



**Consultation paper: guideline on factors that will be considered in  
new facilities investment test (NFIT) determinations including  
methods to value net benefits**

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## 1. Executive Summary

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| <b>Matter</b>  | Synergy's response to the Economic Regulation Authority ( <b>ERA</b> ), October 2021 consultation paper entitled: ' <i>Guideline on factors that will be considered in new facilities investment test (NFIT) determinations including methods to value net benefits</i> ' ( <b>consultation paper</b> ).  |
| <b>Context</b> | <p>The ERA is required to publish guidelines on:</p> <ul style="list-style-type: none"><li>• The factors it proposes to consider when making a new facilities investment test determination</li><li>• Acceptable methods for valuing net benefits.</li></ul> <p>The ERA considers there is an overlap between the new facilities investment test and net benefits and consequently the ERA intends to publish a single guideline to cover both matters. The ERA is required to consult the public before making and publishing its guideline.</p>   |
| <b>Scope</b>   | The ERA has prepared a consultation paper seeking views on the factors it proposes to consider when making a new facilities investment test determination and acceptable methods for valuing net benefits.  |
| <b>Issues</b>  | <p>Synergy supports the ERA's proposed guidelines approach detailed in its consultation paper subject to the following comments. These matters are provided in more detail in sections 3-6 of this submission.</p> <ol style="list-style-type: none"><li>1. <b>Guidelines' development requirements.</b> It is essential that the ERA's proposal to merge the NFIT and net benefits guidelines into a single document does not result in the Electricity Networks Access Code 2004 (<b>ENAC</b>) distinct requirements for each guideline being given less detail than would otherwise be the case if two separate guidelines exist. To manage this issue, Synergy recommends that the guidelines be divided into separate sections that:<ul style="list-style-type: none"><li>• Specify the acceptable net benefits calculation methods</li><li>• Detail the factors the ERA proposes to consider in making a NFIT determination.</li></ul></li><li>2. <b>Related guidelines.</b> Synergy considers the highest quality benchmark for infrastructure assessment and planning as being provided by the <a href="#">Australian Transport Assessment and Planning (ATAP) Guidelines</a>. Synergy recommends the ERA consider adopting aspects of ATAP approach, including:<ul style="list-style-type: none"><li>• The general structure of its cost benefit framework</li><li>• The general approach taken in the ATAP guidelines of clearly specifying formulae that define acceptable methodologies for valuing net benefits</li><li>• Specifying appropriate default parameter values to be used in cost-benefit formulae and making these transparent, e.g., by requiring</li></ul></li></ol> |

parameter values be published in the access arrangement information document.

The Australian Energy Regulator's (AER's) regulatory test and cost benefit guidelines also provide a 'point-of-reference' framework that the ERA should aim to be consistent with and improve upon.

3. **Factors the ERA proposes to consider in making a NFIT determination.** Synergy recommends that the guidelines should include the following additional factors for ERA consideration:
  - The information the ERA requires in the access arrangement information document to facilitate NFIT assessment and valuation of net benefits
  - How the ERA will determine whether a new facility is required for the purpose of facilitating competition in retail markets for electricity
  - How the ERA should treat an expenditure that may be incurred which is not consistent with the provision of covered services
  - Emphasis on the reasonableness of assumptions that the network operator makes when comparing network investment options against non-network options.
4. **Acceptable methodologies for valuing net benefits - effective level of prescription.** The net benefits guidelines should involve a high level of prescription that:
  - Is effective in supporting the ENAC objective
  - Provides network users with greater certainty as the calculation of prudent discounts under the ENAC and benefits under the distributed generation or other non-network solution reference services
  - Allows network users to independently calculate the net benefits of alternative options proposals using the same methods and assumptions as the network operator and on an ex-ante basis
  - Meets the benchmark set by the ATAP guidelines, and
  - Specifies an acceptable formulation for the calculation of each of the benefit categories listed for similar purposes in the National Electricity Rules.
5. **Acceptable methodologies for valuing net benefits - consistency.** To avoid confusion which may result in the net benefits of a proposal being understated or overstated (e.g., double counted), leading to an increased risk of disputes, a draft version of the guidelines should be reviewed carefully through a public consultation process to ensure:
  - ENAC consistency
  - Consistency with well-established cost benefit analysis principles
  - Elements of the net benefit valuation framework described by the ERA are internally consistent.

