



# Material change in network infrastructure project costs

The AEMC has made a draft rule determination to amend the National Electricity rules in relation to the 'material change in circumstances' provisions for the Regulatory Investment Test (RIT). The draft rule aims to provide clarity as to what a material change in circumstances is, and to provide for better cost estimate accuracy to address uncertainty in the current process.

## The Commissions draft determination is a more preferable rule

The Commission's draft determination is to make a more preferable draft rule, with the key features of the draft rule being that it:

- requires all RIT proponents to consider whether there has been a material change in circumstances, including a change in the identified need, for the project subsequent to the completion of the RIT
- requires RIT proponents (other than AEMO) of projects with an estimated cost of greater than \$100 million to develop reopening triggers which would clearly indicate whether there was subsequently a material change in circumstances, such as a change to the credible options considered in the RIT or to the ranking of these options
- requires RIT proponents, if they consider there has been a change to the identified need or a reopening trigger has been triggered, to inform the AER and propose a course of action
- allows the AER to reject and modify the RIT proponent's proposed course of action
- requires proponents of contingent projects to state whether or not there has been a change in the identified need or if a reopening trigger has been triggered, provide supporting analysis and (if required) outline the course of action that was undertaken
- clarifies the rules governing the AER guidelines for RITs to support strengthened guidelines for cost estimate development.

The more preferable draft rule is different to the proponents' rule change request in that it requires certain RIT proponents to develop reopening triggers to determine whether the preferred option is no longer the most net beneficial option, instead of introducing a standing reapplication requirement that would be triggered by project costs increasing by more than a particular percentage. Further, the more preferable draft rule allows RIT proponents, if they consider that a material change in circumstances has occurred, to propose the course of action that should follow, as opposed to the default course of action involving reapplication of the RIT.

## Implementation will be 12 months after publication of the final rule

The Commission considers that the rule should commence operation 12 months after publication of the final rule, and that the AER be required to update and publish the RIT application guidelines and CBA guidelines prior to the commencement date, under transitional arrangements.

The new requirements of the draft rule relating to reopening triggers would not apply to projects for which a Project Assessment Draft Report or Draft Project Assessment Report had already been published by the commencement date.

## Written submissions on the draft are due by 1 September 2022

The Commission is seeking stakeholder feedback on the draft determination and the more preferable draft rule by **01 September 2022**.

## Interaction with the Transmission planning and investment review

The Material change in network infrastructure project costs rule change is being undertaken concurrently with the AEMC Transmission planning and investment review. The Review seeks to determine whether the regulatory framework is sufficiently flexible to support the timely and efficient delivery of major transmission projects under the current step-change growth required to transition to net zero, while ensuring these investments are in the long-term interests of consumers.

There are issues being explored in the Review, particularly under Stage 3, which will complement the rule change. Stage 3 of the Review is examining, amongst other things, whether there is the potential to improve the balance of timeliness and rigour in the economic assessment process, including an examination of issues related to the assessment of costs and benefits of major investments. The RIT- T and contingent project application (CPA) process and associated guidelines will be examined further under the Review. When considering possible alternatives to the economic assessment process, the Review will be cognisant of the changes proposed in this draft determination.

## The rule change request sought changes around the material change process

On 15 February 2021, the proponents submitted a rule change request to the Commission regarding the reapplication of the RIT following a material change in network infrastructure project costs.

Under the existing arrangements, the RIT must only be reapplied where, in the reasonable opinion of the project proponent, there has been a material change in circumstances which means the preferred option identified in the final RIT report is no longer the preferred option.

The rule change proponents are concerned that project costs can increase between completion of the RIT and the CPA whereby the proponent seeks AER approval to recover costs from consumers.

The rule change proponents consider that allowing project costs to significantly increase after the application of the RIT negatively impacts stakeholder confidence in the RIT process. To address this, the rule change proposed the following changes:

- A RIT proponent must reapply the RIT if, following completion of the RIT, its project's costs have increased by 10 per cent (for larger transmission and distribution projects: i.e. where project cost is greater than \$500m and \$200m respectively) or 15 per cent (for smaller transmission and distribution projects: i.e. where project cost is less than \$500m and \$200m respectively), unless an exemption is granted by the AER.
- The AER may determine that a proponent is not required to reapply the RIT (or is only required to repeat part of the RIT). The AER would have 30 days from the date of publication of the revised project cost estimate to make and publish its determination.
- Project EnergyConnect should be required to update its final RIT-T report to take account of material cost increases that have occurred since completion of the RIT.
- AER guidelines should be amended to require proponents to develop more rigorous cost estimates for the final RIT report, thereby reducing the risk that the RIT will need to be reapplied as a result of material cost increases.

For information contact:

Advisor, **Patrick Loughrey** 02 8296 0659

Acting Director, **Alisa Toomey** 02 8296 0633

Media enquiries: [media@aemc.gov.au](mailto:media@aemc.gov.au)

07 July 2022