



Customer and Stakeholder Engagement Report

AusNet Services Transmission Revenue Reset
Post-Lodgement Engagement Activities

Collaboration Workshop 2 | 3 May 2021

19 July 2021

Introduction

Background

AusNet Services owns and operates the Victorian electricity transmission network, providing electricity to 5.9 million customers. As a monopoly provider, AusNet is required to lodge a Revenue Proposal containing investment plans for each five-year regulatory period with the Australian Energy Regulator (AER). The development of these investment plans is referred to as the Transmission Revenue Reset (TRR) process and AusNet’s next regulatory period will occur from 1 April 2022 to 31 March 2027.

Since AusNet lodged its Revenue Proposal with the AER in October 2020, there have been a number of changes to key information inputs which may impact on the Revenue Proposal. As a result, AusNet is developing a Revised Revenue Proposal which considers these changes. At a high level, these changes are:


- Updated demand forecasts from AEMO
- Updated market modelling information
- Declining system strength across the network
- The establishment of Victoria’s Renewable Energy Zones (REZs) through the Victorian Government’s REZ Development Plan
- The closure of Yallourn power station earlier than originally anticipated
- Continued refinement of project scopes and costs.

Consultation with stakeholders is a crucial part of this process, to ensure that AusNet’s plans are efficient and in the long-term best interests of consumers.

AusNet’s Revenue Proposal was informed by consultation with stakeholders through its TRR Customer Advisory Panel (CAP), several Deep Dive Workshops, and Customer Consultative Committee (CCC). In developing its Revised Revenue Proposal, AusNet seeks to continue and enhance its commitment to stakeholder engagement by collaborating with stakeholders on how to address the new information through the Revised Revenue Proposal.

Stakeholder Engagement Approach

In conducting its post-lodgement engagement activities, AusNet has stated its intention to collaborate with stakeholders by working together to consider the new information, develop alternatives and jointly identifying the preferred approaches for addressing the new information through AusNet’s Revised Revenue Proposal. This is in line with the definition of *Collaborate* stage of the IAP2 Spectrum of Public Participation.

		INCREASING IMPACT ON THE DECISION 				
		INFORM	CONSULT	INVOLVE	COLLABORATE	EMPOWER
PUBLIC PARTICIPATION GOAL		To provide the public with balanced and objective information to assist them in understanding the problem, alternatives, opportunities and/or solutions.	To obtain public feedback on analysis, alternatives and/or decisions.	To work directly with the public throughout the process to ensure that public concerns and aspirations are consistently understood and considered.	To partner with the public in each aspect of the decision including the development of alternatives and the identification of the preferred solution.	To place final decision making in the hands of the public.
	PROMISE TO THE PUBLIC	We will keep you informed.	We will keep you informed, listen to and acknowledge concerns and aspirations, and provide feedback on how public input influenced the decision.	We will work with you to ensure that your concerns and aspirations are directly reflected in the alternatives developed and provide feedback on how public input influenced the decision.	We will look to you for advice and innovation in formulating solutions and incorporate your advice and recommendations into the decisions to the maximum extent possible.	We will implement what you decide.

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Introduction

Stakeholder Engagement Approach (cont.)

AusNet's post-lodgement engagement approach included facilitating four Collaborative Workshops over April and May 2021, with the intention of ensuring participants can directly impact outcomes. After Workshop 1, it was determined that an additional Collaboration Workshop would be held to demonstrate the way in which stakeholders' feedback contributed to AusNet's Revised Revenue Proposal.

The stated objectives of each workshop are as follows:

Workshop 1 20 April 2021	Workshop 2 3 May 2021	Workshop 3 17 May 2021	Workshop 4 27 May 2021	Workshop 5 Date TBA – July 2021
To establish a strong, common foundation of knowledge about our Revenue Proposal and the impacts that new information may have	To focus on topics that are of interest to customers and stakeholders regarding the Revenue Proposal and the impacts of relevant changes	To align the Revised Revenue Proposal to reflect customer and stakeholder preferences where possible to deliver best outcome	To collaborate and develop the Revised Revenue Proposal with critical input from customers and stakeholders through adopting feedback	To summarise insights from Workshops 2-4 and present initial responses to the Draft Decision and implications from stakeholder feedback

Purpose of this report

This report summarises the key items of discussion from Workshop 2, including the information shared by AusNet with stakeholders, the views expressed and questions raised by stakeholders, and the response AusNet gave to stakeholders during the workshop. A list of attendees is provided on pages 8-9.

