30 September 2021

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Dear Commissioners

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Transmission Planning and Investment Review (EPR0087 and ERC0325) — Consultation paper — 19 August 2021

EnergyAustralia is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts across eastern Australia. We also own, operate and contract a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 4,500MW of generation capacity.

We are supportive of the AEMC's stated purpose in undertaking this review, in terms of optimising customer benefits through timely and efficient project delivery.

We have concerns about customers being unduly burdened by the cost of large, transformative transmission investments and the risk of the expected benefits of these investments not materialising. The current rules framework and its application appropriately provides for NEM-wide planning and robust cost-benefit assessments in the face of market uncertainty, and this should be reaffirmed as part of the AEMC's review. At the same time, this framework was developed to facilitate incremental transmission investment. We have some reservations that it may not be able to accommodate the timely delivery of the wave of concurrent projects anticipated in AEMO's ISP assessments, particularly if electrification and hydrogen play a large role. We consider there are opportunities for AEMO and project proponents to integrate their assessments with jurisdictional planning and policy discussions, and this can be largely done without amending rules provisions. The recent introduction of the 'Actionable' ISP and associated AER guidelines should also go some way to streamlining RIT-T assessments.

The AEMC's review may ultimately recommend more ambitious change. This should be guided by its assessment criteria. Specifically, the AEMC needs to base its review on a robust measure of the risks of under- and over-investment. The current debate around transmission appears to reflect a bias in favour of more and accelerated investment. The future value in transmission is intuitively simple, in diversifying interregional variable energy resources, and in accommodating the electrification and decarbonisation of transport and other sectors. The AEMC should also reflect on whether costs, benefits and

uncertainty are accurately expressed in public discussion. Transmission prices are thought to constitute a small proportion of customer bills, and total network spending appears small by comparison to total resource costs that form part of market benefit assessments. Providing some objective measure of the consequences of inefficient spending or imprudent timing, and showing how this might arise due to deficiencies in the current NER framework, will be a fundamental part of the AEMC's review.

Our summary observations from the attached detailed responses are:

- **Streamlining assessments and the burden of project scrutiny** — recent experience illustrates that the regulatory framework is generally functioning as intended. That is, high levels of scrutiny should apply to projects costing up to several billion dollars that only deliver relatively small and uncertain net benefits. The AEMC should consider how proponents can recover the costs of obtaining accurate cost estimates and in testing of options (e.g. line routes, gaining social licence) earlier in project assessment phases, as this would help avoid delays and costs incurred later in the process.

- **Effectiveness and role of the RIT-T** — RIT assessments are different in scope, intent and rigour to ISP assessments and should be retained.

- **Incentive frameworks** — very large projects are ill-suited to standard ex ante incentives. Carve-outs should be considered to manage windfall gains and losses. Ex post mechanisms and other means to monitor (and potentially share) the risk of market benefits not being realised should also be canvassed.

- **Scope of benefits** — the current definition of market benefits is appropriate, with a role for cautionary guidance in relying heavily on competition benefits. Non-market benefits and customer impacts are still important and so ISP and RIT-T assessments should involve publishing price, emissions and other information to inform the wider policy debate, while still preserving the integrity of cost benefit assessments. The AEMC should consider ways to better enable governments or proponents to part-fund assets where they wish projects to depart from optimal design or timings from a market benefit perspective.

- **Material changes in circumstances** — the experience of Project EnergyConnect highlights that the rules can be more explicit on consultation and decision-making at the completion of the RIT-T and prior to contingent project applications. Additional prescription will add certainty to the process, provide stakeholder confidence and potentially avoid prolonged deliberations.

If you would like to discuss this submission, please contact me on 03 8628 1655 or Lawrence.irlam@energyaustralia.com.au.

