



29 September 2021

Australian Energy Market Commission
GPO Box 2603
SYDNEY NSW 2001

Attention: Mr R Doney

By direct lodgment

**Transmission Planning and Investment Review
EPR 0087**

Major Energy Users Inc (MEU) is pleased to provide its views on the consultation paper addressing the Transmission Planning and Investment Review. This submission focuses mainly on chapters 3 and 4 of the Consultation Paper.

The MEU notes that chapter 5 of the consultation paper relates to discussion on a rule change sponsored by a number of entities (including the MEU) regarding the need to change the rules to require the AER (not the TNSP) to have the power to decide if a material change has occurred between the Project Assessment Conclusions Report (PACR) stage of the RIT process and the Contingent Project Application (CPA) stage of a proposed project. The MEU supports the separate response provided by the joint proponents regarding the issues identified by the AEMC in its consultation paper.

As any of the points made in this submission are exemplified in the joint response to the chapter 5 part of the consultation paper, this submission should be read in conjunction with the joint submission.

The MEU was established by very large energy using firms to represent their interests in the energy markets. With regard to all of the energy supplies they need to continue their operations and so supply to their customers, MEU members are vitally interested in four key aspects – the cost of the energy supplies, the reliability of delivery for those

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supplies, the quality of the delivered supplies and the long-term security for the continuation of those supplies.

Many of the MEU members, being regionally based, are heavily dependent on locally based staff, local suppliers of hardware and services, and have an obligation to represent the views of these local suppliers. With this in mind, the members of the MEU require their views to not only represent the views of large energy users, but also those interests of smaller power and gas users, and even at the residences used by their workforces that live in the regions where the members operate.

It is on this basis the MEU and its regional affiliates have been advocating in the interests of energy consumers for over 20 years and it has a high recognition as providing informed comment on energy issues from a consumer viewpoint with various regulators (ACCC, AEMO, AEMC, AER and regional regulators) and with governments.

Introductory comments

The MEU is well aware that the National Electricity market (NEM) is changing quite rapidly and the influx of low cost, but variable output, renewable energy (VRE) generation has resulted in the need for expansion of the transmission network to allow for the connection of the many smaller power stations which have exhibit increased geographical dispersion and initiate the need for increased storage of energy at times of low VRE supply, such as during nighttime and low wind movement.

There are many proposals made to allow the NEM to manage this change in generation mix and a drive for increased transmission network investment is highlighted as a necessary enabler for this to occur. The inherent risk for consumers is that these augmentations and expansions have a life of 50-60 years and are backed by a regulatory process that requires consumers to pay for these, regardless as to whether at some time in the future they become redundant or underutilized. Because of this risk, there is a need for very close attention to ensure the work is delivers benefits over the long term for consumers. The MEU sees the current RIT-T process as an integral element of ensuring that only prudent and efficient network investments are made on behalf of consumers. The MEU does not agree with some that the RIT-T needs to be streamlined or curtailed to speed up the process for transmission project approvals and considers the current process well balances the needs for timely investment with appropriate controls to minimize consumer risks.

In previous submissions to the AEMC and the ESB, the MEU has expressed a view that due to this increased dispersal of VRE generating units there is a need to ensure that there is a need to balance the benefit of high generation source characteristics with the costs of network expansion, so that there is optimization of location of the generation (set through maximizing generation efficiency) with minimizing the cost of network provision. With this in mind, the MEU has long been of the view that

transmission costs should be paid by generators which are best placed to balance these competing issues. Equally, if generators are to fund the transmission network to allow them to deliver their product to market, then they should also have rights to use the network they fund to the capacity they pay for.

