

19 June 2023

Australian Energy Regulator (AER)

By online submission

Dear Sir or Madam,

AER Review of the cost benefit analysis guidelines and RIT application guidelines consultation paper

The Australian Energy Market Operator (AEMO) welcomes the opportunity to comment on the Australian Energy Regulator's (AER's) Review of the Cost Benefit Analysis Guidelines and RIT Application Guidelines Consultation Paper.

These guidelines are of importance to AEMO in its roles as National Transmission Planner (hereafter referred to as 'AEMO NTP') responsible for preparing the Integrated System Plan (ISP) and triggering the RIT-T for actionable ISP projects and also as Victorian Transmission Planner (hereafter referred to as 'AVP') responsible for applying the Regulatory Investment Test for Transmission (RIT-T) to augmentations of the Victorian Declared Shared Network.

AEMO acknowledges the broad scope of the Consultation Paper, which considers all RITs. Given the roles of AVP and AEMO NTP in planning major transmission projects, this submission focuses on material changes relevant to RIT-Ts subject to the actionable ISP framework.

Should you wish to discuss any of the matters raised in this submission, please contact Kevin Ly, AEMO Group Manager – Reform Development & Insights (kevin.ly@aemo.com.au).

Yours sincerely,



Violette Mouchaileh

Executive General Manager – Reform Delivery

ATTACHMENT 1: AEMO'S VIEWS AND INSIGHTS ON THE AER COST BENEFIT ANALYSIS GUIDELINES AND RIT APPLICATION GUIDELINES CONSULTATION PAPER

This section discusses AEMO's views and insights related to specific questions posed or where views are sought throughout the Consultation Paper.

RIT reopening triggers

4.1 Do stakeholders agree with our proposed non-prescriptive approach to guidance on reopening triggers (including worked examples, where required)?

In AEMO's submission to the AEMC's Material change in network infrastructure project costs rule change, AEMO disagreed that the revised MCC provisions promote efficient outcomes for consumers by appropriately balancing the timely and economic delivery of network projects. AEMO considered that revising the MCC provisions as proposed would add further regulatory obligations and complexity and reduce the likelihood that actionable projects are delivered within the optimal timing identified in the ISP. These revisions would reduce investment certainty and would be an unnecessary administrative burden that would not improve current outcomes under the existing MCC provisions.

Notwithstanding the point above, AEMO agrees with the proposed non-prescriptive approach as described in the consultation paper, noting the AER is obliged to introduce guidance on this. Given the dynamic nature of the energy transition and the material different characteristics across large transmission projects, a prescriptive approach which focuses on specific changes in circumstances would not be an appropriate way to develop reopening triggers. For example, a specific input change used for multiple RIT-Ts could lead to a change in the preferred option for one but not the other. Alternatively, a change in the cost of skilled labour or steel may similarly affect all the top ranking credible options.

4.1 Are there any other factors/principles other than those identified that RIT proponents should consider in setting out reopening triggers?

Regarding principles, as mentioned in In AEMO's submission to the AEMC's Material change in network infrastructure project costs rule change:

"A RIT-T proponent should assess a MCC on a case-by-case basis considering the magnitude and driver of the change and, for market benefits-driven RIT-Ts, the net market benefits buffer the preferred option has above zero and relative to other credible options."

In addition, RIT proponents should be guided by the principle of avoiding 'analysis paralysis' and unnecessarily delaying the development of efficient transmission investments when developing reopening triggers. The cumulative impact of delays to transmission investments will reduce the likelihood of aligning with the National Electricity Objective as it relates to price and the achievement of emissions reductions targets.

Cost estimation in RITs

4.2 Do stakeholders agree that it is desirable to adopt a consistent cost estimate classification system in the RIT-T and RIT-D application guidelines?

Do stakeholders have views on whether the application of an acceptable cost estimate classification should be a binding obligation on RIT proponents in applying the RIT?