Regards

Lawrence Irlam
Regulatory Affairs Lead

INTRODUCTION- ASSESSMENT CRITERIA

1. Do you agree with the Commission's proposed assessment framework for this Review?	We support a two staged approach, allowing priority issues to be identified as the AEMC will realistically not be able to explore all stakeholder concerns in detail. The proposed criteria on pages 4 and 5 of the paper are generally appropriate in terms of considering risk allocation, and promotion of efficient investment under the NEO. Given the role transmission plays in the current policy debate, particularly for jurisdictional governments pursuing decarbonisation and regional economic outcomes, the AEMC should take a more sophisticated view of the ultimate impacts of amending the transmission investment framework. That is, consider whether any rule changes will result in more or less spending on network investments and what this means for customers over the long term.
2. Are there any additional criteria the Commission should consider as a part of its assessment framework?	The AEMC's criteria should include the risks of under- and over-investment (not just efficient risk allocation). This seems to be a key factor in transmission investment issues, and is also listed in the NEL's revenue and pricing principles. A systematic exploration of risk by the AEMC is critical as some in the current debate presume that 'transmission is necessary for the transition'. A cursory examination of 'counterfactual' modelling illustrates, unsurprisingly, that the transition would still take place without large 'Actionable' transmission investments, and making such investments would have a relatively small impact on total costs. For example, from the 2020 ISP, total system costs in the "with transmission" case were in the order of $87 billion compared to $94 billion in the "without transmission" investment cases (NPV to 2041-42, central scenario). AEMO's methods are improving but much of the analysis behind the current set of 'Actionable' projects did not reflect various engineering complexities and exclude other impacts which, in aggregate, overstate the ability of the system to rely on large inter-regional power flows. Other "real life" questions affecting the modelled value of large transmission investment (and hence the risks of under and over investment) include: • impacts on and arising from the distribution network, which are not covered in net benefits calculations but will materially affect grid-scale investment and operations • how large individual augmentations tend to create a path-dependency for other transmission and generation investments, with the risk of the NEM evolving down a suboptimal development path • known shortcomings in least cost modelling, use of perfect foresight and timing of coal plant retirements, which tend to overstate investment certainty and efficient plant operations • the willingness of jurisdictional governments to rely heavily on large interregional power flows rather than local generation sources, for reliability reasons but also policy e.g. the achievement of state-based decarbonisation targets, 'beneficiary pays' issues, local economic impacts etc. The intuitive benefits of greater interconnection, by providing diversity of variable renewable resources, have been echoed by governments and generation proponents as a means to accelerate decarbonisation of the sector, lower wholesale prices, promote competition etc. So there appears to be a bias towards more and accelerated investment without consideration of customer impacts. Even with significant upward revisions in project costs, it is difficult to find examples where proponents have published estimated bill impacts. The AER does this systematically, recently communicating that Project EnergyConnect, for example, would add around $6 to $11 a year on a residential bill in South Australia. Bill impacts for commercial and

	industrial customers, who pay a much larger proportion of transmission costs, are rarely calculated (if thought of at all). Proponents actively communicate market benefits which tend to appear far greater, with no qualifications regarding their level of uncertainty. The framing of project assessments in such a way also downplays how finely balanced some net benefit assessments have been for recent projects. Modelling for Project EnergyConnect suggests customers will see gains of $100 a year[1] in return for paying around $10 annually — or $10 for each dollar spent. From a total system perspective, this project will deliver net market benefits of $148 million from a total outlay of $2.43 billion[2], reflecting a return of $0.06 in the dollar. Similar figures for Humelink indicate net benefits of around $0.01 for each dollar spent (excluding competition benefits — see our concerns on this below). Any rule changes arising from this review should be explored in terms of how they might speed up or slow down (or even prevent) large transmission investments taking place as part of the broader transition of the NEM. In the past, network businesses have argued that this risk is asymmetric, typically via longer term network reliability impacts. Ample data exist in ISP and RIT assessments to create some example quantifications of under and overinvestment in terms of market benefits, as well as probabilistic or regret-based valuations, to explore both likelihood and consequence elements. As per the examples above, the presentation of quantitative impacts and their uncertainty is important. Some example dollar impacts, and ranges, could be calculated for the following questions: • What if a truncated assessment process (e.g. removal of RIT-Ts) resulted in approval of imprudent or inefficient expenditure, including suboptimal timing? • What if ex ante incentives are ineffective in curbing controllable cost increases during project delivery? • What is the cost of extended assessment and project delay in terms of customers not enjoying market benefits sooner?