The MEU is also very concerned that:

- The costs proposed by the TNSPs for the expansion of the transmission network to meet the ISP requirements are extremely high and, due to exclusivity of operation by each TNSP in its own region, there is no certainty that the costs of the expansion proposed by the TNSP are demonstrably efficient.
- TNSPs are only required to provide a high-level assessment for the need of a project and are not required to fully identify the need for a project or what the expansion is to deliver in terms of outcomes. The needs and outcomes of a project must be clearly identified in clear statement as to the extent of the deliverables from the project and in sufficient definition to enable so that options other than network solutions (eg non-network solutions) can be fully investigated and costed, recognizing that TNSPs have an incentive to implement network solutions.
- The assessment of benefits is becoming increasingly based on forecasts so far into the future that there is a strong probability that the forecast benefits might never be delivered due to changes in the market that have not been foreseen. Despite this, the expected lives of transmission assets are 50-70 years, and the rules provide for the full recovery of the capital invested, regardless as to whether the assets become stranded or only partially used. This raises a considerable risk for consumers as to whether the benefits outweigh the costs.
- The Project Assessment Draft Report (PADR) stage is the last opportunity for stakeholders to provide input into a proposed expansion of the transmission network. The rules do not require stakeholder input into any deliberations between PACR and CPA stages, even though there might be a considerable change in costs between the two stages.
- Implicitly, for actionable ISP projects, the TNSP can merely carry forward the proposed ISP project through the PADR stage and release a PACR that does not challenge the AEMO development of the ISP project. This has implications for consumers in that the time between the ISP stage and the CPA stage can be quite long, so there could have been developments that could lead to a much lower cost option, including a non-network solution.
- What is becoming more and more obvious is that there is considerable resistance from some stakeholders that is not being identified early enough in the RIT process such that changes (often as a result of agitation based on environmental, planning and/or access requirements or by individuals directly impacted by the expansion – the “social licence” requirements) after the PACR stage that results in the CPA price proposed by the TNSP being significantly greater than first identified at the PADR/PACR stages to reflect changes driven by these social licence issues.

- Even after the CPA stage has been approved by the AER, consumers are still exposed to further cost increases through the AER ability to grant an increase in the project allowance if the AER considers that the increase in cost is prudent. Again, consumers have limited ability to challenge such an increase, especially where the sunk costs of the network expansion are significant compared to the additional costs claimed or where the network expansion would otherwise not deliver the benefits proposed.
- Some stakeholders and institutions (including governments) have been asserting there the RIT process takes too long. The MEU points out that it is within the control of the TNSP as to how long it takes to action the various stages of the RIT process, rather than the process itself. Secondly, what is becoming increasingly apparent is that it is gaining the social licence for a network expansion that is causing the greatest loss of time between initiation and delivery.

The degree of certainty of capital costs is of considerable concern to MEU members who have observed massive increases in some project costs from the PACR stage to the Contingent Project Application stage. The MEU concerns are well explained in the joint response to the chapter 5 analysis relating to the proposed rule change

Overall, the MEU considers that the current processes for addressing investment in the transmission and distribution networks has delivered reasonable outcomes for consumers over many years, although the MEU does recognize that there are some shortcomings in the current rules that could deliver enhanced outcomes for consumers. The MEU raised these concerns at the 2006 review of the transmission network rules and in the AEMC review of the network rules in 2012.

This then raises the question as to whether the assessment of the current rules triggered by the TransGrid application for a change to the regulatory processes for ISP projects needs to address all transmission expansion projects or a smaller cohort of such projects. The MEU supports consistency of the rules for all investment, and it is concerned that imposition of rules to address very large projects (such as ISP projects) but not all other projects might introduce less efficient outcomes for consumers.

These observations underpin the MEU responses to the questions and observations raised in the Consultation Paper.

Chapter 3

Section 3.1

As noted above the MEU considers that the existing regulatory framework for growth and renewal in the transmission networks generally works well and details the

requirements that any capital investment in the network has to be underpinned by a cost/benefit analysis (CBA). This is the practice that is widely used across all businesses, not just regulated businesses. So, the MEU does not see that the regulatory processes for business as usual (BAU) investments needs to be significantly changed, although the MEU considers that some modest refinement could increase consumer benefits. Equally, it is clear that the very large investments anticipated under the ISP might not sit as comfortably within the current rules. In particular, the MEU sees that the main cause of this, is due more to the increasing demand for recognition of the “social licence” issues that historically have not had rigorous attention.

