



5th July 2023

Ms Anthea Harris

CEO

Australian Energy Regulator

Level 17 Casselden, 2 Lonsdale Street,

Melbourne VIC 300

Via email: aer inquiry@aer.gov.au ; anthea.harris@aer.gov.au

Cc Mr Daniel Westerman, CEO, AEMO, daniel.westerman@aemo.com.au

AEMO Victoria Planning – VNI West, VNIWestRITT@aemo.com.au

Mr Brett Redman, CEO, Transgrid, brett.redman@transgrid.com.au

Transgrid – VNI West, VNIW@transgrid.com.au

Dear Ms Harris

Re: Supplement to MCHPA 26/6/23 Dispute Notice – VNI-West Project Assessment Conclusions Report

On 26 June 2023, the Moorabool Central Highlands Power Alliance Inc. (**MCHPA**) lodged within time a dispute notice to the AER regarding the May 2023 Project Assessment Conclusions Report (**PACR**) for the Regulatory Investment Test for Transmission (**RIT-T**) process for the Victoria to New South Wales Interconnector West (**VNI West**), as published by AEMO Victoria Planning (**AVP**) and Transgrid.

Due to significant new information, we write this letter as a supplement to our 26 June 2023 dispute submission. In particular, after the conclusion of the VNI West PACR dispute notice period (around 26 June 2023), on 30 June 2023 Transgrid published a 186 page document entitled “Victoria to NSW Interconnector West - Draft Corridor Report – NSW - June 2023” (**Transgrid June Corridor Report**).

Transgrid June Corridor Report

This Transgrid June Corridor Report highlights significant issues that we believe the AER needs to investigate, some of which include:

- It contradicts key assumptions made in the VNI West PACR regarding the NSW component of VNI West: its preferred route, route length, cost and transfer capacity.
- Given the size of the report, it clearly has been in development before the publication of the VNI West PACR on 27 May 2023 – why wasn't the VNI West PACR delayed one month to incorporate the preferred NSW option from this report? This is in the context that the VNI West Project Assessment Draft Report (**PADR**) was published in July 2022, reflecting the fact

that the National Electricity Rules (**NER**) at 5.16A do not prescribe a set time to publish a PACR after a PADR – so another month to publish the PACR would have remained compliant with the NER.

- This is emphasised by the AER's 21 June 2023 VNI West PACR compliance notice to AVP and Transgrid which requests further explanation of the PACR including:
 - o *Why it provides limited analysis of the NSW component of the VNI West project.*
Please provide further information on:
 - *option selection for routes between Dinawan and the Murray River crossing points*
 - *the cost benefit analysis of these options; and*
 - *the infrastructure to be built to the preferred crossing point.*

Without limiting the issues that the Transgrid June Corridor Report raised, to take one example, there are clearly serious problems now with the VNI West PACR's assessment of costs for preferred option 5A:

- VNI West PACR Table 6 – Option 5A (preferred option)
 - o NSW approximate line length: 203km
 - o NSW Cost: \$1,744m – with \$976m of this cost driven by distance (line works \$831m, property/land access/easements \$72m, biodiversity offset costs \$12m) or \$4.8m per km.
- VNI West PACR Table 6 - Option 5
 - o NSW approximate line length: 184 km
 - o NSW Cost: \$1,651m – with \$883m of this cost driven by distance (line works \$751m, property/land access/easements \$66m, biodiversity offset costs \$66m) or \$4.8m per km.
- Transgrid June Corridor Report Draft Preferred Corridor (p.iii) – Option 1
 - o approximate line length: 216km
- Conclusion:
 - o Firstly, for Option 5A, the NSW line is now 13km longer which represent a 6.4% increase or pro rata \$63m extra cost for Option 5A versus that stated in the VNI West PACR. A longer line will also reduce its transfer capacity and associated benefits in the PACR.
 - o Secondly, the choice of Option 5A, instead of Option 5, as the preferred option to suit AEMO in Victoria imposes a longer line (now 32km i.e. 216km -184km) and more costly line (\$154m pro rata) on NSW consumers, without any perceived additional benefits for NSW consumers. Why should NSW consumers be forced to pay such unnecessary higher charges by decree from Victoria?

