clear on whether a RIT proponent could consider an option not credible based on social licence issues.

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<sup>15</sup> NER cl. 5.15.2

In public forums, participants raised that the AER should provide more information to explain how social licence issues can be taken into account in determining whether an option is commercially and technically feasible.

Our final amendments clarify that a RIT proponent must consider social licence issues in the identification of credible options and that this may affect how a RIT proponent determines the most likely cost and delivery timeline for an option.

Where the most likely cost and delivery timeline results in a commercially feasible option that can be implemented in sufficient time to meet the identified need, then that option is credible despite any risk of delay or increased cost for that option.

Where the option's most likely cost and delivery timeline would make the option no longer commercially feasible, or no longer able to be implemented in sufficient time to meet the identified need, that option would not be a credible option. In this case there may be a similar option that would be credible with only a small change in parameters, and such options must be considered so that all credible options are identified in accordance with the Rules.

A RIT proponent should include in its RIT reports when and how social licence considerations have affected the identification and selection of credible options.

Our final amendments also clarify that the identification of credible options should be informed by any early community engagement undertaken by the RIT proponent or AEMO in developing the ISP. This includes considering the technical or commercial feasibility or ability to be delivered in time to meet the identified need.

## 3.2 Community engagement

The AEMC rule change on enhancing community engagement introduced an obligation for RIT-T proponents of an actionable ISP project to engage with stakeholders who are reasonably expected to be affected by the development of the project.<sup>16</sup>

Our draft amendments created a binding requirement on RIT-T proponents of actionable ISP projects to publish a stakeholder engagement plan, to demonstrate compliance with the NER as amended. The draft guideline amendments also required non-actionable RIT-T and RIT-D proponents to consider how they intend to engage with affected communities, or to provide reasoning why engagement is not necessary. Stakeholders broadly supported these positions but requested some clarifications as noted in this chapter.

### **Amendments to the Cost Benefit Analysis guidelines for actionable RITs**

Our final amendments have maintained the requirement for a RIT-T proponent of an actionable ISP project to publish a stakeholder engagement plan and report against this plan in each RIT-T report.

Submissions to our draft amendments raised areas for clarification but did not suggest any changes to the positions in the draft amendments.

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<sup>16</sup> AEMC, National Electricity Amendment (Sharing concessional finance benefits with consumers) Rule 2024 No. 7, 21 March 2024.



Our final amendments:

- include some specific references to engagement with interested parties to clarify the parties that RIT-T proponents for actionable ISP projects are required to engage with. AEMO requested that we expanded references to ‘the community’ to clarify that it includes a reference to landholders and traditional owners.
- place a requirement on RIT-T proponents 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. In doing so, they should specifically show how their engagement responds to the community engagement expectations in the Rules, for which a reference is included in the final amendments.
- 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 expected 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 and best practice is still being developed for engagement on electricity infrastructure projects. The changing best-practice landscape underscores the benefits of principles-based guidance in the CBA guidelines.
- 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.

These amendments aim to ensure that stakeholder engagement is conducted in a transparent, inclusive, and effective manner. This transparency will help to build trust and ensures accountability of RIT proponents, making it more likely that projects will gain community support. 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. Some stakeholders, in response to our consultation paper expressed that engagement requirements should also be binding for proponents of non-actionable RIT projects, while others noted that not all RITs may require comprehensive engagement. We also considered it necessary to update our guidance for non-actionable RIT-Ts and RIT-Ds to ensure consistency across the guidelines covering the RIT. Our draft amendments were written with this position in mind.

Feedback from stakeholders in response to our draft amendments identified that community engagement should be set out separately from consumer engagement as a distinct requirement, so we have separated Section 4.1 of the RIT-T and RIT-D guidelines into *consumer and non-network engagement* and *community engagement*.

Feedback from networks also raised concerns that our draft amendments could lead to an unintended additional burden in a RIT where the proponent determines reasonably that the project does not require community engagement. We have clarified the position that a RIT proponent is able to determine that and provide reasons why a project does not require community engagement. Our final amendments require RIT-T and RIT-D proponents to describe in each RIT report:

- their assessment of the requirement for community engagement, including reasons for that assessment, and
- as applicable:
  - how they have engaged with community stakeholders and sought to address any relevant concerns identified through this engagement
  - how they plan to engage with these stakeholder groups

### 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.<sup>17</sup>

Our positions have not changed between the draft and final amendments. However, in response to stakeholder concerns around transparency of social licence costs, we have also clarified that RIT proponents are expected to detail social licence costs in their RIT reports.