CHAPTER 3 – ISSUES IN THE REGULATORY FRAMEWORK AND PROCESSES FOR PLANNING OF MAJOR TRANSMISSION PROJECTS

Implications of increased uncertainty for the ex-ante incentive-based regulatory framework	
3. Do you agree with that the identified factors contribute to an increase to the uncertainty surrounding major transmission projects, relative to BAU projects?	We agree with the AEMC's sentiment that the projects in question are atypical in terms of uncertainty in costs and benefits, which present challenges for incentive frameworks. As with all capex there is an incentive for proponents to inflate costs and also overstate benefits to the point where projects still appear to deliver 'enough' net benefits, taking into account uncertainties. Without suggesting proponents have manipulated their assessments, we note that cost increases for EnergyConnect and Humelink were accompanied by commensurate increases in estimates of market benefits. We also have some concerns at the capturing of competition benefits in Humelink's recent PACR. While recognising these benefits appears to be consistent with the

[1] See for example https://www.projectenergyconnect.com.au/article.php?id=58
[2] https://www.electranet.com.au/wp-content/uploads/projects/2016/11/2020-09-30-PEC-Updated-CBA-Final-Report.pdf, p. 4.

Are there other factors that should be taken into account?	NER framework, we question why this was not done for the PADR. The more concerning issue is that these benefits are presented without qualification, despite the difficulties in approach and need for sensitivity testing as stated in the Frontier report which is relied upon.[3] While all types of market benefits are subject to uncertainty, we would have concerns if the approach and presentation of competition benefits for Humelink set a precedent for other RIT-T assessments.
4. Do you consider that the current ex-ante incentive-based approach to regulation is appropriate for major transmission projects? Why? Are there opportunities to drive more efficient expenditure and operational outcomes?	The framework appears generally appropriate to the extent the AER has discretion on the calibration of incentives, and it has been long aware of issues around 'lumpy' transmission investments under incentive mechanisms, including potential gaming of the CESS through inefficient deferrals.[4] Other relevant aspects of the incentive framework for the AEMC's consideration are: • Expenditure incentives obviously deal with realisation of project costs which are mostly in the TNSP's control, however all incentive mechanisms inherently involve the sharing of uncontrollable windfall gains and losses with customers. This would not necessarily be captured in the AEMC's efficiency criteria of allocating risk towards those that can best mitigate it. • One key issue being assessed by the AEMC is the significant uncertainty around benefits realisation. The STPIS already has a market impact component and may otherwise already capture what is within the TNSP's control. A question might be asked whether customers should be so heavily exposed to outturn project benefits, or whether windfalls should be shared in the same way as for outturn expenditures. • Commissioning of projects in line with prudent timing is within the TNSP's control and may be material to the realisation of market benefits. • on the risk of non-delivery (and possibly project delays), proponents will face significant public pressure once passing through requisite regulatory approvals. Such pressure will be much higher than for typical augmentation projects, and this will work in addition to any regulatory incentive mechanisms. • TNSPs' actual costs of capital will differ from the AER's regulated WACC. The AER's latest performance data indicate that returns on regulated equity (RORE) are far greater than benchmarks[5], suggesting TNSPs have a strong incentive to grow their RABs by proposing (and execute) large projects. Even if benefits realisation is not captured within the incentive framework, it seems reasonable to expect that the AER or AEMO would provide some monitoring of projects post commissioning to explore value for money. This would necessarily be an imperfect exercise, and be done over long timeframes, however changes in generation output and investment patterns could be generally comparable to business case forecasts. In addition to monitoring, the AEMC may also wish to consider the role of ex post reviews. At a minimum, the 'overspending requirement' relating to capex allowances in total in Schedule 6A.2.2A(c) may need to be amended to account for the impact of spending variations on large projects, which

[3] https://www.aer.gov.au/system/files/Frontier%20Economics%20report%20-%20evaluating%20interconnection%20competition%20benefits%20-%20September%202004.pdf
[4] AER, Capital Expenditure Incentive Guideline for Electricity Network Service Providers, November 2013, pp. 10-11.
[5] https://www.aer.gov.au/networks-pipelines/performance-reporting/electricity-network-performance-report-2021