What businesses in the commercial sector do for major investments is to establish a separate team to assess the costs and likely benefits to the firm of making such an investment. Inherently the firm will also carry out a detailed assessment of the risks to the firm for both an over-run of costs and an under-run of benefits. To a large extent, the impact of either of these occurrences lies with the firm making the investment. In the case of regulated firms, the firm is predominantly concerned about any over-run of costs which it is unlikely to recover under the regulatory regime, recognizing that the regulatory regime provides considerable certainty about recovery of the investment. In contrast, the transmission firm is reasonably impervious to the threat of any under-run of benefits as the regulatory framework does not hold the firm or AEMO responsible for delivery of the benefits – this is in stark contrast to a firm operating in the commercial world – yet the electricity rules still require consumers to accept the costs of the investment even if the benefits do not appear.

While ISP projects have been the trigger for this review, the MEU also notes that there are large projects that are already in train, or anticipated, that are significant projects but are not ISP projects. Such projects include intra-regional augmentations, especially to deliver connection to and within the new generation REZs. Implicitly, these projects will be costed and implemented by the incumbent transmission firm and the costs of the project will be added to the RAB of the firm, with little certainty that the costs proposed are efficient, other than by a top-down assessment by the AER as to the reasonableness of the costs¹.

An example of such a project is the recent large Western Victoria Renewable Integration project (WestVic) which is an intra-regional project. Although tenders for this project were called, the project is of such significant size that it is attracting considerable resistance under the social licence aspect, which may result in a considerable escalation of costs to address these concerns. Whilst AEMO did carry out a RIT-T for the project, the costs assumed for the project might not include the costs resulting from environmental and land acquisition concerns now being raised. This raises a significant concern for consumers in that the CBA does not deliver net benefits when any significant but unexpected additional costs arising from social licence issues are added.

¹ The MEU notes that only in Victoria, the TNSP (AEMO) does seek competition for significant expansion projects.

The implication of these concerns is that the regulatory process does not require a project proponent to develop the project costs sufficiently to ensure that the likelihood of cost over-runs and benefit under-runs have been fully tested to the extent that a firm in the competitive market would have to carry out to ensure the firm has a high degree of confidence that the project is highly likely to deliver a net benefit.

With these thoughts in mind, the MEU considers that the project proponent needs to devote much more effort into assuring that the project is more accurate in its costs and benefits, even if this means the overall process incurs more time and cost to reach this point. The MEU points out that this time and cost is not “lost” as the work does have to be carried out at some time, yet by not carrying out the work during the RIT process leaves consumers at risk, post acceptance of the project, of significant cost over-runs as the project costs are finalized.

The MEU therefore considers that minimizing this uncertainty must be a core element of this review.

Section 3.2

The MEU points out that a CBA must be the driver behind any investment, whether under a regulatory arrangement or in the commercial sector. The accuracy of the inputs to the CBA is therefore an essential step. Unfortunately, what has consistently occurred is that costs developed by transmission investment proponents for large projects has proven to be considerably in error, almost invariably an underestimate with the project costs increasing over time. When required to do so, the proponent then finds additional benefits to justify that the project remains with a net benefit. It would be better if the project had a high level of accuracy when the initial CBA is carried out.

What is also concerning is that there are instances where the net benefits are relatively low for the capital investment involved (eg Project EnergyConnect where the net benefits assessed by the AER are ~10% of the investment). In such an instance a firm in the commercial sector might consider the benefits deliver an unacceptable risk and decide not to invest. There is no mechanism within the rules that define by how much the net benefits must be compared to the capital costs involved, leading to consumers to an unacceptable risk of the net benefits disappearing due to a capital cost over-run or a benefit under-run.