We note that some stakeholders raised in their submissions and during the public forums that it may be appropriate to introduce an incentive to ensure that networks use expenditure that has been approved for social licence spending on social licence activities. While incentives for expenditure are not a subject that we can address in the scope of the CBA and RIT guideline review, we acknowledge the difficulties in introducing social licence costs into the existing cost recovery framework and will consider this feedback in future processes related to incentives for expenditure.

#### Costs

Our final 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.

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<sup>17</sup> AER, Directions paper - Social licence for electricity transmission projects, October 2023

## **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 consider that some credible options may deliver social licence benefits (e.g., through community benefit sharing). We note that these benefits cannot be included in the RIT unless the RIT proponent can demonstrate that they meet the definition of market benefits 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

Chapter 4 includes an explanation of how our final guidelines differ from the draft amendments, and how concessional finance agreements are intended to be treated as a result of the final guidelines.

### 4.1 Requirement to update the guidelines

In March 2024, the AEMC published a final determination on sharing concessional finance benefits with consumers<sup>18</sup> that:

- recommended the AER to provide guidance on:
  - the level of funding certainty required before concessional financing can be used to support a project option in the economic assessment process.
  - the treatment of concessional finance in the economic assessment process and to provide a more consistent approach across the Guidelines.
- required the AER to extend the guidance and worked examples in its CBA guidelines and RIT application guidelines to include external funding contributions.

Following the release of our draft amendments in August 2024, stakeholders provided feedback on areas of the guidelines in which concessional finance guidance could be implemented with greater clarity.

The finalised amendments reflect our expectation that:

- only agreements which are reasonably likely to be executed by a proponent are to be included in the RIT, to the extent that there is a benefit passed on to consumers
- the proponent is best placed, as party to the agreement negotiations, to judge the likelihood of that specific agreement being executed.

### 4.2 Changes to draft amendments

Following the release of the draft amendments and the subsequent round of consultation, stakeholders provided feedback on areas of the guidelines in which concessional guidance could be implemented with greater clarity.

Feedback from stakeholders noted that these requirements are placed on an executed agreement at a far later stage of a project, which is unlikely to be available during most RITs.

The relevant sections of the guidelines were clarified and rewritten, with the following changes of note:

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<sup>18</sup> AEMC, Final rule determination: National Electricity Amendment (Sharing concessional finance benefits with consumers) Rule 2024, March 2024.

- Information sharing considerations specific to the RIT stage of a project when including agreed or future concessional finance agreements.
- Clarification of the process of including a concessional finance agreement.
- Considerations of the event in which an expected concessional finance agreement is not executed.

Submissions also sought clarification on how debt and equity agreements differ and how to account for agreements where only part of the benefit flows to consumers. The guidelines have been updated to address this, noting also that only the portion of the benefits of concessional finance that flows on to consumers may be included in the RIT, as per the AEMC's determination.

In its submission, AEMO also sought clarification that guidance on concessional finance can be applied to the development of the ISP. We have inserted guidance that AEMO may choose to follow the same approach that is set out in the RIT-T section of the CBA guidelines.

## **Information requirements for concessional finance**

Feedback received on the draft amendments from ENA and Transgrid contended that more guidance was needed on the information that should be provided. They also sought clarification on the supporting information expected at the RIT stage compared to the information prescribed by the AEMC's rule change for the cost recovery process.

Our final amendments set out information requirements for RIT proponents that are including a concessional finance in their analysis (without sensitivity analysis as described below) to provide reasons and evidence why they are confident that the agreement is likely to be executed. The RIT proponent is also required to provide details about how the benefit is to be shared with consumers, including about how the sharing of that benefit will occur, along with supporting evidence and information to substantiate these matters.

## **Clarification of the process**

The guidance relating to agreements that are not executed has also been clarified. Additional guidance sets out a requirement for proponents to consider the likelihood of an agreement being executed before including it in a RIT process.