	could swamp variations arising from the normal ex ante allowance. Material windfall gains and losses from timing issues may also arise from depreciation and asset roll-forwards. While the AER's CESS deals with inter-period deferrals, adjustments may be warranted for departures from forecast commissioning years within a regulatory control period given cumulative incentive pay-outs. A complete 'carve out' could involve project-specific ex post reviews. In exploring risk allocation issues, this might involve amending the requirement in S6A.2.2A(h) to allow the AER to consider events that have arisen in the time since spending was undertaken. This might accommodate rare situations where assets values are optimised, in line with value erosion from unforeseen and discrete trigger events, or in market scenarios that were foreseen but deemed to be very unlikely e.g. the 2020 ISP's Slow Growth scenario. Views of regulated entities regarding increased regulatory risk associated with ex post reviews and unwillingness to invest should be heard. Regulatory risk could be minimised by having project-specific preconditions for any ex post optimisation clearly defined up front, in a similar way as provisions apply for pass throughs or contingent project triggers. The prospect of ex post adjustments for specific issues may neutralise specific stakeholder concerns and thereby streamline regulatory assessments. Defined events could parallel those that result in write-downs frequently seen in competitive markets, for example, government interventions in the form of direct investment, technology 'breakthroughs' or climate policy settings. To avoid the prospects of paying for redundant assets, customers may be willing to pay a higher regulated WACC or accelerated depreciation to compensate owners for optimisation risk. Adjustments to asset values could also be subject to predefined values, 'floors' or scaling, for example to ensure asset values only change to maintain net benefits or reflect a sharing of outturn risks. Optimisation adjustments and events could also work symmetrically, where market outcomes are more favourable. Other options for sharing risk could be explored between customer and TNSPs as part of the overall trend towards customer-centric spending proposals.[6]
5. Do you agree that the Review should take forward this issue as a priority issue? If not, why?	The NER framework already appears to provide the AER discretion in setting incentives, including in light of large projects, and reviewing this does not appear to be a high priority.
Economic assessment of major transmission projects	
6. Are there opportunities to streamline the economic assessments of ISP and non-ISP projects without compromising their rigour? If so, how could the framework be streamlined?	There would be value in the AEMC exploring detailed issues with Project EnergyConnect, and now Humelink, to identify core issues that threaten the timely delivery of projects. Both projects illustrate the value in having more accurate cost estimates early on. This would manage stakeholder expectations around the marginal nature of some projects. Particularly, the realisation of 'cost blowouts' towards the completion of a process will predictably be met with alarm and damage confidence in the consultation process. The prospects of future cost increases arising from project bottlenecks and labour scarcity should also be factored into ISP and RIT-T assessments.

[6] https://www.aer.gov.au/networks-pipelines/better-resets-handbook/better-resets-handbook-towards-consumer-centric-network-proposals

	In addition to costs, the experiences of Humelink and the Western Vic augmentation suggest that proponents should be required to undertake more rigorous assessment of feasible line route options earlier in ISP and RIT assessments. The AEMC should explore whether supporting institutional arrangements could be established, for example, that coordinate decision-making for nationally significant infrastructure development, jurisdictional planning/ environmental bodies etc.
7. Do you agree that the RIT-T has a clearer value-add in relation to non-ISP projects? If not, why?	The ISP is an important planning document but its role in identifying Actionable projects is overstated by many stakeholders. The ISP identifies emerging system needs i.e. the requirement for a solution, not which solution is most efficient. It is not focused or detailed enough to replace the analysis required of multi-billion dollar business cases. The ISP is also susceptible to changes in market circumstances and there are appropriate checks now in the framework, mostly untested, that deal with this. Other provisions recently introduced to streamline RIT-T processes include use of ISP scenarios and inputs, which should be properly tested before discussing amendments or their entire removal.
8. Do you agree that the Review should take forward this issue as a priority issue? If not, why?	Improving cost estimation and the early identification of feasible options are 'easy wins' in streamlining assessments under the existing NER framework. These and potentially others that have demonstrably caused issues in recent assessments should be given priority by the AEMC. A wholesale revision of the role of the RIT-T alongside the ISP should not be considered in this review.
Benefits included in planning processes	
9. Are the benefits included in current planning processes sufficiently broad to capture the drivers of major transmission investment? Does the scale and pace of the NEM's energy transition necessitate inclusion of other classes of market benefits or wider economic benefits? If so, what kind of other classes of market benefits or wider economic benefits should be included?	Although we have some reservations about the ability of the NER framework to accommodate multiple large transmission investments, we consider that the scope of prescribed benefits already includes factors relevant to electricity consumers. In recognition of the importance of the surrounding policy debate, the AEMC's review should reinforce the clear boundary between what should be paid for by electricity customers and what could be contributed by governments on behalf of taxpayers, or by developers seeking to capture private benefits. To the extent policy makers wish to pursue 'extraneous' benefits in terms of decarbonisation, local employment etc, their actions are accommodated in ISP and RIT assessments in terms of, for example, legislated investment targets, definitions of REZs or committed direct investment. Jurisdictional governments are also able to contribute funding 'top ups' for specific projects that do not satisfy NER net benefit criteria. The transparency of these policy and funding decisions is critical to a functioning NEM, as well as from a fiscal or budgetary perspective. Importantly, this transparency and the boundary between customer- and government-funded investment need not be a barrier for jurisdictions pursuing their own priorities. To that end, the AEMC may wish to consider what data can be published alongside market benefit assessments including the distribution of costs and benefits between regions, customer bill and wholesale price impacts, intergenerational impacts etc.

