



Part of Energy Queensland

30 September 2021

Ms Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000

Dear Ms Collyer

ERP0087 Transmission Planning and Investment Review Consultation Paper

Ergon Energy Corporation Limited (Ergon Energy) and Energex Limited (Energex), operating as distribution network service providers (DNSPs) in Queensland, welcome the opportunity to provide comment to the Australian Energy Market Commission (AEMC) in response to its consultation on the Transmission Planning and Investment Review – Consultation Paper.

Ergon Energy and Energex do not support the reapplication of a Regulatory Investment Test (RIT). Distribution projects greater than the cost threshold (currently \$6M) are long run projects, whereby an estimate to the level of accuracy required of the RIT process is not achieved until 2-3 years prior to the project needing to be commissioned. If a project is required to be estimated to within 15% accuracy (to avoid reapplication due to changes in costs or benefits), it would be extremely difficult for a DNSP to engage with the market early enough to allow a proponent to provide an achievable solution in the required timeframe to resolve the identified need.

This also means a DNSP would have utilised a significant amount of resources to estimate a project to the required level to enable a RIT to be undertaken, which is a cost that would ultimately be borne by its customers.

Furthermore, it is unlikely that a 15% increase would have a material impact on the preferred option in relation to a non-network option. The increased deferral value that would result from a 15% cost increase is relatively small in comparison to the many other variables that are part of the overall project and it is extremely unlikely to produce an alternative outcome. The sensitivity around the level of deferral value is already assessed by Ergon Energy and Energex as part of the Non-network Options Report and Draft Project Assessment Report stages, and where sensitivities to cost are identified, these are rigorously tested. Where there is a particular sensitivity, Ergon Energy or Energex will work closely with proponents to determine the most likely preferred outcome to a given identified need.

Finally, given the proponent's intimate knowledge of the modelling of project costs and benefits and expertise in conducting the sensitivity analysis around these inputs, it is our opinion that the proponent is best placed to determine if there is a significant change in costs or benefits that may warrant reconsideration of any part of the RIT process. Through the RIT process, the Australian Energy Regulator (AER) has the ability to question decisions made by the proponent and there is also scope for the AER to investigate any dispute made at the conclusion of the RIT. We suggest the AER's role should be limited to that already prescribed by the RIT framework with the ability to require an NSP to update the net present value assessment and consult on this stage accordingly rather than reapplying the RIT.

Given that a complete RIT-D process could take up to 18 months to complete, reapplying this process could jeopardise an identified need not being addressed in the required timeframe. Specifically, where the identified need is to meet reliability standards or regulatory compliance, an inability to meet the required timeframe due to reapplication of the RIT could place consumers and/or networks at risk. While it is possible to introduce risk controls, such as mobile generation, this is not without additional cost, which would ultimately be borne by our consumers.

Should the AEMC require additional information or wish to discuss any aspect of this submission, please contact either myself, on 0409 239 883 or Barbara Neil on 0429 782 860.

Yours sincerely

Sarah Williamson

Sarah Williamson
Acting Manager Regulation

Telephone: 0409 239 883

Email: sarah.williamson@energyq.com.au

SUBMISSION TO THE CONSULTATION PAPER-TRANSMISSION PLANNING AND INVESTMENT REVIEW STAKEHOLDER FEEDBACK TEMPLATE

The template below has been developed to enable stakeholders to provide their feedback on the questions posed in the consultation paper and any other issues that they would like to provide feedback on. The AEMC encourages stakeholders to use this template to provide feedback on issues raised. This template is not exhaustive and therefore stakeholders are encouraged to comment on any additional issues or suggest additional solutions. Stakeholders should not feel obliged to answer each question, but rather address those issues of particular interest or concern. Further context for the questions can be found in the consultation paper.