## 2. Introduction

Synergy is the largest network user within the south west interconnected system (**SWIS**) and is Western Australia's (**WA's**) largest retailer, with more than one million connection points on its electricity transfer access contract with Western Power (the **network operator**). Synergy has a strong interest in ensuring that the NFIT and net benefits guidelines lead the network operator to make more efficient capital and operational expenditure decisions as Synergy pays Western Power approximately \$1.3B annually in network and metering charges. Network charges comprise the single largest cost component of a residential customer's electricity bill.

Synergy supports the ERA's proposed guideline approach detailed in its consultation paper subject to Synergy's comments in sections 3-6 of this submission.

## 3. Guidelines' development requirements

The ERA's consultation paper states that, due to an overlap, the ERA intends to publish a single set of guidelines to cover the treatment of NFIT and net benefits.

Synergy notes the following distinction between the ENAC's requirements for development of the NFIT guidelines and those for the net benefits guidelines:

- the NFIT guidelines are to "... provide guidance as to the factors the ERA proposes to consider ..." (ENAC clause 6.56), while
- the net benefit guidelines are to "... provide guidance as to acceptable methodologies ..." (ENAC clause 6A.6(a)).

It is essential that the merging of the NFIT and net benefits guidelines into a single document does not result in either ENAC requirement being given less attention than would otherwise have been the case if two separate guidelines exist. To manage this issue, Synergy recommends that the guidelines be divided into separate sections that:

- Specify in detail the acceptable net benefits calculation methods
- Detail the factors the ERA proposes to consider in making a NFIT determination.

## 4. Related guidelines

Synergy refers to the following Australian Energy Regulator (**AER**) guidelines:

- [\*Application Guidelines Regulatory Investment Test for Transmission, August 2020\*](#)
- [\*Application Guidelines Regulatory Investment Test for Distribution, December 2018\*](#)
- [\*Cost Benefit Analysis Guidelines, August 2020.\*](#)

These guidelines are published to meet similar objectives to the ERA's NFIT and net benefits guidelines and provide a 'point-of-reference' framework that the ERA should aim to be consistent with and improve upon.

In Synergy's view, the highest quality Australian benchmark for infrastructure assessment and planning is provided by the [\*Australian Transport Assessment and Planning \(ATAP\) Guidelines\*](#). The ATAP guidelines are separated into various parts, the following of which support the measurement of net benefits:

- [\*T2 Cost Benefit Analysis\*](#)
- [\*Parameter Values, 2006.\*](#)

To provide guidance as to acceptable methodologies for valuing net benefits in the SWIS, Synergy recommends the ERA consider adopting aspects of ATAP approach, including:

- The general structure of the cost benefit framework provided in part T2 of the ATAP guidelines
- The general approach taken in the ATAP guidelines of clearly specifying formulae that define acceptable methodologies for valuing net benefits
- Specification of appropriate default parameter values to be used in formulae and making these transparent, e.g., by requiring parameter values be published in the access arrangement information document (see section 5 below).

