

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

By email to: [AERpolicy@aer.gov.au](mailto:AERpolicy@aer.gov.au)

Dear Mr. Fox,

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

Iberdrola Australia welcomes the opportunity to provide a submission to the AER on the Review of the cost benefit analysis guidelines and RIT application guidelines: Consultation Paper.

The Iberdrola group has become one of the leaders in the Australian renewable energy market after acquiring Infigen Energy in 2020. The company operates more than 800 MW of solar, wind and storage batteries in Australia and has a significant portfolio of projects, of which 453 MW are under construction and more than 1,000 are in various stages of development.

Iberdrola is also recognised globally by its experience building, operating and maintaining electricity lines, substations, transformation centres and other infrastructures to transfer electrical power from the production centres to the end user across relevant jurisdictions as [Spain](#), [UK](#), [US](#) and [Brazil](#). Iberdrola currently operates one of the world's largest power distribution systems, comprising more than 1.2 million km of distribution lines and more than 4,400 substations, which carry electricity to more than 34 million people around the planet. 40 % of the group's organic investment for the period 2020-2025 (more than €27 billion) will go to the Networks area. Iberdrola Australia is actively looking to fully roll-out these capabilities in country, demonstrating its strong commitment to Australia's energy transition.

Australia urgently needs to progress its transition to a low carbon electricity system, constructing both new renewable generation and storage as well as the transmission to connect them to customers. As has already been identified by the AEMC in their Transmission Planning and Investment Review, the Regulatory Investment Test – Transmission (RIT-T) causes delays in delivering new transmission lines<sup>1</sup>.

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<sup>1</sup> [https://www.aemc.gov.au/sites/default/files/2022-09/transmission\\_planning\\_and\\_investment\\_review\\_-\\_stage\\_3\\_draft\\_report.pdf](https://www.aemc.gov.au/sites/default/files/2022-09/transmission_planning_and_investment_review_-_stage_3_draft_report.pdf)

In our submission to the AEMC TPIR<sup>2</sup> Stage 3 Draft Report we also noted that proposed changes to the RIT-T covering reopening triggers, treatment of cost estimates and early works would not materially expedite the completion of the RIT-T nor ensure that new transmission was delivered in time.

The delays in delivering new transmission have serious bill impacts for Australian electricity customers<sup>3</sup>, so ensuring that policy and regulatory arrangements resolve the delays in delivering new transmission is critical both to the transition of the electricity system, meeting of national targets and minimising costs for customers. Incremental and repeated adjustments to the established regulatory framework, including the RIT-T, are not the solutions that are required.

The AER in its submission to the AEMC TPIR Contestability – Options Paper identified many of issues with the current regulatory arrangements and indicated that a contestable approach would have many benefits over the current arrangements. It is therefore disappointing that the AEMC has decided to discontinue the work on contestability<sup>4</sup>.

By continuing to ignore the benefits of opening up the delivery of new transmission, including Integrated System Plan Projects to competition, the Australian Governments and market bodies are condemning Australian electricity customers to pay more than is necessary for the required transmission investment. Recent research demonstrates that by introducing contestability in new transmission, potential savings of \$13 billion can be made<sup>5</sup>.

### **Early Works**

We are concerned that “early works” and the related contingent application process will likely increase project costs, rather than provide clearer estimates. Additionally, we are concerned that the incremental delivery of ISP projects will result in sunk costs that customers will pay, even if the early works do not lead to an option being delivered, while also resulting in delivery delays. Further, by undertaking “early works” the regulated monopoly NSP secures themselves as the project lead even if there are more time and cost-efficient approaches to delivering a project.

The AEMC’s proposed definition of “early works” which will, through the process of a rule change proposal, be incorporated into the Rules:

“...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”<sup>6</sup>

However, there is no clear definition of “activities” and we do not support giving RIT proponents the full flexibility to determine which activities are consistent with the definition of “early works”. While we recognise the desirability of flexibility, we would prefer that there is a level of prescription in defining the activities that constitute early works as this would provide clarity to both the NSP and

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<sup>2</sup> [https://www.aemc.gov.au/sites/default/files/2022-11/iberdrola\\_australia.pdf](https://www.aemc.gov.au/sites/default/files/2022-11/iberdrola_australia.pdf)

<sup>3</sup> [https://nexaadvisory.com.au/site/wp-content/uploads/2022/06/Report-Modelling-Electricity-bill-impact-due-to-transmission-delay\\_2022-06-07.pdf](https://nexaadvisory.com.au/site/wp-content/uploads/2022/06/Report-Modelling-Electricity-bill-impact-due-to-transmission-delay_2022-06-07.pdf)

