



Mr Gavin Fox
(A/g) General Manager, Market Performance
Australian Energy Regulator
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MELBOURNE VIC 3001

By email: AERpolicy@aer.gov.au

19 June 2023

Dear Gavin,

Review of the cost benefit analysis guidelines and RIT application guidelines - Consultation Paper

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Australian Energy Regulator (“the AER”) in response to the Consultation Paper on the Review of the cost benefit analysis guidelines and RIT application guidelines (“the Paper”).

The ENGIE Group is a global energy operator in the businesses of electricity, natural gas and energy services. In Australia, ENGIE has interests in generation, renewable energy development, and energy services. ENGIE also owns Simply Energy which provides electricity and gas to retail customers across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

The AER’s proposals are generally a sensible set of incremental reforms to the relevant guidelines. Cost escalation has been a factor affecting Regulatory Investment Test (RIT) processes in recent years and the lack of clarity over the robustness of cost estimates has made it hard for stakeholders to understand why costs have changed so much as a RIT process moves from stage to stage. It has also undermined stakeholders’ confidence that proponents have robustly met the net benefit tests. Recalculation of the benefits to find that they have increased and thus stayed ahead of the cost increases has likely provoked as much scepticism about the robustness of RIT processes as it has confidence.

ENGIE recognises that these outcomes are not necessarily the fault of the proponents, and greater transparency of the costs and benefits including how they may change as the project is scoped in progressively greater detail will help reassure stakeholders that the process is robust. To this end, ENGIE agrees that:

- it is desirable to adopt a consistent cost estimate classification system in the RIT-T and RIT-D application guidelines and this should be a binding obligation – the AACE system appears to be a reasonable standard to adopt;

- proponents should be required to set out their cost estimation methodology, including key inputs and assumptions that are material in the cost estimation of credible options;
- proponents should be obligated to conduct sensitivity analysis on the costs and benefits of credible options, and;
- proponents should be transparent on the interaction between contingency allowances for uncertain costs and the level of cost accuracy of credible options.

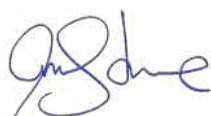
ENGIE understands the logic of the proposal to afford RIT proponents greater flexibility in determining the activities to be included in early works cost applications. However, ENGIE cautions that the corollary is an increased risk for consumers who pay for these early works, that if the full RIT does not pass the test, consumers could be left paying a larger amount for the early works of a project that never gets completed. The risk of this occurring may be small but is non-zero, otherwise the early works framework would not have been required in the first place.

The proposed approach to reopening triggers to allow proponents some latitude in determining the triggers is pragmatic, given it may not be possible to pre-define how to deal with potential triggers. It is critical that proponents consult on the triggers as part of the RIT process so that stakeholders can play a role in identifying triggers. The purpose of the enabling rule is to protect consumers for paying for projects where the net benefits may have fallen below zero due to a change in circumstances, so consumers need some oversight over how the rule is applied.

An ancillary benefit of making cost estimates more transparent is that a better understanding of the costs of different types of network options may assist generation and storage proponents in both proposing viable non-network options and negotiating with transmission service providers for market-led transmission augmentation projects.

Should you have any queries in relation to this submission please do not hesitate to contact me on, telephone, 0477 299 827.

Yours sincerely,



Jamie Lowe

Head of Regulation,
Compliance, and Sustainability