The need for greater accuracy in the development of the capital costs for the CBA stage of the process must become a core element of this review.

The MEU points out that an argument for the “streamlining” the RIT and CPA processes is the time delay between initiation and project completion. While there are steps in the review of such projects requiring stakeholder input, the MEU points out that it is the time taken by the proponents to carry out the essential steps of the CBA process that is by far greater than the steps for review. Even within firms in the

commercial sector there is a requirement for internal review of the project development up to the point of “final investment decision (FID)” and unless there are reviews at various stages, then the likelihood of acceptance by the firm is greatly reduced.

The MEU does not agree with a “streamlining” the RIT and/or CPA processes if this reduces the ability for adequate stakeholder review or to ensure there is sufficient certainty of the costs and benefits. Reducing the certainty of these elements increases exponentially the risk that such a project might not deliver any net benefit and therefore should not have proceeded.

The other major cause of delay in projects being delayed during the RIT process (and even up to the point of the CPA) is that the proponent has not gained a social licence from those impacted by the project. This lack of social licence has two major elements – a possible over-run of costs and an over-run of time as the proponent debates with those impacted after a decision has been made to proceed with the project². If the social licence had been achieved during the development of the project (ie prior to the PACR stage), then there would be much greater certainty about the achievements of the benefits and the delivering the project within time and cost.

The MEU recognizes that gaining the social licence during the project development phase will increase costs during this stage, but it is poor practice to rush through an insufficiently scoped project with high uncertainty when more investment “up front” will increase certainty. The MEU points out that firms in the commercial sector do carry out this detailed study work as part of their project development work to ensure that when the proposal reaches the point of FID, there are unlikely to be any surprises as the project proceeds.

MEU members would support the ability for TNSPs to recover additional developments costs through the regulatory allowance if this led to greater accuracy in the project costs and for these to be tested to against the projected benefits.

The MEU therefore considers that part of the review should look to investigate whether assessment within the RIT process should seek to be more accurate (including obtaining the social licence) and allow increased “up front” costs being included within the regulatory allowance.

Section 3.3

The MEU considers that the current range of benefits allowed within the rules is appropriate and agrees with the AEMC view that broader economic benefits should be excluded from the RIT-T and its CBA. If governments or other stakeholders consider there are broader economic benefits from a project, the project should be funded separately and not by electricity consumers.

² This lack of social licence developed in the early stages of the WestVic project is delaying its construction and meeting the needs of those affected could well result in significantly higher costs

The MEU accepts that some proposed transmission projects are facing difficulty in demonstrating a net benefit with supporters identifying that the projects must proceed as a matter of urgency. Despite this, a project must demonstrate that it does deliver a net benefit rather than a benefit to just some. The MEU points out that supporters of urgent investment are often causers of their own need for the investment through inadequate analysis of their own investments. Consumers should not be liable for insufficiently analyzed investment decisions of others.

While the MEU accepts there is a need to reduce carbon emissions (most of its members are implementing or are proposing to implement programs to achieve carbon emissions reductions already) the MEU does not consider that until the Electricity Law is changed or derogations introduced by individual state governments to require the benefits of carbon emission reduction to be included into the CBA, then the CBA process (whether calculated by AEMO or other TNSPs) should exclude these benefits.

Equally, the MEU notes that, to an extent, the scenario approach developed by AEMO effectively incorporates aspects that reflect carbon emissions. The MEU considers this is the greatest extent (until there are Law changes initiated for formal inclusion of the benefits of carbon emission reductions) to which carbon emission reduction should be included in analysis of new transmission investments.

As a matter of principle, the RIT or ISP CBA should only include those benefits that can be identified and costed, following the approach used by firms in competitive markets.