If a proponent chooses to include the agreement despite there being less certainty or evidence of its execution, they should consider sensitivity analysis around the execution of the agreement, but analysing the option both with and without the agreement as an input.

A greater amount of information about the agreement is likely necessary where less certainty exists about its execution if a proponent chooses to include it in the RIT. The proponent should explain how and why the agreement will be executed as well as provide sufficient detail to allow understanding of its effect on the cost benefit analysis.

## **When an expected concessional finance agreement is not executed**

Stakeholders sought clarification on whether or not an expected agreement failing to eventuate (and the concessional finance contemplated by that agreement therefore being "lost") would constitute a potential material change in circumstances. We consider such an

event may constitute a material change in circumstances, but – more specifically - we also consider that the loss of expected concessional finance may be a 'RIT reopening trigger' as defined by the NER. We have included guidance to this effect in the guidelines.

ENA, in their submission, noted that the sensitivity testing process for proposed concessional finance agreements was only present in the CBA guidelines. This has been clarified and added to the RIT-T and RIT-D application guidelines as well.

SAPN suggested it would be efficient if proponents could revert to the next most preferred option in the case where concessional finance is unexpectedly not executed. We do not consider it is best practice to revert to a previously non-preferred option without first considering the loss of concessional financing as a potential material change or RIT reopening trigger.

## 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.

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

- Guidance that a TNSP should not submit a feedback loop request between the publication of the final inputs, assumptions and scenarios report (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, provided an extension is requested no later than 10 business days before expiry of that time limit. 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.
- Requiring RIT-T proponents to inform the AER within one business day of the outcome of a feedback loop assessment in the event the proponent has elected to use the concurrent pathway and AEMO has made a decision not to provide written confirmation. In addition, requiring RIT-T proponents to notify the AER within one business day where AEMO has extended the time for making a decision on a feedback loop request.
- 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.

There were no matters raised by stakeholders in submissions related to our amendments addressing the feedback loop assessment process.

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

On 5 September 2024, the AEMC published its final rule determination on bringing forward early works to improve transmission planning. The final rule allows transmission businesses to undertake early works before completing, or commencing, a RIT-T for actionable ISP projects. The final rule provides a definition for early works and principles that we must have regard to when assessing whether to approve the costs of early works.

We note that amendments to our CBA guidelines address the treatment of early works costs in subsequent RIT-Ts. These guideline amendments do not address how we will assess contingent projects for early works costs – we may provide guidance on our assessment of early works contingent projects at a later stage.

Consistent with the AEMC's final rule on bringing forward early works, the 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 final rule determination that the RIT-T proponent should specify the amounts that the proponent considers relate to assets that can be sold or utilised to support other projects, and the facts and reasons on which its view is based.
- 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 inserted in the Rules.
- Providing guidance on how the ISP should treat approved early works costs when estimating costs for ISP projects, encouraging consistent treatment of early works costs in RIT-Ts and the ISP.

The AEMC's final rule differed from its draft rule on the treatment of sunk early works costs in a subsequent RIT-T. The AEMC's draft rule determination stated 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. In contrast, the final rule provides that early works costs must be excluded, unless they can be re-sold or utilised on another project.

Our draft amendments to the CBA guidelines gave effect to the AEMC's draft rule determination as the final rule determination was not available at the time. Our draft decision on the CBA guideline amendments noted that we would update our amendments to reflect the AEMC's final rule.



Submissions from stakeholders on our draft amendments acknowledged the AEMC's final rule determination and our intention to reflect the final determination.<sup>19</sup> Submissions from the AEMC and AEMO provided suggested wording changes to the CBA guidelines to give effect to the AEMC's final rule determination. Energy Networks Australia submitted that we consider including the early works amendments in the list of binding elements in the CBA guidelines. We have considered these submissions in our final amendments.

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<sup>19</sup> AEMC, AEMC feedback on the draft amendments to the CBA guidelines, RIT-T and RIT-D guidelines, 6 September 2024, p. 1; AEMO, Submission on AER draft amendments to the CBA guidelines, 20 September 2024, pp. 4-5; ENA, Submission on AER draft amendments to the CBA guidelines, 20 September 2024, pp 8-9.

