



Water



Energy

Fact Sheet



Treatment of climate-related expenditure proposals

Regulated entities are increasingly considering climate change when making spending and investment decisions.

This is an important consideration for the Essential Services Commission of South Australia (**Commission**), which has regulatory responsibility for pricing and revenue determinations in some industries.

This factsheet provides information on the screening criteria the Commission will use when assessing whether a climate-related proposal should be provided for in a pricing or revenue determination for a regulated entity.

Types of proposals that would be screened

The screening criteria will be used for expenditure proposals where the primary driver is to:

- ▶ address a climate-related regulatory requirement
- ▶ address a climate-related opportunity or reduce greenhouse gas emissions
- ▶ address either a physical or transition climate-related risk, or
- ▶ collect data or evidence to better understand a specific climate-related risk.

Proposals that have other primary drivers (but have climate-related co-benefits) will not go through the screening criteria. These types of proposals would move directly to a merits assessment which considers whether the proposal is prudent and efficient.

Screening criteria for expenditure proposals that address a regulatory requirement

Expenditure proposals that have been made to address a climate-related regulatory requirement would need to be supported by the following information:

- ▶ information about the regulatory requirement the proposal is addressing and an explanation of how the proposal addresses this requirement, and
- ▶ information about any alternative options that were considered and why the proposed expenditure is the most efficient solution.

Proposals that meet these criteria would move to a merits assessment.

Screening criteria for expenditure to address a climate-related opportunity or reduce greenhouse gas emissions

Expenditure proposals that have been made to address climate-related opportunities or reduce greenhouse gas emissions would need to be supported by the following information and evidence:

- ▶ evidence that scope 1 and 2 greenhouse gas emissions have been calculated using National Greenhouse and Energy Reporting methodologies and scope 3 greenhouse gas emissions have been calculated using methodologies aligned with contemporary best practice¹. Proposals should provide information on the accounting methods that have been used, including information on how any Large Generation Certificates have been accounted for.
- ▶ strong evidence that the proposed expenditure is supported by customers (for example, documentation of quality engagement with consumers and consumer representatives)
- ▶ evidence of the benefits of the proposed expenditure in relation to the costs (which may include analysis of market and non-market benefits)
- ▶ evidence that it is appropriate for customers to pay for, and share the risks of, the proposed expenditure (rather than the risk being managed by the regulated entity), and
- ▶ information about any alternative options that were considered and why the proposed expenditure is the most efficient solution.

If the Commission considers the strength of the evidence supports further consideration of the proposal, the proposal will then move to the merits assessment.

Screening criteria for expenditure to address a climate-related risk

Expenditure proposals that have been made to address a climate-related risk would need to be supported by the following information and evidence:

- ▶ evidence that the climate-related risk has been identified using the climate change scenarios and associated climate change projections recommended by the South Australian Department for Environment and Water

- ▶ evidence of the nature, scale and consequence of the climate-related risk. This should include, as relevant, reference to any qualitative, quantitative, and spatial analysis undertaken to better understand the risk
- ▶ information on how the proposed expenditure relates to the long-term interests of customers, including evidence that the risk has the potential to impact the long-term interests of customers with respect to price, quality or reliability
- ▶ information about any alternative options that were considered and why the proposed expenditure is the most efficient solution, and
- ▶ information on how expenditure will control the risk to an acceptable level.

Proposals that meet these criteria would move to a merits assessment.

Screening criteria for expenditure to improve understanding of a climate-related risk

Expenditure proposals that have been made to collect data or evidence to improve understanding of a climate-related risk would need to be supported by the following information and evidence:

- ▶ information about how the proposed expenditure will be used to improve understanding of a specific climate-related risk, and
- ▶ information about any alternative options that were considered and why the proposed expenditure is the most efficient solution.

If sufficient information is provided, the proposal would move to a merits assessment. The merits assessment will consider if the scale of expenditure is appropriate and efficient (i.e. why that level of expenditure is needed to understand the risk).

Where screening criteria have been sufficiently addressed

Expenditure proposals that pass through the screening criteria will proceed to further assessment. They will not be automatically provided for in a pricing or revenue determination.

¹ For example, guidance from Climate Active or Greenhouse Gas Protocol

As with the Commission's assessment of other proposed expenditure and pricing, that assessment will focus on whether the expenditure is prudent (must be done, and must be done within the regulatory period) and efficient (represents the lowest sustainable cost to achieve the outcome).

To assist with the merits assessment, business cases could demonstrate that they have considered:

- ▶ whether to use ex-ante expenditure (to control the risk) or ex-post expenditure (to respond to future consequences)²
- ▶ whether proposed expenditure is appropriate in the current regulatory period rather than in future regulatory periods
- ▶ options for financing expenditure, including pass-through mechanisms, listing of contingent projects, or non-regulatory tools like tariff structure design
- ▶ whether insurance is a valid option for managing a particular risk
- ▶ opportunities to use capital expenditure and operating expenditure, and any trade-offs or interdependencies between the two, and
- ▶ the need for customer engagement, and/or options for doing so.

Where screening criteria have not sufficiently been addressed

Where a regulated entity has not demonstrated that it sufficiently addresses the criteria, the Commission may, at its discretion:

- ▶ seek further information regarding how the expenditure proposal satisfies the criteria
- ▶ consider the expenditure proposal based on its contribution to other outcomes (not its contribution to addressing climate-related risks), or
- ▶ not consider the expenditure proposal further.

Further Information

If you have any questions or would like to discuss any matter relating to this factsheet, please contact the Commission on (08) 8463 4444 or at reviews@escosa.sa.gov.au.

The Essential Services Commission is an independent statutory authority with functions in a range of essential services including water, sewerage, electricity, gas, rail and maritime services, and also has a general advisory function on economic matters. For more information, visit www.escosa.sa.gov.au.

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² For example, investment in new levees to protect infrastructure at future risk of flooding would be considered

ex-ante expenditure. Repair of flood damaged infrastructure would be considered ex-post expenditure.