

Monday, 19 June 2023

Mr Gavin Fox
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Dear Mr Fox

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

Thank you for the opportunity to respond to the AER's Consultation Paper¹ - Review of the Cost Benefit Analysis (CBA) guidelines and Regulatory Investment Test (RIT) application guidelines published on 18 May 2023 and contribute to the broader review process.

As the jurisdictional planner, operator and manager of the transmission network in NSW and the ACT, we support guidelines which promote:

- transparency and consumer confidence in the economic assessment process for transmission projects, and
- an efficient and streamlined RIT process to support the acceleration of transmission investment. This is critical to ensure that Australia's energy system can safely, reliably and securely transition to renewable energy which will also importantly facilitate the delivery of lower electricity prices to consumers.

We endorse Energy Networks Australia's (ENA's) submission on the AER's Consultation Paper and highlight the following matters:

1. RIT reopening triggers that will lead to a material change in circumstances

We support the AER's preliminary position to provide non-prescriptive guidance, with worked examples, for developing reopening triggers. This would enable a RIT proponent to identify triggers that are specific to the nature of each project, noting that the proponent is best placed to determine when a change in circumstance may impact the ranking in each RIT. These triggers will be consulted on in the Project Assessment Draft Report (PADR).

¹ AER, [Consultation paper - Review of the cost benefit analysis guidelines and RIT application guidelines](#), 18 May 2023

Reopening triggers are intrinsically linked to the sensitivity analysis and boundary value testing. The triggers should therefore be based on the key variables and associated sensitivity analysis presented in the RIT, where the variables have plausible boundary values. Triggers based on multiple variables must also be internally consistent.

We encourage the AER to provide guidance on the process and supporting documentation that would be needed if a reopening trigger event occurred, noting that any new requirements should complement rather than duplicate existing process. For example, prior to the lodgement of a Contingent Project Application (CPA) for ISP projects we are currently required to seek AEMO's feedback loop confirmation.

We also note that the AEMC's final rule to develop reopening triggers applies where the cost of the RIT *preferred option* exceeds \$100 million, rather than the cost of any credible option considered in the RIT, which should be set out as part of the AER's guidance.

2. Cost estimation in RIT-Ts

- a. **Cost estimate classification systems** – we support changes to address stakeholders' preferences for increased transparency through non-prescriptive guidance. For instance, this could include stating the accuracy level of cost estimates in RITs, noting this is our current practice. We do not support prescriptive guidance on the cost estimate accuracy level. The level of accuracy will vary across projects depending on their nature and types of credible options considered (e.g. technology type or network vs. non-network solutions).

We support using the Association for the Advancement of Cost Engineering (AACE) cost estimate classification system, noting that cost estimates in RITs are typically an AACE Class 5 or Class 4 estimate.² The development of higher accuracy cost estimates is focused on the preferred option to support a CPA or Revenue Proposal. This is due to the significantly higher number of inputs required, such as detailed project development and design. We do not support a RIT process that seeks to replicate analysis undertaken and consulted on in other regulatory processes.

- b. **Sensitivity analysis guidance** – we support consistency in the required sensitivity analysis across the CBA and RIT guidelines. This guidance should not focus solely on the cost estimates – rather, it should broadly apply to parameters and variables which are material to the project. We note that sensitivity analysis of key parameters, including capital costs, is common practice in RIT-Ts.
- c. **Cost estimation transparency** – we support non-prescriptive guidance for ensuring transparency on the projects' costs. The categories of costs, as well inputs and assumptions used to derive the costs, are likely to vary based on the nature of the project and the types of credible options assessed (e.g. non-network solutions where the proponent provides cost input information). Detailed cost estimates will continue to be developed and consulted on through the CPA or Revenue Proposal process.
- d. **Role of contingency allowances** – as noted above, we support broad non-prescriptive guidance for ensuring transparency on the projects' costs. At the time of developing a RIT-T, contingency costs are typically not well developed. Given this, we support a flexible approach to presenting these costs on a project-by-project basis. This is important because contingency costs are intrinsically related to

² This is consistent with the cost estimate methodology and accuracy classes set out in AEMO's [Draft 2023 Transmission Expansion Options Report](#), May 2023.

the accuracy of the cost estimate and require detailed project delivery risk assessments, which typically occur at later stages, such as an input to a CPA.

3. Early works activities

We support the AEMC's definition³ of early works and its inclusion in the AER's guidelines. The AEMC's Transmission Planning and Investment Review (TPIR) Stage 2 final report⁴ sets out the following objectives for early works:

- improve the cost accuracy, and or
- ensure we meet the projects' delivery date.

The AEMC's TPIR Stage 2 also recognises the broad range of activities that may comprise early works activities. We consider that this provides sufficient clarification and certainty all stakeholders on the nature and scope of these activities.

Our submission to the AEMC's TPIR Stage 2 draft report set out examples of activities which may be involved in early works.⁵ Early works activities may also include:

- a. social licence activities, which are an important part of early works and the RIT-T process. We understand the AER will consult separately on this and consider the outcomes of the social licence rule change, however we note that social licence activities are an integral part of early works
- b. land access costs to enable early works activities and land acquisitions costs (e.g. for strategic or compulsory acquisitions) to enable fair, genuine and efficient landholder negotiations
- c. biodiversity offset costs, in particular where Biodiversity Conservation Agreement sites can be acquired early, as these are the most cost effective method of discharging our biodiversity offset credit liabilities. We also have the opportunity to take a "program approach" to acquiring these sites to enable efficiencies across projects
- d. procurement of long lead and other equipment, and
- e. some construction related activities to achieve the most efficient outcome for consumers, particularly where a project may need to interface with other projects under construction.

We support early works activities to increase consumer benefits by providing greater cost certainty and reducing costs, for example by locking-in cost with suppliers. Early works activities also provide better social and environmental outcomes, which are critical to avoid delays and unnecessary costs for major projects.

Closing

We encourage the AER to consider how any changes it makes now to its CBA and RIT application guidelines will need to be modified later to address the outcomes of the AEMC's Stage 3 TPIR recommendations. We note that further changes to cost estimation and accuracy and the definition of early works may arise from the Stage 3 recommendations.

³ The AEMC's [Transmission Planning and Investment Review Stage 2 final recommendations](#) defined "early works" as "activities that are completed prior to the construction of the preferred option, to improve the accuracy of cost estimates, and/or to ensure that a project can be delivered within the time frames specified by the most recent ISP."

⁴ AEMC, [Final Report - Transmission Planning and Investment – Stage 2](#), October 2022

⁵ Transgrid, [Transmission Planning and Investment Review- Stage 2 submission](#), July 2022, p. 7

We look forward to continuing to work with the AER as its review of the CBA guidelines and RIT application guidelines progresses. If you have any questions on this letter, please feel free to contact me at stephanie.mcdougall@transgrid.com.au.

Yours sincerely

Stephanie McDougall

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