## 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 guidelines to RIT-T proponents in assessing a material change in circumstances.

No additional changes were made following release of the draft amendments.

2. update outdated references, including the superseded version of guidelines.

Most of the changes are to footnote references or superseded information. These changes have been highlighted in the marked-up version of the final guidelines, to include changes that reflect recent decisions made since the draft amendments were released.

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 and is unchanged between draft and final guidelines.

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 and is unchanged since the draft stage.

5. update formatting to the latest templates and styles.

This method was used during the drafting stage to make certain that the guidelines were consistent, readable and provided an approach to correct any issues, for example identifying which content was part of worked examples in the previous versions of the guidelines. Additionally, any further formatting changes made to the final guidelines was to ensure consistency between the documents and in line with the Australian Government style guides.

6. correct editing mistakes.

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

7. addition of reference tables to appendices of the RIT-T and RIT-D application guidelines.

In response to stakeholder feedback, we included a table of requirements similar to those in the CBA guidelines which we considered would be a helpful inclusion. We have also included tables in the RIT-T and RIT-D application guidelines outlining the requirements that the guidelines place on proponents and in addition to the requirements in the rules and instruments similar to those in the CBA guidelines.

## Appendix A: Submissions on our draft amendments

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

<b>Valuing emissions reductions</b>	
<b>Inputs from this consultation:</b>	8 submissions on Valuing Emissions Reduction from: AEMO, Ausgrid, CIS, ENA, Ergon and Energex, JEC, SAPN, Transgrid.  Summary report from stakeholder forum: 26 August 2024
Approach to market modelling	<p><b>Stakeholder comments:</b></p> <ul style="list-style-type: none"> <li>• AEMO and Transgrid supported not including the VER as an input in the market modelling (i.e. as an additional cost in dispatch) but rather as an input in the cost benefit analysis undertaken post-market modelling.</li> </ul>
Carbon budget	<p><b>Stakeholder comments:</b></p> <ul style="list-style-type: none"> <li>• CIS submitted that combining a carbon budget and a value of emissions reduction effectively creates two ‘prices on carbon’ and confuses the analysis. CIS considered the effect of this is that:</li> <li>• Where the implied price of the budget and VER differ, the combination of a budget with a VER creates an asymmetry where the most stringent of the two is satisfied.</li> <li>• Where they do not differ, the combination of a VER and carbon budget makes the model difficult to understand.</li> <li>• CIS suggested that, to capture uncertainty over emissions trajectories, AEMO and RIT proponents could instead vary the VER schedule in different scenarios.</li> </ul>

<b>Valuing emissions reductions</b>	
Direct emissions	<p><b>Stakeholder comments:</b></p> <ul style="list-style-type: none"> <li>AEMO, Ausgrid, ENA and SAPN supported the draft guideline amendments which require RIT proponents and AEMO to consider direct emissions from generation and network investments, where material and relevant to the RIT outcome.</li> </ul>
Double counting benefits from changes in Australia’s greenhouse gas emissions	<p><b>Stakeholder comments:</b></p> <ul style="list-style-type: none"> <li>JEC notes concern that another actor may be credited with an emission reduction (e.g. a new transmission line which connects a renewable generator that displaces fossil fuel generation could include the benefit of emissions reduction, but this benefit could also be included for the assessment of the generator where it receives credit for emissions reduction).</li> </ul>
Flexibility to include indirect emissions	<p><b>Stakeholder comments:</b></p> <ul style="list-style-type: none"> <li>Ausgrid, ENA, Ergon and Energex, SAPN, Transgrid are supportive of the amendments which allow for an ‘opt-in’ approach to including indirect emissions where material and relevant. Stakeholders noted this would account for the evolving methodologies and datasets required to estimate indirect emissions.</li> <li>AEMO and ENA also noted that the description of the types of emissions (as provided in the explanatory statement to the draft amendments) should be included in the guidelines for added clarity.</li> <li>SAPN submitted that worked examples for the non-obligatory emissions scopes would aid networks in understanding the type of data and practice the AER expects in RIT analyses. ENA supported not including examples for the non-obligatory emissions scopes as this would be more appropriate in the future when methodologies are settled.</li> <li>CIS submitted that excluding indirect emissions will likely result in some options being overvalued in comparison with others. Including indirect emissions would ensure that the model makes appropriate trade-offs to minimise whole-of-system emissions.</li> </ul>
Increasing relative benefits of VER in earlier years (e.g. through modifying VER	<p><b>Stakeholder comments:</b></p>