SUBMITTER DETAILS

ORGANISATION: Ergon Energy and Energex

CONTACT NAME: Sarah Williamson

EMAIL: Sarah.williamson@energyq.com.au

PHONE: 0409239883

DATE 30 September 2021

PROJECT DETAILS

NAME OF RULE CHANGE: Transmission Planning and Investment Review

PROJECT CODE: EPR0087

PROPONENT: AEMC

SUBMISSION DUE DATE: 30 September 2021

INTRODUCTION- ASSESSMENT CRITERIA

1. Do you agree with the Commission's proposed assessment framework for this Review?	Ergon Energy and Energex have no comment.
2. Are there any additional criteria the Commission should consider as a part of its assessment framework?	Ergon Energy and Energex have no comment.

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? Are there other factors that should be taken into account?	Ergon Energy and Energex have no comment.
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?	Ergon Energy and Energex have no comment.
5. Do you agree that the Review should take forward this issue as a priority issue? If not, why?	Ergon Energy and Energex have no comment.
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?	Ergon Energy and Energex have no comment.
7. Do you agree that the RIT-T has a clearer value-add in relation to non-ISP projects? If not, why?	Ergon Energy and Energex have no comment.
8. Do you agree that the Review should take forward this issue as a priority issue? If not, why?	Ergon Energy and Energex have no comment.

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?	Ergon Energy and Energex have no comment.
10. Are major transmission projects failing to satisfy economic assessments because certain benefits (market or non-market) are not permitted to be quantified?	Ergon Energy and Energex have no comment.
11. Are changes warranted to the manner in which carbon emissions inform transmission planning and regulatory processes?	Ergon Energy and Energex have no comment.
12. Do you agree that the Review should take forward this issue as a priority issue? If not, why?	Ergon Energy and Energex have no comment.
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?	Ergon Energy and Energex have no comment.
14. Would guidance on hard to monetise benefits improve the timeliness at which projects proceed through the regulatory process?	Ergon Energy and Energex have no comment.
15. Do you agree that the Review should take forward this issue as a priority issue? If not, why?	Ergon Energy and Energex have no comment.
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?	Ergon Energy and Energex have no comment.
17. Do you agree that the Review should take forward this issue as a priority issue? If not, why?	Ergon Energy and Energex have no comment.

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?	Ergon Energy and Energex have no comment.
19. Do you agree that the Review should take forward this issue as a priority issue? If not, why?	Ergon Energy and Energex have no comment.

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 should be considered in the context of the efficient and timely delivery of major transmission projects?	Ergon Energy and Energex have no comment.
21. Should the delivery of transmission projects be made contestable? If not, why?	Ergon Energy and Energex have no comment.
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?	Ergon Energy and Energex have no comment.
23. Do you agree that the Review should take forward this issue as a priority issue? If not, why?	Ergon Energy and Energex have no comment.
Treatment of of 'early works'	
24. Do stakeholders seek further clarity on the meaning of preparatory activities and early works?	Ergon Energy and Energex have no comment.
25. Should the Commission consider how the costs of early works can be recovered?	Ergon Energy and Energex have no comment.
26. Do you agree that the Review should take forward this issue as a priority issue? If not, why?	Ergon Energy and Energex have no comment.

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?	Ergon Energy and Energex have no comment.
28. Do jurisdictional planning and environmental requirement intersect with the national transmission planning and investment frameworks in ways that are not discussed above and may require further consideration?	Ergon Energy and Energex have no comment.
29. Do you agree that the Review should take forward this issue as a priority issue? If not, why?	Ergon Energy and Energex have no comment.

OTHER COMMENTS

30. Please provide any further comment relating to issues discussed in the chapters 1-4 of the consultation paper.	Ergon Energy and Energex have no comment.
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.	Ergon Energy and Energex have no comment.