In the early years of the NEM, the MEU (through its affiliates) argued that as consumers pay for the transmission network, the RIT-T CBA should be based on consumer benefits, reflecting the cost to benefit alignment. Since then, the MEU has softened its stance on this issue, partly because identification of determining what are consumer benefits exposes considerable difficulties in interpretation and what one class of consumer considers a benefit might not be acceptable to another class of consumer.

The MEU also argued (and still does) that generators should pay for the transmission network, noting that if the cost of the transmission network were paid for by generators, then the RIT-T CBA should be based on market benefits, recognizing that there are many generators all using the transmission network, so a market benefits test is a fair way to ensure equity.

Effectively, the benefits should be calculated to reflect the interests of those that incur the cost of the transmission network.

Section 3.4

The MEU considers that, in addition to the points made in the consultation paper (all of which the MEU supports) the process used in the development of the ISP and through the RIT process inherently favours a network solution because the definition of the need for and the outcomes from the investment is insufficiently defined for a non-network solution to be readily identified and costed.

For example, there has been identified a need for increased transmission inter-connection between NSW and Victoria in order to manage the forecast closure of Yallourn power station – this is clearly stated as the reason for the VNI West project, yet AEMO has expanded the needs for the project through the additional benefits that each option might deliver. This “moving feast” creates impossible challenges for alternative options. The ostensible reason (to replace the lost output of Yallourn power station would normally lead to the conclusion that the existing Victoria/NSW interconnector (VNI) would be upgraded by a specific capacity to allow greater flows into Victoria. If AEMO had identified that the forecast need was for 1400 MW additional capacity on VNI, then non-network solutions could be developed. Unfortunately, AEMO has not provided clear definition for the need (ie a clear definition of what the outcomes of the project are to provide) of what the upgrade is to achieve³.

However, in its initial PSCR assessment, AEMO has implied that a number “nice to have” elements might be beneficial to the assessment of the VNI expansion such that totally different options are now considered to be preferable. These “nice to have” elements have led to three significant outcomes:

1. A non-network option to fulfil the “nice to have” outcomes cannot be identified because the identified outcomes of the “nice to have” elements are not detailed sufficiently to develop a non-network solution.
2. Even if a non-network solution could be developed to meet an identified need and outcomes, the price for the non-network solution will have to be at a much higher price accuracy as it gets added to the opex of the TNSP rather rolled into the RAB as the costs increase. In contrast, the network solution will be at a much lower order of accuracy due to the “unknowns” (eg for social licence provisions) making comparisons quite difficult.
3. The assessment of the benefits between the network and non-network options is also made more difficult as there is no clarity on how the benefits of the options will be calculated.

The MEU supports the decision to address the challenges faced by providers of non-network solutions as a critical aspect of this review.

³ What is also very concerning is that AEMO has not costed the social licence conditions making the capital cost estimates considerably “rubbish”.

Chapter 4

The MEU agrees with the points made in the consultation paper that incumbency (regional exclusivity) provides TNSPs with a unique position in the marketplace. This allows the incumbent TNSP to be solely able to control any expansion project within its region, at the price it wants. If the price it proposes is not accepted by the AER, then the TNSP can decide not to implement a needed project. Further, the AER is able only to assess the cost of the project on a “top down” basis and so it is limited in its ability to argue with the TNSP as to what is an “efficient” cost for the project so it can be added to the RAB.

This ability of the TNSP to control the process is enhanced by its decisions on how far to define the needs and outcomes that the project will deliver and the extent to which it will go in refining the costs to be input into the CBA (eg the TNSP might decide to carry out a low accuracy cost estimate applying percentages to the costs of the known unknowns and the unknown unknowns). In particular, the MEU has noted that the ever-increasing costs of these two forms of unknowns have led to significant increases in the total costs of some projects, particularly as the costs for obtaining the social licence are revealed.