## 5. Factors the ERA proposes to consider in making a NFIT determination

Synergy is generally supportive of the factors that the ERA proposes in its consultation paper for consideration when making a NFIT determination. Additional factors the ERA should consider include:

- The information the ERA requires in the access arrangement information document to facilitate NFIT assessment and net benefits valuation. For example, provision of a standard net benefits calculation model and default parameter values in the access arrangement information document would allow the ERA and network users to apply the same computational structure and assumptions used by the network provider when calculating net benefits. This approach will reduce the risk of disputes between the network operator and network users over how net benefits should be calculated
- How the ERA will determine whether a new facility is required for the purpose of facilitating competition in retail markets for electricity
- How the ERA should treat an expenditure that may be incurred which is not consistent with the provision of covered services, e.g., in the case where an alternative options arrangement is inconsistent with a user's rights in relation to a connection point or covered services.

The recent ENAC amendments include an enhanced focus on alternative options to network investment. The ERA's NFIT guidelines should place similar emphasis on the reasonableness of assumptions that network operator makes when comparing network options against non-network options.

## 6. Acceptable methodologies for valuing net benefits

### 6.1 Effective level of prescription

Synergy considers the requirement under ENAC clause 6A.6(a) should involve a high level of prescription that is effective in supporting the ENAC objective. Application of a consistent and transparent cost benefit analysis framework will maximise the utility of covered services while putting downward pressure on electricity prices over the long run. Beyond the ERA's role in assessing the prudence and efficiency of new facilities investment and non-capital costs, the prescription of acceptable methodologies for the valuing of net benefits should:

- Provide network users with greater certainty as the calculation of discounts in accordance with ENAC clauses 7.9 and 7.10
- Allow network users to independently calculate the net benefits of alternative options proposals using the same methods and assumptions as the network operator and on an ex-ante basis.

As stated in section 4 above, Synergy's position is that the ERA's net benefits guidelines should have a level of specificity that meets the benchmark set by the ATAP guidelines.

The ERA's net benefit guidelines should, at a minimum, specify an acceptable formulation for the calculation of each the following benefit categories, based on clause 5.15A.2(b)(4) of the National Electricity Rules:

- Changes in fuel consumption arising through different patterns of generation dispatch
- Changes in voluntary load curtailment
- Changes in involuntary load shedding and customer interruptions, with the market benefit to be considered using a reasonable forecast of the value of electricity to consumers
- Changes in costs for parties, other than the investment proponent, due to:
  - Differences in the timing of new plant
  - Differences in capital costs, and
  - Differences in the operating and maintenance costs.
- Differences in the timing of expenditure
- Changes in load transfer capacity and the capacity of embedded generators to take up load
- Changes in network losses
- Changes in ancillary services costs
- Competition benefits
- Any additional option value (where this value has not already been included in the other classes of market benefits) gained or foregone from implementing that credible option with respect to the likely future investment needs of the market
- Other classes of market benefits that the ERA determines to be relevant.

## 6.2 Consistency

To avoid confusion which may result in the net benefits of a proposal being understated or overstated (e.g., double counted), leading to an increased risk of disputes, a draft version of the guidelines should be published and reviewed by market participants through a public consultation process to ensure:

- ENAC consistency
- Consistency with well-established cost benefit analysis principles
- Elements of the net benefit valuation framework described by the ERA are internally consistent.

An example of inconsistency occurs on page 15 of the ERA's consultation paper, in the statement that net benefits "*... might include: ... Reduced energy or essential system service prices*". This statement is:

- Inconsistent with the well-established cost benefit analysis principle that monetary exchanges (transfer payments) within the boundary of analysis are not included as benefits or costs, e.g., the AER's Cost Benefit Analysis Guidelines explicitly state that "*... market price impacts of themselves should not be considered as (positive or negative) market benefits, as these are wealth transfers between consumers and producers.*" (2020, p. 22)
- Internally inconsistent with the ERA's correct statement on page 15 of its consultation paper that "*The benefits claimed should not include benefits that are simply transfer payments between producers of electricity, the network owner, network users and/or consumers of electricity.*" Synergy agrees with the above statement as it is consistent with the:
  - Boundary of analysis set by the ENAC definition of net benefits, and
  - The well-established cost benefit analysis principle outlined above.