Further, as you may be aware, Professor Simon Bartlett made a detailed technical submission on 26 June 2023 (within the VNI West PACR dispute period) to the AER regarding significantly understated line lengths in the VNI West PACR, and the significant implications of those understatements in terms of understated costs and overstated transfer capacities. This issue is further compounded by the Transgrid June Corridor Report, further increasing Option 5A cost and reducing its transfer capacity.

Supporting information to Disputes raised in MCHPA's 26 June 2023 Dispute Notice

Firstly, with regards to Dispute 6, we brought to the AER's attention AEMO's "Draft 2023 Transmission Expansion Options Report May 2023" (**DTEOR**), published at the beginning of May, well before the publication of the VNI West PACR. Without changing the nature of the dispute we have raised, we did not fully articulate it:

- At Figure 1 and s4.9 of the DTEOR, AEMO clearly has assumed that VNI West will be connected from Bulgana to Kerang to Dinawan in line with Option 5 of AEMO's "VNI West Consultation Report Options Assessment February 2023" (**Consultation Report**) which is also Option 5 in the VNI West PACR.
- s4.9 of the DTEOR relates to VNI West and states:
 - o *VNI West was determined to be an actionable ISP project In the 2020 ISP and 2022 ISP, and a RIT-T for this project is in progress. RIT-T proponents are AEMO Victorian Planning (AVP) and Transgrid.*
 - o *The 2022 ISP identified VNI West (via Kerang) as the ISP candidate option in the ODP. Since publication of 2022 ISP, AVP and Transgrid jointly released VNI West Consultation Report – Options Assessment which proposes Option 5 as the preferred option. This option connects Bulgana and Dinawan via a new terminal station near Kerang. This option includes relocation of the Western Renewable Link (WRL) proposed terminal station from north of Ballarat to Bulgana and the uprate of the proposed WRL transmission line from north of Ballarat to Bulgana from 220 kV to 500 kV.*
 - o *AEMO has based its analysis [for this DTEOR] on Option 5. However, AEMO recognises that there has been significant interest and input on the VNI West Consultation Report – Options Assessment and is still considering input, with a Project Assessment Conclusions Report (PACR) to be published in May. This Draft 2023 Transmission Expansion Options Report does not seek to pre-empt the PACR.*
- At s5.6.6 of the DTEOR "Central North Vic (V6)" we brought to your attention the upgrade options to the transmission system around Bendigo and Kerang, all premised on VNI West Option 5 being implemented separately. These V6 DTEOR options vary in cost between \$655m and \$1,061m.
- Given one of these options (Option 2) covers the same Bendigo to Kerang route that was proposed in Option 1 of the Consultation Report, this raises serious questions about why Option 1 was excluded from the VNI West PACR. Note: Option 1 reflects the preferred option in the VNI West PACR and the 2022 Integrated Systems Plan (**2022 ISP**) optimal development path (**ODP**).
- As publisher of the "RIT-T", at clause 11(e) the AER requires RIT-T proponents to identify a class of market benefits for "differences in timing of transmission investment".
- In accordance with the "RIT-T", the VNI West PACR identified "s8.2.3 Differences in REZ transmission costs", which were calculated for Option 1 (as per the 2022 ISP's ODP) at \$187m (present value, weighted scenarios). S8.2.3 states:
 - o *This benefit category relates to the costs of intra-regional transmission investment associated with the development of REZs that could be avoided if a credible option is pursued.*