The MEU agrees with the point in the consultation paper that a critical element of an assessment is that there is a need for inter-generational equity such that current consumers do not incur costs by provide funding that benefits future consumers. This point was well made by the AEMC in its decision not to implement the rule change proposed by TransGrid Na ElectraNet on “financeability”.

Section 4.1

The MEU agrees with the AEMC that “financeability” of a project, of itself, is not the core issue of concern from a regulatory viewpoint, but it does impact on the way a project might proceed within a regulatory environment.

The MEU points out that firms in the competitive environment already have addressed this concept in a practical way. The firm might decide that it will treat the project separately to its normal operations and seek to establish the project on a stand-alone basis, with financing based purely of the project’s fundamentals and financials. In such an arrangement, lenders will provide debt financing based on the expected cashflow from the project and not on the financials of its owner.

The MEU points out that AEMO (as the Victorian TNSP) already implements transmission expansions based on a competitive approach with the annual costs being added to the AEMO allowed revenue. Some toll roads are developed on this project financing basis.

As noted in the consultation paper, the MEU considers that large transmission projects should be made contestable. There are a number of benefits in this as it:

1. Provides competition to the incumbent TNSP to identify the most efficient cost for the project.
2. Allows the project to be financed on a project basis, reducing the risk to the incumbent TNSP and its accessing of finance, allowing the AER to assess the RORI independently of the impact of these large projects
3. Could provide a vehicle to ensure all of the social licence provisions are covered before a decision is made to proceed
4. Allows a decision to be made on a project to meet the timing of the need of the outcomes of the project
5. By the need to fully detail what the project is required to deliver, it provides
 - a. greater certainty as to the final costs and confidence that the risks of cost blow-outs do not necessarily accrue to consumers
 - b. an ability for a non-network solution to be proposed to meet the needs and outcomes sought.

A project that is developed on such a basis still requires supervision to ensure that the project is adequately managed in terms of delivery, penalties, etc. and meets the required standards for the work. The allowed revenue requirements must be paid to the owner and recovered from users of the facility. Both of these aspects require a supervisor which could be either AEMO (as applies in Victoria) or the incumbent TNSP.

While there are many benefits of having large individual projects subject to competition, there are some aspects that need to be addressed, such as:

- Who decides what projects will be carried out this way?
- Should there be a price cut off, below which the project is carried out by the incumbent TNSP?
- Should the incumbent TNSP be allowed to tender for the work?
- If the successful tenderer is the incumbent TNSP, should the capital be allowed to be rolled into the RAB?
- Over what term should the successful tenderer be obliged to own and operate the expansion?
- What happens when the term of ownership of the expansion is complete, yet the assets are still used and useful? Who is then responsible for maintaining the assets?
- How will needed augmentations be handled (ie when assets owned by the incumbent TNSP have to be enhanced for the project)?

The MEU is supportive of the concept to make these large expansions and augmentations contestable, and this concept should be further investigated by AEMC as a matter of urgency

Section 4.2.1

The MEU accepts that there is a need for TNSPs to carry out sufficient investigation as to the need of an augmentation/expansion and likely expectation of net benefits from such a project. To a significant degree, the cost for these works is embedded in the development of the Annual Planning Report processes that each TNSP (and AEMO for the ISP) is required to undertake and so the costs for this work is already included in the allowed opex.

Once a project is identified as likely to be needed, further investigation is carried out, and this activity is already included in the RIT-T processes. Again, the cost of this work to generate the net benefit analysis is already included the allowed opex.

The MEU also considers that development of a clear definition of the outcomes needed from the project is included in the existing processes that a TNSP is required to undertake and so is also in the allowed opex. Such a clear definition of outcomes is essential if there is to be a contestable process for developing the optimum solution. Similarly, the cost to analyze the different tenderers' proposals is already included in the current allowances.

The MEU considers that the major cost element that is not included in the current allowances is the determination of the exact route and the acquisition of easements and rights to build the assets. The MEU considers that this is a cost that should be reimbursable as development work proceeds, recognizing the costs will include assessments of different options before the final option is decided.

