

19 June 2023

Mr Gavin Fox
(A/g) General Manager, Market Performance
Australian Energy Regulator (AER)
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Submitted via email: AERpolicy@aer.gov.au

Dear Mr Fox

CONSULTATION PAPER – REVIEW OF THE COST BENEFIT ANALYSIS GUIDELINES AND RIT APPLICATION GUIDELINES

Endeavour Energy appreciates the opportunity to provide feedback on the AER's review of the Cost Benefit Analysis (CBA) guidelines and Regulatory Investment Test (RIT) application guidelines. This follows the Australian Energy Market Commission's (AEMC) Material Change in Circumstances (MCC) rule change which requires the AER to provide guidance on developing RIT reopening triggers for eligible projects and proposing suitable actions in response to such triggers.

The MCC rule change also provides the AER with discretion to make amendments to the RIT application guidelines to improve the transparency of RIT cost estimates and making specific parts of the guidelines binding on RIT proponents.

We support providing transparency in how cost estimates are derived and consider this is critical in demonstrating that RIT proponents have given due consideration to investment options and helping customers understand the level of accuracy around the costs of RIT projects. We also note that providing clarity around the key inputs and assumptions used to forecast major project costs form part of our business as usual engagement with our customers and stakeholders.

From a Distribution Network Service Provider (DNSP) perspective, we caution the AER against introducing prescriptive and mandatory obligations which could materially increase the cost of the RIT-D process and risk delaying project planning and delivery. Given the smaller scale of projects assessed under the RIT-D relative to the RIT-T, the cost of additional RIT requirements would likely exceed the benefits and can result in detailed analysis that is disproportionate to the scale of the RIT-D.

In our view, the value of improved transparency in cost estimates diminishes as the size of the proposed RIT investment reduces. To ensure the costs of improving transparency is commensurate with the incremental benefits to customers, it is important the RIT-D guidelines provides networks with flexibility in determining how best to communicate to customers the basis for cost estimates and how these estimates may change over time. A proportionate approach may therefore necessitate different guidance for RIT-D and RIT-T projects.

We support Energy Networks Australia's submission which similarly advocates for non-prescriptive and proportionate approach to amending the RIT application guidelines. Our aligned views on key issues discussed in the consultation paper are outlined below.

Developing RIT reopening triggers

The MCC rule change requires reopening triggers to be developed only for RIT projects exceeding \$100 million. Investment projects on distribution networks will rarely exceed this threshold meaning few RIT-D projects will likely be impacted by the AER guidance on this obligation.

Nevertheless, we support the AER's intention to provide non-prescriptive guidance as this would allow triggers to be framed around the key variables for specific RIT projects that if materially changed, could reasonably warrant a re-examination of the preferred option. We also recognise that there may be more appropriate alternatives to reapplying the RIT process when a reopening trigger is triggered and believe there is value in amending the guidelines to clarify the AER's process for assessing the suitability of an NSP's proposed course of action.

Adopting a standard cost estimation classification system

To date, DNSPs have not classified RIT-D cost estimates by reference to a cost estimate classification system and we are concerned that introducing such a requirement would have cost implications and deliver limited benefit to consumers.

For instance, distribution projects driven by demand growth and customer connections transition rapidly from RIT-D completion into the delivery phase. These tight timeframes generally limit the opportunity for RIT-D project costs diverging materially from estimates prior to the project being executed relative to transmission projects with longer lead times. Where costs do diverge, these will be comparatively small and the impact to customers negligible.

Furthermore, any requirement to classify the accuracy of cost estimates for all credible options to ensure an equal basis for comparison could involve significant cost and administrative burden that may ultimately not be material to the RIT-D outcome. Classification of third-party costed non-network options would also be problematic and may not allow a like-for-like comparison with cost estimates of other options prepared by the DNSP.

Cognisant that stakeholder concerns on RIT cost variation have primarily been directed at large transmission projects, we believe a proportionate approach would not mandate the use of a cost estimation classification system for RIT-Ds, but rather allow DNSPs the flexibility to continue to qualify the accuracy cost estimates provided in their RITs to their customers.

Making sensitivity analysis a binding requirement

We support sensitivity testing to understand the impact of key input and assumptions on the performance of credible options noting RIT-D proponents routinely perform this analysis effectively without there being a binding obligation to do so in RIT-D guidelines.

We consider it important that DNSPs not be obligated to test a prescribed variable but rather continue to have the flexibility to test variables relevant to specific circumstances of each RIT-D. This flexibility should allow DNSPs the discretion to transparently apply sensitivity analysis to a level that is proportionate to the likely impact of credible options, including waiving testing where the preferred option is clearly the optimal solution.

If it is desirable for AER to have consistent approach to sensitivity testing, we suggest this would best be achieved by amending the RIT guidelines to align with the provision in the CBA guideline which currently states that RIT-T proponents to actionable ISP projects *must consider* testing the sensitivity of the preferred option to changes in key inputs/assumptions.

To discuss our submission further please contact [REDACTED]

Yours sincerely,

[REDACTED]
Colin Crisafulli
Head of Network Regulation