	We appreciate jurisdictional governments or investors may wish to see transformative transmission projects progress faster — the AEMC should resist calls to enable this through recognising other classes of benefits. Governments can play a useful role in completing preparatory work, such as community engagement around route selection and approvals, which should speed up investment timeframes as well as contain cost increases.
10. Are major transmission projects failing to satisfy economic assessments because certain benefits (market or non-market) are not permitted to be quantified?	As mentioned above regarding Humelink's competition benefits, we have the opposite concern i.e. that projects may pass assessments on the back of benefits that are currently within scope but are inherently difficult to quantify.
11. Are changes warranted to the manner in which carbon emissions inform transmission planning and regulatory processes?	From an economics standpoint there are justifications for including a wide range of societal benefits, not just environmental externalities, that are currently excluded from NER assessments. In practice, valuation of carbon emissions would involve its own challenges, not just in estimation but by making NER assessments de facto evaluations of government policy. AEMO's current set of scenarios appear to adequately capture decarbonisation pathways and its methods are now beginning to appropriately capture carbon trajectories in related sectors such as transport.
12. Do you agree that the Review should take forward this issue as a priority issue? If not, why?	We consider the prescription around market benefits is sound and not a priority issue. The AEMC may wish to offer guidance around the role of competition benefits which are extremely difficult to forecast. It should also refresh stakeholders on how some non-market benefits are already reflected in RIT and ISP assessments e.g. in the form of actual and expected government policy.
Guidance on hard to monetise benefits	
13. What classes of market benefits are hard to monetise? Is there a way that these benefits could be made easier to quantify?	The AEMC should revisit the role of competition benefits, particularly how these have played a role in the recent case of Humelink. The 2004 Frontier report, on which the Humelink analysis is based, is highly qualified. The inherent difficulties in calculating competition benefits are, however, not recognised in the PACR or in the supporting EY report. These benefits are instrumental in the business case for Humelink and so should be subject to sensitivity testing, yet the numbers were presented as if they are robust.
14. Would guidance on hard to monetise benefits improve the timeliness at which projects proceed through the regulatory process?	The AER already has powers to provide guidance on the recognition of competition benefits however what it has published could be improved.
15. Do you agree that the Review should take forward this issue as a priority issue? If not, why?	We consider the treatment of competition benefits is an important issue but accept it may be narrow and best dealt with by the AER.

Market versus consumer benefits test	
16. Do you consider that there are certain changes that have occurred in the energy sector that warrant reconsidering the merits of a market versus consumer benefits test? If yes, what are these changes and why do they require revisiting this issue?	No. The robustness and relevance of the market benefit test has been debated and settled. As above, parameters relevant to customer impacts can and should be published for wider stakeholder interest.
17. Do you agree that the Review should take forward this issue as a priority issue? If not, why?	This issue should not be re-examined by the AEMC.
Treatment of non-network options	
18. Do you agree that there are barriers for non-network options in economic assessments? If so, do you agree with the barriers identified? Are there any further barriers? How should these barriers be addressed?	In addition to the points listed by the AEMC (e.g. capex/ opex bias, cost of capital outperformance) it may wish to explore the market in non-network solutions and how this might be affected by ownership and ring-fencing, particularly in the case of networks having ownership or control of battery storage. For example, a lack of non-network solutions put forth during RIT assessments could reflect a lack of a level playing field.
19. Do you agree that the Review should take forward this issue as a priority issue? If not, why?	The AEMC should be able to build from earlier examination of this issue.