It is not uncommon practice (especially for very large projects) for tenderers to be paid for some of the costs in preparing their tender, as some of these costs will not be recoverable with the final proposed solution to meet the needed outcomes to the level of detail required. The MEU considers that it is more preferable for these costs to be reimbursed so that a more accurate cost for the project can be provided than to have a less accurate proposal but subject to potential cost increases.

The MEU considers that there should be clarity on what is expected of the incumbent TNSP in its various activities up to the point of a clear definition of the needed outcomes for the project, to such an extent that competitive tenders can be reasonably called⁴. The MEU expectation is that the incumbent TNSP would manage the tendering process so the incumbent TNSP should be allowed to provide some payments to the tenderers for the cost they incur in preparing their detailed proposals and the incumbent TNSP should be allowed to recover these costs in their allowed revenue.

The MEU considers that the AEMC should further investigate this issue

⁴ Perhaps part of the process for selecting preferred tenderers should be the costs they see as necessary for the preparation of their tenders. The MEU considers that this concept might need more analysis by the AEMC as its review process proceeds.

Section 4.1.2

The MEU agrees with the sentiments in the consultation paper that the acquisition of easements and land, meeting planning requirements and addressing concerns of individuals impacted by the project (ie gaining the social licence) can be both time consuming and expensive. As noted above, the MEU considers that some of these costs should be recoverable during the project development, especially where the cost is not readily identifiable with the final determined option. As noted above, the MEU considers it is more preferable to have higher accuracy for the final cost than to have a lower cost estimate with the potential for cost over-runs. This pragmatic approach recognizes that either way, most of these costs are likely to be incurred during the development phase so there is little benefit in not accepting the costs as an up-front payment.

The MEU notes that an essential element for acceptance of these up-front costs is that there must be a clear definition of what the project is expected to deliver (ie the needed outcomes of the project), sufficient for non-network options to be included in the process.

The MEU also notes that there is perhaps another feature the AEMC should address. The MEU is aware that, in the acquisition of easements and acceptance from individuals affected by the project, there is no ability for the TNSP to provide an ongoing payment to land holders. The MEU understands that some wind farm developers have instituted ongoing payments to land holders for the inconvenience that locating the towers and access ways caused the land holder. The MEU considers that in the acquisition of easements and inconvenience caused by new powerlines, this aspect is addressed as part of this review.

The MEU considers this aspect of addressing the social licence issues is a priority issue.

Chapter 5

The MEU supports the detailed response to the proposed rule change that is provided separately. However, in essence, the MEU considers that the AEMC might have not appreciated the simplicity of the proposed rule change. Essentially, the proposed rule change is to refine the project approval processes in just two ways:

1. Assessment if there has been a material change in the cost of a large transmission project should not lie with the TNSP because they have a vested interest. It is better if the assessment is left to a disinterested party (such as the AER) to determine if there has been a material change, especially if there has been a significant increase in the cost of the project

2. There is no requirement to re-run the entire RIT process – at its most simplistic, all that is required is for the PACR to be re-run, preferably allowing stakeholder input with the new cost. If the AER requires more than this to be carried out, it should be permitted to increase the scope of the re-run activity to ensure that the new capital cost is still demonstrably the most efficient outcome (ie meets the requirements of the NEO).

The MEU sees that an adjunct of the rule change is that TNSPs will be incentivized to make their cost estimates more accurate in the RIT process rather than at the CPA stage. This reflects the points made above in earlier sectors of this response.

We trust that the foregoing provides sufficient clarity on the MEU views but should you desire further explanation as to why we have responded as we have, we would be pleased to provide more detail, so please contact the undersigned on davidheadberry@bigppnd.com or 0417 397 056

Yours sincerely

A handwritten signature in black ink, appearing to read 'D.H. Headberry', with a stylized flourish at the end.

David Headberry
Public Officer