



Part of Energy Queensland

19 June 2023

Mr Gavin Fox
(A/g) General Manager, Market Performance
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

AERpolicy@aer.gov.au

Dear Mr Fox

Review of the cost benefit analysis guidelines and Regulatory Investment Test application guidelines

Ergon Energy Corporation Limited (Ergon Energy) and Energex Limited (Energex), both distribution network service providers (DNSPs) operating in Queensland, welcome the opportunity to provide feedback to the Australian Energy Regulator (AER) in response to its *Review of the Cost Benefit Analysis Guidelines and Regulatory Investment Test Guidelines (the Consultation Paper)*.

Ergon Energy and Energex have reviewed the Consultation Paper and associated consultation questions and have provided their response in the enclosed document.

Should the AER require additional information or wish to discuss any aspect of this submission, please contact me on 0448 601 438 or Tammara Scott on 0492 137 878.

Yours sincerely

Ben Carberry
Acting Manager Regulation

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Encl: *Ergon Energy and Energex responses to consultation questions*

Consultation Questions	Ergon Energy and Energex Response
1. <i>Do stakeholders agree with our proposed non-prescriptive approach to guidance on re-opening triggers (including worked examples, where required)?</i>	Ergon Energy and Energex provide no comment
2. <i>Are there any other factors/principles other than those identified that RIT proponents should consider in setting out reopening triggers?</i>	Ergon Energy and Energex provide no comment
3. <i>Do stakeholders agree that it is desirable to adopt a consistent cost estimate classification system in the RIT-T and RIT-D application guidelines?</i>	<p>Ergon Energy and Energex do not agree that it is desirable to have a consistent cost estimate classification system in the application guidelines. Transmission Network Service Providers (TNSPs) and Distribution Network Service Providers (DNSPs) have unique characteristics in their projects, Ergon Energy and Energex consider that imposing a consistent cost estimate classification system may result in further constraints and limit adaptability. For example, having a prescriptive cost estimate guideline could hinder the ability for DNSPs to undertake early engagement on a project that is yet to be estimated. Once a project is to the required level of estimate accuracy, it may be difficult for a non-network proponent to offer a solution as the timing of the constraint may be too soon. Overall, we are concerned it could limit flexibility and increase complexity.</p> <p>Ergon Energy and Energex do not see a benefit in requiring a consistent cost estimate classification system unless the AER intends to compare projects from TNSPs and DNSPs. However, as long as the methodology is consistent between the comparison on options it isn't essential to use the same system.</p>
4. <i>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?</i>	Ergon Energy and Energex consider that the cost estimation classification should not be binding.

Consultation Questions

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<p>5. <i>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?</i></p>	<p>Ergon Energy and Energex do not agree that a binding obligation should be imposed on RIT-T and RIT-D proponents to conduct a sensitivity analysis as depending on the project and its cost it would not be sensible to apply the criteria.</p> <p>Additionally, a sensitivity analysis would only show if there were a crossover point. If the difference between the options is smaller than the accuracy of the estimate, both options are viable. Ergon Energy and Energex consider that there is a substantial amount of work that would be required to conduct the sensitivity analysis and it would not result in significant benefit.</p>
<p>6. <i>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?</i></p>	<p>Ergon Energy and Energex recommend that if the transparency applies for the project, it will also need to apply for any non-network proponents submitting responses. In general, applying this level of transparency may introduce to the need to disclose in confidence information as much of the uncertainty is around civil construction costs. Having published what the contingencies and cost estimation methods are, we are giving information to contractors that they can utilise to reduce cost-effectiveness for customers.</p>
<p>7. <i>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.</i></p>	<p>While there may be benefits to increasing transparency of cost estimates, Ergon Energy and Energex are concerned that this will ultimately result in increased costs and will not benefit customers. As discussed above, by increasing transparency and publishing what the contingencies and cost estimation methods are, we are providing information to contractors that they can utilise to reduce cost-effectiveness for customers.</p> <p>Additionally, Ergon Energy and Energex note that if this level of transparency is required for preparation of the RIT, the submission to the RIT must also be made to provide the same level of transparency.</p>

Consultation Questions

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8. *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?*

Ergon Energy and Energex provide no comment

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

Ergon Energy and Energex provide no comment