CHAPTER 4 – ISSUES IN THE REGULATORY FRAMEWORK AND PROCESSES FOR TRANSMISSION INVESTMENT, FINANCING AND DELIVERY

Balancing TNSP's exclusive right to build and own transmission projects	
20. Are there features of financing infrastructure projects used in other sectors that	No response.

should be considered in the context of the efficient and timely delivery of major transmission projects?	
21. Should the delivery of transmission projects be made contestable? If not, why?	Further examination of contestability is necessary to reach a view. At present it is not clear whether the increased administrative and operational burden would justify the expected efficiency achievements, including timing of delivery. The threat of contestability may be sufficient to have the desired effect on proponent behaviour. As noted above there may be an incentive on proponents to 'shadow price' expenditure estimates alongside market benefits calculations. The current concerns about cost increases appear to reflect shortcomings in the estimation process which presumably would have been faced by unregulated entities as well. The benefits of contestability should also be examined in tandem with the effectiveness of expenditure incentive frameworks.
22. What options, other than changes to the right of TNSPs to provide regulated transmission assets, could be considered to ensure timely investment and delivery of major transmission projects?	As above, the timely delivery of projects could be the subject of specific ex ante and ex post incentives. Barriers arising due to cash-flow and financeability issues should be considered on a case-by-case basis and in the setting of regulatory benchmarks by the AER. Otherwise it is not clear to us that regulated entities would be unwilling to execute projects given the large associated returns and reputational risk. The AEMC could also consider whether project execution be subject to legal obligations, such as licence conditions.
23. Do you agree that the Review should take forward this issue as a priority issue? If not, why?	We agree that issues around contestability and financeability should be explored as a priority.
Treatment of 'early works'	
24. Do stakeholders seek further clarity on the meaning of preparatory activities and early works?	This issue appears to have originated from AEMO's terminology in the 2020 ISP rather than NER requirements.
25. Should the Commission consider how the costs of early works can be recovered?	As noted above, the recovery of costs for preparatory activities, predominantly for cost estimates and testing of feasible options, should be explored as a means to further streamline project assessments.
26. Do you agree that the Review should take forward this issue as a priority issue? If not, why?	We agree that this is a priority issue.
Processes for jurisdictional environmental and planning approval	
27. Would additional clarity on cost recovery arrangements for preparatory activities or early work improve a TNSP's ability to meet jurisdictional requirements in a timely manner?	As per our response to question 25 this should be explored by the AEMC.
28. Do jurisdictional planning and environmental requirement intersect with the national transmission planning and investment frameworks	No response.

in ways that are not discussed above and may require further consideration?	
29. Do you agree that the Review should take forward this issue as a priority issue? If not, why?	We agree that this is a priority issue.

OTHER COMMENTS

30. Please provide any further comment relating to issues discussed in the chapters 1-4 of the consultation paper.	No response.
31. Please discuss any further issues the Commission should take forward in this review in relation to topics covered in chapters 1-4 of the consultation paper.	No response.

TEMPLATE FOR MATERIAL CHANGE IN NETWORK INFRASTRUCTURE PROJECT COSTS RULE CHANGE REQUEST

CHAPTER 5 – MATERIAL CHANGE IN NETWORK INFRASTRUCTURE PROJECT COSTS RULE CHANGE REQUEST

Who should decide whether the RIT-T must be reapplied?	
32. Should this decision remain the responsibility of the proponent or should it be a matter for the AER? Why?	This should be an AER decision. The current NER drafting allows a situation where there is a material change in circumstances following completion of the RIT-T, including to the extent that preferred options are affected, but the proponent does not notify the AER. This is clearly an undesirable outcome and enforcement of these provisions would be problematic. The intent of the drafting appears to reflect that the AER's default position is to require a reapplication of the RIT-T, which is similarly undesirable to the extent it requires a "full" reapplication. It might appear reasonable to place responsibility for identifying changes in circumstances on project proponents given their intimacy with the commercial environment, although any party should be able to initiate a reconsideration of RIT-T outcomes. Disincentives