<b>Valuing emissions reductions</b>	
schedule or adopting different discount rate)	<ul style="list-style-type: none"> <li>• JEC submitted that the interim VER schedule does not appropriately reflect the relative impact of emissions over time and the higher value of emissions reduction in early years, relative to those in later years. The AER should provide RIT proponents and AEMO with a formula to reverse the direction of the schedule.</li> <li>• AEMO, ENA and Transgrid noted support for maintaining the same discount rate for all classes of market benefits (including changes in greenhouse gas emissions).</li> </ul>
Consistent application across options	<p><b>Stakeholder comments:</b></p> <ul style="list-style-type: none"> <li>• JEC considers that guidance should ensure proponents are consistent across all options (both network and non-network) in the treatment of emissions from outside of the NEM.</li> </ul>
Materiality	<p><b>Stakeholder comments:</b></p> <ul style="list-style-type: none"> <li>• ENA, Ergon and Energex, JEC and SAPN noted that the guidance should specify what is meant by 'material' in the context of assessing changes in the emissions benefit class.</li> <li>• ENA and SAPN noted that the guidance should be clear that materiality be considered on the basis of whether the change in emissions impacts the RIT outcome.</li> <li>• ENA and Ergon and Energex also expressed concern that the draft amendments may require NSPs to quantify the changes in emissions benefit to determine whether it is material. This would increase the burden on businesses. ENA proposed that guidance allow for a qualitative description to explain when emissions are not material.</li> </ul>

<b>Social Licence</b>	
<b>Inputs from this consultation:</b>	<p>7 submissions on social licence topics;</p> <p>Summary reports from stakeholder forums</p> <ul style="list-style-type: none"> <li>• Expert stakeholder forum on 28 August 2024</li> <li>• General stakeholder forum on 29 August 2024</li> </ul>
Community Engagement	<p><b>Stakeholder comments</b></p> <ul style="list-style-type: none"> <li>• Infracore suggested that detailed project level self-reporting by TNSPs should be introduced to improve transparency.</li> <li>• Murrindindi Shire Council suggested that a mandated social licence target should be introduced, eg, a requirement should be included for a minimum of 80% acceptance by a representative citizens panel before a project can be approved.</li> <li>• Murrindindi Shire Council raised that the absence of a defined requirement for comprehensive public information sharing – risks limiting the community's understanding of the project's full benefits and impacts and could undermine informed decision-making.</li> </ul> <p>AEMO suggested that references to 'the community' should separate out landholders and traditional owners as groups that require distinct engagement.</p>

<h2>Social Licence</h2>	
<p>Costs</p>	<ul style="list-style-type: none"> <li>• Infracuture raised that the regulatory framework should facilitate visibility of costs and outcomes. Having separate cost categories for engagement, social licence and benefit sharing costs could be part of the solution.</li> <li>• ENA raised that current wording focuses on efficient costs of engagement, however the focus in the RIT assessments should instead be on whether the NSP considers those costs to be reasonable.</li> <li>• ENA and Infracuture raise that the explanatory statement states that the same percentage of funding should be allocated to community benefit sharing across all options, despite the discussion in the AER Explanatory Statement stating that early engagement may indicate options may require a different level of community benefit sharing.</li> <li>• Forum participants suggested that further guidance should be provided by the AER on linking community benefit sharing activities to feedback received from stakeholders during engagement.</li> <li>• Murrindindi Shire Council raised that there should be a maximum percentage or value of the cost of community engagement that the proponent can pass on to the consumer. This is to be applied in all cases where they succeed or fail to secure a social licence.</li> </ul>
<p>Credible options</p>	<ul style="list-style-type: none"> <li>• ENA noted that ‘No delays to the most likely timeline should be considered when assessing the credibility of an option’ may be interpreted that impacts of social licence on project timelines should not be considered in option credibility assessment.</li> <li>• ENA noted that the guidelines do not currently reflect the wording in explanatory statement or forums that ‘this option may not be economically or technically feasible’ if costs of engagement are significantly high.</li> <li>• Infracuture noted that a less expensive option may be deemed non-credible due to community opposition without a third-party testing whether engagement has been of sufficient quality to make this assessment. The pressure of timely approvals makes this issue difficult to address.</li> </ul>