<sup>4</sup> [https://www.aemc.gov.au/sites/default/files/2022-11/transmission\\_planning\\_and\\_investment\\_review\\_-\\_contestability\\_directions\\_paper\\_final\\_combined.pdf](https://www.aemc.gov.au/sites/default/files/2022-11/transmission_planning_and_investment_review_-_contestability_directions_paper_final_combined.pdf)

<sup>5</sup> [https://nexaadvisory.com.au/site/wp-content/uploads/2023/06/Nexa-Advisory\\_Transmission-Contestability-in-Australia-Research-Report-June-2023.pdf](https://nexaadvisory.com.au/site/wp-content/uploads/2023/06/Nexa-Advisory_Transmission-Contestability-in-Australia-Research-Report-June-2023.pdf)

<sup>6</sup> <https://www.aer.gov.au/system/files/AER%20-%20Consultation%20paper%20-%20Review%20of%20the%20cost%20benefit%20analysis%20guidelines%20and%20RIT%20application%20guidelines%20-%2018%20May%202023.pdf>

stakeholders. There is a strong risk that determining the activities on a project-by-project basis will result in poor outcomes for consumers.

Early works should clearly progress the cost estimates for a project to a higher level of accuracy, reducing risk for consumers, otherwise it is not entirely clear why early works offer any benefit over projects without early works.

Where a project is part of the ISP optimal development pathway, then it would be appropriate for AEMO to define what activities constitute early works, including a delivery time frame for when the early works should be commenced and completed.

### ***Cost Estimation***

We agree and support the AER's suggestion that all RIT proponents should be bound to use the Association for the Advancement of Cost Engineering (AACE) international cost estimate classification system for all projects, both transmission and distribution, to be consistently adopted for use in the Cost Benefit Analyses.

The AER have an expectation that NSP would undertake sensitivity analyses for each project, and we suggest that this expectation be a binding requirement, with assumptions and methodologies being clear and transparent. It would also be preferable if all NSP used an approach that is consistently applied across all projects in the NEM.

We support the AER's suggestion that contingency allowances in cost estimates should be transparently shared as part of the RIT process and apply to all projects, both transmission and distribution. There is limited transparency currently on the inputs and assumptions used to determine costs, and clarity on the basis for deriving the estimated costs of credible options would enable stakeholders to better analyse the robustness of estimated costs. NSP should be clear on what the contingency costs are and any sensitivities or assumptions that apply to those cost estimates.

### ***Reopening Triggers***

The guideline will require that proponents, other than AEMO, develop triggers identify when a material change in circumstances (MCC) has occurred. A "material change in circumstances" is not defined in the Rules and we believe guidance is needed on what constitutes a MCC as well as guidance on appropriate triggers. Without a clear definition of MCC and given that it is up to NSP to self-assess when a MCC has occurred, the requirement for reassessment may rarely be triggered as has been the case with other guidelines that require self-assessment by the NSP (e.g., Ringfencing).

The AER have an expectation that NSP would undertake sensitivity analyses for each project, and we suggest that this expectation be a binding requirement, with assumptions and methodologies being clear and transparent. It would also be preferable if all NSP used an approach that is consistently applied across all projects in the NEM.

We would suggest that failure of the business of a contracted provider to the NSP<sup>7</sup> should be a trigger for reopening a RIT.

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<sup>7</sup> <https://www.reuters.com/article/australia-clough-energy-idAFL1N32W013>

The requirement to develop triggers for identifying a material change does not apply to projects where AEMO is the only proponent. We do not agree that AEMO be excluded from the need to develop triggers or the need to share cost estimates rigorously and transparently.

***Social Licence***

Securing and maintaining social licence for new energy projects, including new transmission lines, is essential and we support the AER in undertaking a specific a separate process to explore how gaining social licence is treated in the current regulatory framework. We encourage the AER to commence this work on social licence as soon as possible to ensure that new transmission projects can access this guidance and we suggest that the recently published model for new transmission investment in Victoria, may provide useful insights into workable arrangements<sup>8</sup>.

Thank you for the opportunity to comment and we look forward to continuing to work with the AER to update elements of the Regulatory Investment Test. If you would like to discuss any of the issues raised in this submission, please contact Maheshini (Mesh) Weerackoon via email at [Maheshini.Weerackoon@iberdrola.com.au](mailto:Maheshini.Weerackoon@iberdrola.com.au).

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'R. Da Silva', is written over a horizontal line. The signature is stylized and cursive.

Ricardo Da Silva  
Network Business Development Manager

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<sup>8</sup> <https://engage.vic.gov.au/download/document/31853>