- *AEMO has identified a number of candidate REZs in various NEM jurisdictions as part of the ISP and has included allowances for transmission augmentations that it considers would be required to develop those REZs. The credible options being considered in this RIT-T can allow development of some of these REZs without the need for additional intra-regional transmission investment (or less of it), leading to REZ transmission cost savings.*
- In accordance with “RIT-T”, the VNI West PACR also identified “s5.1.3 Differences in REZ transmission costs”, which were calculated for Option 5A at \$291m (present value, weighted scenarios). S5.1.3 states:
 - *This benefit class relates to the costs of intra-regional transmission investment associated with the development of REZs that could be avoided if a credible option is pursued.*
 - *AEMO has identified a number of candidate REZs in various NEM jurisdictions as part of the ISP and has included allowances for transmission augmentations that it considers would be required to develop those REZs. Option 5 and Option 5A allow development of some of these REZs (South West New South Wales REZ (N5), Murray River REZ (V2) and Western Victoria REZ (V3)), without the need for additional intra-regional transmission investment (or less of it), leading to expected REZ transmission cost savings.*
- Further the VNI West PACR, at s3.2 “Technical characteristics of the options assessed” states:
 - *Network congestion in the Bendigo area will continue to be monitored. As mentioned above, with the preferred options not having a connection via Bendigo, heavier loading on the Kerang–Bendigo 220 kV line is observed. This heavier loading takes into consideration forecasts for future Bendigo area load growth, as per the Victorian Annual Planning Report, which assesses electricity supply to the Bendigo area over the next 10 years. AVP will continue to monitor electricity demand growth in the Bendigo area as part of normal electricity supply planning practices. AVP will also continue to liaise with the local council to understand local developments which need to be considered for electricity supply arrangements to the area.*
 - *Note: Prior to the VNI West PACR, AEMO’s 2020, 2021 and 2022 Victorian Annual Planning, AEMO’s 2020 and 2022 ISP, and the VNI West PADR had recognised the need for transmission upgrades between Kerang and Bendigo.*
- Finally, the Consultation Report published by AEMO in Feb 2023 included the following information:

Figure 13 Summary of estimated net benefits on a scenario weighted basis



Figure 4 Summary of estimated net benefits under the Step Change scenario



Figure 5 Breakdown of estimated net benefits under the Step Change scenario



- Raw data was not provided by AEMO to understand the calculation of 'Avoided REZ Transmission Capex' benefits for the Step Change Scenario (graphed at Figure 5 above), and no such graph was done on a scenario weighted basis to breakdown Figure 13 above.
- As noted in footnote 46 of the Consultation Report regarding scenario weighting:
 - *The actionable ISP framework requires RIT-T assessments to use ISP parameters, including the scenarios and their weights. AEMO specifies in the 2022 ISP that the Step Change scenario should be given a 52% weight, the Progressive Change scenario should be given a 30% weight and the Hydrogen Superpower scenario should be given an 18% weight in the RIT-T assessment.*

- However, with Step Change the dominant scenario, it can be extrapolated that Option 1 has been assumed by AEMO the least 'Avoided REZ Transmission Capex' benefits which is counterintuitive.
- Conclusion:
 - By implementing Option 5A, the VNI West PACR confirms that there are no avoided REZ transmission cost benefits for V6 Central North Victoria REZ.
 - Yet, AEMO has been aware since at least the 2020 VAPR of the network congestion issues around Bendigo.
 - Option 1 in the VNI West PADR directly avoids a significant part of ~\$1 billion in REZ transmission costs now proposed by AEMO in its DTEOR for V6 Central North Victoria REZ – partly because Option 5A does not deal at all with Bendigo congestion etc. The \$187m of REZ transmission cost benefits for Option 1 in the VNI West PADR would appear to be well understated.
 - The VNI West PACR was required to include an assessment of Option 1 of the VNI West PADR and Consultation Report as per Disputes 2, 3 and 4 of our 26 June 2023 Dispute Notice.
 - By not assessing Option 1 of the VNI West PADR in the VNI West PACR, there is a real risk that Option 5A is in fact not the preferred option, and that additional and unnecessary networks costs will be burdened on consumers, directly contravening the National Electricity Objective.

Secondly, with regard to Disputes 5 – 7, we wish to affirm conformance of our Dispute Notice to NER 5.16B “Disputes in relation to application of regulatory investment test for transmission”, in particular 5.16B(b)(3):

- *(b) A dispute under this rule 5.16B may not be raised in relation to any matters set out in the project assessment conclusions report which:*
 - *(3) for an actionable ISP project, uses or relies on matters set out in the most recent Integrated System Plan or Inputs Assumptions and Scenarios Report, including the identified need, ISP parameters, credible options or classes of market benefits relevant to that actionable ISP project.*
- Our Disputes are based on the fact that the VNI West PACR does not rely on the 2022 ISP as it must, including the optimal development path, ISP candidate option and so on. Hence it is our view that Disputes 5 – 7 cannot be excluded by 5.16B(b)(3).

If you have any queries, please do not hesitate to contact me on vj1009@hotmail.com.

Yours faithfully,



Vicki Johnson

Vice-Chair

On behalf of Moorabool and Central Highlands Power Alliance Inc.