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 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?	Ergon Energy and Energex suggest the responsibility for deciding to reapply the RIT should remain with the proponent as they are best placed to determine if the change in benefits or costs warrant reapplication.
33. If the decision remains with the proponent, should the AER have the right to test that opinion?	As the AER is responsible for ensuring the RIT is conducted in accordance with the Rules, we suggest they have the ability to require NSPs to justify their view through this process.
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?	<p>Ergon Energy and Energex do not support the reapplication of a RIT. Distribution projects greater than the cost threshold (currently \$6M) are long run projects, whereby an estimate to the level of accuracy required of the RIT process is not achieved until 2-3 years prior to the project needing to be commissioned. If a project is required to be estimated to within 15% accuracy (to avoid reapplication due to changes in costs or benefits), it would be extremely difficult for a DNSP to engage with the market early enough to allow a proponent to provide an achievable solution in the required timeframe to resolve the identified need.</p> <p>This also means a DNSP would have utilised a significant amount of resources to estimate a project to the required level to enable a RIT to be undertaken, which is a cost that would ultimately be borne by its customers.</p> <p>Furthermore, it is unlikely that a 15% cost increase would have a material impact on the preferred option in relation to a non-network option. The increased deferral value that would result from a 15% cost increase is relatively small in comparison to the many other variables that are part of the overall project and it is extremely unlikely to produce an alternative outcome. The sensitivity around the level of deferral value is already assessed by Ergon Energy and Energex as part of the Non-Network Options Report and Draft Project Assessment Report stages, and where sensitivities to cost are identified, these are rigorously tested. Where there is a particular sensitivity, Ergon Energy or Energex will work closely with proponents to determine the most likely preferred outcome to a given identified need.</p>

	Notwithstanding the above, we suggest that if the AEMC determines to implement a threshold for reapplication, then a threshold of 30% would be more appropriate for smaller distribution projects. This would ensure that any deferral benefit is sufficient to warrant the reapplication, while allowing a DNSP to engage with the market in a timely manner to allow network and non-network options equal opportunities for success.
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?	Ergon Energy and Energex do not support subjecting all RIT projects to reapplication and agree that a cost threshold should apply. The increased deferral benefit from projects that are below \$50M are extremely small when considering the many other variables involved in these sorts of project. Therefore, we consider that if a rule change is made, distribution projects below \$50M should be exempt from reapplying the RIT-D.
36. Do you have any views regarding the suggested alternative “decision rule” approach?	Ergon Energy and Energex agree the “decision rule” approach would be more easily applied to determining sensitivities to cost. We suggest this approach would address our concerns of being able to engage early and save costs for customers through the application of the RIT without the need for a highly accurate estimate. Both Ergon Energy and Energex already assess cost sensitivities in their projects to ensure the optimum outcome for customers.
37. Should updated project cost data be provided to AEMO to help improve the accuracy of the ISP?	Ergon Energy and Energex have no comment.
38. Do you have any other suggestions regarding alternative ways to manage cost increases?	Ergon Energy and Energex have no comment.
Requirements when reapplying the RIT	
39. Should the requirement to reapply the RIT be more targeted?	Ergon Energy and Energex have no comment.
40. Should any additional analysis and modelling that is required to be undertaken be published and subject to public consultation?	Ergon Energy and Energex have no comment.
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?	Ergon Energy and Energex have no comment.
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?	Ergon Energy and Energex have no comment.
43. Should there be a limit on how many times RIT analysis must be updated?	Ergon Energy and Energex have no comment.

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?	Ergon Energy and Energex consider this level of rigour to be excessive for most projects undertaken below \$50M. The costs associated with achieving this level of detail for each credible option would considerably exceed the benefits for the market to understand the identified need and propose an alternative option.
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?	Ergon Energy and Energex do not agree that this level of certainty should be a requirement for any project so that early engagement can take place on an identified need. However, should this level of rigour be implemented, we suggest it should only apply to projects that would benefit from an increased level of rigour. To that extent we suggest a threshold of \$50M would seem appropriate.
46. Do you have any other suggestions to address the issues raised in the rule change request?	Ergon Energy and Energex have no comment.

OTHER COMMENTS

47. Please provide any further comments on this chapter.	Ergon Energy and Energex have no further comments.
--	--