Should a binding obligation be imposed on RIT-T (non-actionable ISP projects) and RIT-D proponents to conduct sensitivity analysis on the estimated costs of credible options in the RIT application guidelines?

Is there a need for transparency in the RIT regarding the relationship between contingencies to account for cost uncertainty and the level of cost accuracy of credible options?

AEMO believes that cost estimation accuracy and consistency at various stages in the ISP framework is extremely important in ensuring that ISP projects are built in a timely manner. Currently, as mentioned in the paper, AEMO uses the Association for the Advancement of Cost Engineering (AACE) classification system in its Transmission Cost Database for the purposes of classifying the cost accuracy of future ISP projects and to cross check the level of accuracy of TNSP project cost estimates for the purposes of the ISP.

AEMO doesn't believe that binding guideline obligations are required to promote the development of estimates consistent with any new guidance. Rather, meaningful engagement on the following elements through this consultation process should inform AER guideline amendments that remove the need for binding obligations:

- the consistent application of an appropriate cost estimate classification system,
- appropriate cost estimate classes for ISP, RIT-T and CPA processes,
- the consistent capture of risk and contingencies and
- the provision of transparent cost breakdowns,

Consideration of the level of knowledge about the project scope at any given time in a project delivery process should be given when determining the appropriate level of consistency.

As noted in our submission to the AEMC's Material change in network infrastructure project costs rule change, AEMO believes the AACE international cost estimate classification system should be used as a standard given AACE does not provide guidance on how to apply cost estimates within a cost-benefit analysis. A checklist or guidance should be developed to promote consistent application of AACE cost estimates.

Specifically, further guidance on how (if at all) sensitivity analysis should influence decision making would also be useful. For example, sensitivity testing on the upper end of a cost estimate within a given class could be a standard.

Once these measures have been put in place, it is unlikely that further binding guideline obligations would be required for conducting sensitivity analysis on estimates costs of credible options in addition to those.

In relation the RIT, AEMO believes transparency should always be a goal where it makes sense to provide this. Regarding contingencies specifically, it could be challenging to find practical ways to implement this, but equally we are keen to explore this further with TNSPs. It should be noted there are also existing measures in place for the cost benefit analysis to be re-run if the actual costs change materially.

Improved cost estimation transparency

4.3 Do stakeholders agree with our proposed approach to guidance to increase the transparency of the cost estimates of credible options? For example, by requiring RIT proponents to set out their cost estimation methodology, including key inputs and assumptions that are material in the cost estimation of credible options.

AEMO would like to reiterate the recommendation made in our response to the AEMC's Material change in network infrastructure project costs rule change, where we stated that:

“AEMO or TNSPs (as relevant) should publish breakdowns for all transmission cost estimates used in the ISP (including preparatory activities), RIT-T and CPA, and project estimates for RIT-Ts and CPAs using AEMO's Transmission Cost Database to enable stakeholders to understand differences between TNSP estimates and NEM-wide average values.

If this cannot be provided, TNSPs should provide this information to AEMO to enable a public transmission cost database to be developed, published and maintained. Project data for individual projects would be averaged and anonymised for each ISP cycle.”

Early works

4.4 Do stakeholders agree with our proposed approach to guidance that balances prescription of the activities included in the scope of early works with the flexibility for RIT-T proponents to include activities consistent with the AEMC's definition of early works?

Are there specific activities that should be included in the scope of early works activities that are consistent with the AEMC's definition of early works?

AEMO agrees that an appropriate balance of prescription to provide clarity must be balanced against flexibility for RIT-T proponents which appropriately acknowledges the bespoke nature of ISP projects. AEMO is comfortable with the current degree of flexibility warranted through the current ISP Rules, which allows AEMO to provide examples of early works activities to be conducted for each project in the ISP, something which is clarified in the AEMC Stage 3 Final Report along with the recommendation to amend the NER to define early works.