	on regulated entities to initiate changes that are not in their favour can be seen in the different procedural requirements for negative and positive pass-through events in chapters 6 and 6A. Other thoughts should be given to requirements on parties initiating a review, for example submitting preliminary information on why a preferred option may be affected, such that the AER can make a timely decision to require proponents to review prior analyses. In conducting reviews, proponents should be required to address issues raised by the AER and other stakeholders. The role of AEMO in terms of providing a 'feedback loop' or similar assurance statement should be incorporated in this process.
33. If the decision remains with the proponent, should the AER have the right to test that opinion?	Yes, although any AER right of response would in effect be equivalent to it deciding that the proponent must reapply the RIT-T or not.
Cost thresholds	
34. Should the NER include a requirement to reapply the RIT, or update analysis, when costs increase above specified thresholds? If so, do you have a view as to what those thresholds should be?	It may be better for materiality thresholds to not be prescribed in the NER. As identified by the AEMC, and by the rule change proponents regarding the NSW Energy Infrastructure Roadmap, changing circumstances could alter preferred options via changes in benefits, not only project costs, and thresholds for these may be difficult to set a priori. Reflecting on current NER drafting, materiality is taken in terms of potentially affecting the relative ranking of preferred options and so the AEMC's suggestion of "decision rules", or thresholds identified in sensitivity assessments, may be appropriate.
35. Do you consider this requirement should apply to all RIT projects or only those above a particular cost threshold/s? If so, do you have a view as to what the threshold/s should be?	We do not have views on particular thresholds, but the level of scrutiny should be proportional to how projects affect prices faced by customers.
36. Do you have any views regarding the suggested alternative "decision rule" approach?	As above.
37. Should updated project cost data be provided to AEMO to help improve the accuracy of the ISP?	Yes, and the AEMC should also consider whether there are any barriers in the general sharing of cost information between AEMO and the AER.
38. Do you have any other suggestions regarding alternative ways to manage cost increases?	No response.
Requirements when reapplying the RIT	
39. Should the requirement to reapply the RIT be more targeted?	We agree with the rule change proponents that it may be sufficient to provide for a targeted, transparent process, whereby an update of a cost benefit analysis is conducted with opportunity for stakeholder review. A full reapplication of the RIT would be excessively burdensome.

40. Should any additional analysis and modelling that is required to be undertaken be published and subject to public consultation?	Yes. Recent experience with EnergyConnect indicates that the lack of prescribed process and public consultation was a major source of stakeholder concern, separately to whether robust analysis had taken place by the proponent, the AER and AEMO. Information to be published should reflect the same level of detail as released in RIT assessments e.g. modelling inputs and outputs, but limited to core scenarios or sensitivities to demonstrate whether preferred options had changed. Modelling should also illustrate the full impact of the circumstances that have changed.
Trigger to reapply the RIT	
41. Do you have any views as to how the requirement to reapply the RIT should be given effect, including for contingent and non-contingent projects?	As above we consider generic trigger may be more appropriate in terms of a reasonable expectation, based on an initiator's preliminary analysis, that a preferred option may be affected by a material change in circumstances. This would capture events that alter forecast market benefits as well as costs.
42. Should there be a cut-off point (e.g. once the AER approves the CPA, or once construction commences) beyond which any requirement to update analysis cannot be triggered? If so, what would be an appropriate cut-off point?	The lodgement of a contingent project application appears to be a critical cut-off point from the proponent's perspective. To the extent changing circumstances are expected to reflect updated cost estimates arising from such applications, some thought should be given to aligning these processes. That is, a proponent could concurrently seek AER approval for regulatory funding at the same time as seeking confirmation that its preferred option was unaffected by its latest updated cost estimate. Proponents seeking higher degrees of certainty or who are less confident could opt to do this sequentially.
43. Should there be a limit on how many times RIT analysis must be updated?	We have no specific response on this question however note that a well-designed set of scenarios and sensitivities should already accommodate a range of credible uncertain circumstances. This will significantly reduce the need to reconsider analyses as events unfold. More generally, one would hope that transmission investments of this scale would generate expected market benefits well in excess of their cost, such that their merits would still stand in the face of significant cost increases.
Should RIT cost estimates be more rigorous?	
44. Do you consider that the current level of rigour used for RIT cost estimates is suitable? If not, what level of rigour is appropriate? In particular, would it be appropriate to require an AACE 2 estimate (i.e. a detailed feasibility study) for each credible option?	As per previous responses, more accurate estimates would deliver benefits in streamlining assessments however the cost burden involved (and ultimately how this is recovered from customers) should be considered further. Different requirements might apply in proportion to the project's total forecast impact on customer bills.
45. If more detailed cost estimates are required at the RIT stage, should this apply to all RIT projects, or only to larger projects? If so, which projects should be subject to this requirement?	It seems prudent to apply this requirement to more material projects.

46. Do you have any other suggestions to address the issues raised in the rule change request?	No response.

OTHER COMMENTS

47. Please provide any further comments on this chapter.	No response.