<h2>Social Licence</h2>	
<p>Engagement for non-actionable RITs</p>	<ul style="list-style-type: none"> <li>• Energy Queensland raised concerns that the AER may reject a DNSP's proposed funding should it not accept its response on engagement.</li> <li>• ENA recommended the AER consider only applying the presumption of additional engagement to greenfield projects; or applying a cost threshold (such as the \$100m threshold applied elsewhere in the guidelines), below which there is no general presumption on additional community engagement.</li> <li>• ENA raised that the draft amendments set up a presumption that the NSP would provide an engagement plan, unless it explains in the RIT documentation why a plan is not necessary.</li> <li>• Forum participants raised that it would be clearer to establish a section for community engagement that is separate to consumer engagement.</li> </ul>
<p>Post-RIT stage</p>	<ul style="list-style-type: none"> <li>• Stakeholders contend where funds to support engagement have not been approved, there is a risk that proponents spend less than they otherwise might on engagement and social licence activities due to a lack of certainty that such costs will be assessed as prudent and efficient.</li> <li>• There is no mechanism within the regulatory framework to ensure that funds allocated for community and engagement are used as expected.</li> <li>• The AER should consider a review of how costs associated with social licence and benefit sharing initiatives are recognised in the framework. We believe that project proponents should not earn a return on capital for engagement and benefit sharing initiatives that are aimed at building and maintaining social licence. We believe that community initiatives that are critical for gaining and sustaining social licence should not be used to inflate a proponent's RAB, nor increase the long-term costs to consumers or provide higher long-term returns to investors.</li> <li>• Introducing an incentive mechanism for RIT proponents that meet their spending levels for social licence</li> </ul>



<h2>Social Licence</h2>	
<p>Social licence in the broader planning framework</p>	<ul style="list-style-type: none"> <li>• Infrastructure raised a number of concerns and recommendations relating to the broader planning framework:                             <ul style="list-style-type: none"> <li>○ They state that under the current regulatory framework, consumers (and not project proponents) are unfairly bearing the risk of poorer service reliability and higher energy costs resulting from project delays. For consumers within impacted communities, this negative impact is compounded because not only do they share the higher cost and risk of poorer reliability, but they also bear poor local outcomes from inadequate investment in social licence.</li> <li>○ They suggest that AEMO Services should be engaged to deliver a monitoring and compliance regime, to deliver a similar framework for transmission proponents to monitor and ensure delivery of benefits (similar to NSW LTESA and Commonwealth CIS regime).</li> <li>○ They suggest that the AER could amend its framework to require TNSPs to report costs and outcomes of community engagement and social investment associated with large transmission projects.</li> <li>○ They recommend that the AER consider a review of how costs associated with social licence and benefit sharing initiatives are recognised in the framework</li> <li>○ They suggest that jurisdiction based licences could be amended to include a compliance function for commitments to engagement and social licence. However, coordination of changes to licence conditions across multiple jurisdictions will take time and will likely deliver less consistency across the NEM</li> </ul> </li> </ul>
<p>Worked examples</p>	<ul style="list-style-type: none"> <li>• ENA states that the stakeholder engagement example in the RIT-T and RIT-D guidelines appears to reflect intended guidance, as opposed to being a worked example. For clarity and accessibility, we suggest that all the 'requirements' included in this example be reflected in the main body of the document instead</li> <li>• ENA states that is unclear in worked example 11 that the first engagement takes place before the release of the PADR which makes it appear there is an extra round of required consultation</li> </ul>

<b>Concessional finance</b>	
<b>Inputs from this consultation:</b>	5 submissions on concessional finance matters from: AEMO, ENA, Hydrostor, SAPN, Transgrid  Summary report from stakeholder forum: 26 August 2024
Consistency of approach regarding external contributions	<p><b>Stakeholder comments:</b></p> <ul style="list-style-type: none"> <li>AEMO suggested the sharing of concessional finance benefits between a proponent and consumers meets the criteria of a wealth transfer between NEM participants and shouldn't be accounted for as is consistent with current guidelines on external funding contributions.</li> </ul>
Broadening of language to include the proposed treatment of concessional finance in the ISP	<p><b>Stakeholder comments:</b></p> <ul style="list-style-type: none"> <li>AEMO requests that the language be broadened so that the proposed treatment of concessional finance is applicable at the ISP and/or RIT stages.</li> </ul>
Consideration of potential material change in circumstances	<p><b>Stakeholder comments:</b></p> <ul style="list-style-type: none"> <li>SAPN and others suggested clarity is needed on the potential treatment of situations where expected external financing agreements are not ultimately ratified.</li> </ul>
Information requirements	<p><b>Stakeholder comments:</b></p> <ul style="list-style-type: none"> <li>ENA requested greater clarity on the information that is appropriate to provide at the RIT stage for a concessional finance agreement.</li> <li>The information required/expected at the RIT stage should not be the same that NSP are required to provide for revenue determinations given far more information is known about the agreement at that time.</li> <li>The AER should consider the benefits and costs of requiring proponents to speculate about the details of future financing.</li> </ul>

<b>Concessional finance</b>	
Sensitivity analysis	<p><b>Stakeholder comments:</b></p> <ul style="list-style-type: none"> <li>• ENA noted inconsistency in how concessional finance was treated as a sensitivity between the guidelines and suggested consistent wording should be included between the guidelines.</li> </ul>
Option choice in RIT	<p><b>Stakeholder comments:</b></p> <ul style="list-style-type: none"> <li>• SAPN suggested that it would be efficient if proponents could revert back to the next most preferred option if funding does not occur.</li> </ul>
Treatment of cost	<p><b>Stakeholder comments:</b></p> <ul style="list-style-type: none"> <li>• Hydrostor contended there is inconsistency in how non-network options are treated throughout the RIT. Namely, cost estimation at times is treated as capital expenditure, whereas concessional finance seems to be able to treat operating expenses reductions against initial capital expenditure where benefits are passed onto consumers.</li> </ul>

## Improving the workability of the feedback loop

<b>Inputs from this consultation:</b>	No submissions on improving the workability of the feedback loop from: Summary report from stakeholder forum: 26 August 2024
Topic	<b>Stakeholder comments:</b> <ul style="list-style-type: none"><li>• There were no matters raised in submissions related to our amendments related to the feedback loop assessment process.</li></ul>

Early works	
<b>Inputs from this consultation:</b>	3 submissions on early works from AEMC, AEMO, and ENA: Summary report from Stakeholder forum, 26 August 2024
Treatment of sunk early works costs in subsequent RIT-T cost-benefit assessment	<p><b>Stakeholder comments:</b></p> <ul style="list-style-type: none"> <li>• AEMC and AEMO provided suggested wording changes to the CBA guidelines to give effect to the AEMC’s final rule determination.</li> </ul>
Binding elements of CBA guidelines	<p><b>Stakeholder comments:</b></p> <ul style="list-style-type: none"> <li>• Energy Networks Australia submitted that we consider including the early works amendments in the list of binding elements in the CBA guidelines.</li> </ul>

## 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
JEC	Justice and Equity Centre
MAR	Maximum allowed revenue
MCC	Material change in network infrastructure project costs
NEL	National Electricity Law
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules
NSP	Network Service Provider
PACR	Project Assessment Conclusions Report
PADR	Project Assessment Draft Report
PIAC	Public Interest Advocacy Centre
RAB	Regulated asset base
REZ	Renewable Energy Zone
RIT–D	regulatory investment test for distribution
RIT–T	regulatory investment test for transmission
SAPN	South Australia Power Networks
SF <sub>6</sub>	Sulphur Hexafluoride

Short form	Extended form
TNSP	Transmission Network Service Provider
TPI	Transmission Planning Investment
VER	Value of emissions reduction

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