AusNet's objectives for Workshop 2 were to:

- Demonstrate how AusNet coordinates with other networks, AEMO and the Victorian Government to promote efficient investment in the Victorian transmission system
- Share information on how AusNet's TRR capital expenditure program is impacted by Integrated System Plan (ISP) Projects and the Renewable Energy Zones (REZ) Development Plan
- Consult with stakeholders on how these impacts should be addressed in the Revised Revenue Proposal

Prior to Workshop 2, stakeholders and customers were sent two pre-reading packs:

- Overview on AusNet's REZ Development Plan directions
- Summary of TRR projects impacted by the new information.

This was primarily focused on educating stakeholders and enabling them to make informed contributions and seek clarification during the workshop.

Role of KPMG

KPMG was engaged to support AusNet in its post-lodgement engagement activities by:

- Advising on stakeholder engagement techniques and contributing to the development of presentation materials
- Facilitating engagement workshops to enable contribution from all participants
- Documenting engagement workshops.

AusNet remains responsible for workshop content including information specific to its Revenue Proposal.

Workshop Details

Date	Monday 3 May
Time	2:30-4:30pm (AEST)
Location	Microsoft Teams (videoconference)

All workshops were hosted virtually, reflecting stakeholder preference and to mitigate potential disruption due to the COVID-19 pandemic at the time.



Key discussion items

Key Implications for AusNet’s Revised Revenue Proposal

While a detailed report of discussion items is presented below, the following key points summarise the primary implications for AusNet’s Revised Revenue Proposal.

1. After clarification, stakeholders were supportive of the way in which AusNet is proposing to manage the uncertainty due to the REZ Development Plan (Stage 1 and 2).
2. Stakeholders are comfortable with AusNet’s approach to managing the potential transfer of obligations and costs to AusNet Services as a result of the VicGrid reforms, as long as cost efficiencies for consumers are maximised and planning processes are efficient and coordinated.

Detailed Discussion Items

Reported below are key discussion items from Collaboration Workshop 2, detailing the topics presented, questions and inputs from stakeholders, and responses provided by AusNet Services.

Topic presented by AusNet	Stakeholder input	How AusNet responded
<p>Stakeholder Engagement Approach</p> <ul style="list-style-type: none"> – KPMG provided a re-cap of the engagement approach, outlining: <ul style="list-style-type: none"> – Overview of the TRR process to date – Context setting & stakeholder engagement approach – Re-cap of Revenue Proposal – The six pieces of new information impacting the Revenue Proposal – AusNet’s approach to seeking stakeholders view on where to focus discussion – KPMG provided a summary of stakeholder feedback from Workshop 1, including how feedback would be addressed through the engagement process 	There were no specific comments.	N/A
<p>Overview of Victorian Transmission Projects – Timeline</p> <ul style="list-style-type: none"> – AusNet presented a high-level summary from the 10 year renewal plan in the Victorian Transmission Planning Report – The revised TRR Proposal is the result of more detailed analysis from the period 2023 to 2027 – AusNet stated that their revised Revenue Proposal may alter the timing of the projects in the renewal plan, or (in limited circumstances) remove the need for them entirely. However, none of the factors in scope for this stakeholder engagement process will create new replacement projects. 	Stakeholders questioned whether the recent announcement from the Victorian Government (to reduce greenhouse gas emissions by 50% by 2030) will have an impact on the proposed timing of projects.	<p>AusNet stated that analysis has not yet been conducted, given the announcement was made just days prior to the workshop. However, the impact is not anticipated to be material prior to Stage 2 RDP projects.</p> <p>It was also noted the Greenhouse Gas target will be achieved through broader emissions reduction measures across the economy, in contrast to the Victorian Renewable Energy Target.</p>

Key discussion items

Topic	What stakeholders said	How AusNet responded
<p>Victorian Transmission Network</p> <ul style="list-style-type: none"> - AusNet presented a diagram illustrating the planning responsibilities in the Victorian transmission network. - <u>AEMO responsibilities</u>: <ul style="list-style-type: none"> - National transmission planning via the ISP - AEMO uses a contestable process to procure large new additions to the shared network - <u>AusNet responsibilities</u>: <ul style="list-style-type: none"> - All operations, maintenance and replacement of the network - <u>VicGrid responsibilities</u> <ul style="list-style-type: none"> - A potential Victorian alternative to AEMO to plan and develop REZs and deliver on Victorian renewable energy targets (VRET) - AusNet identified three potential pathways for transmission investment approval: <ul style="list-style-type: none"> - <u>Regulated pathway</u>: customer funded, procured by PJ-TNSP, AER regulated - <u>Government supported pathway</u>: Tax-payer or customer funded, VicGrid has authority over investment approval and procurement processes - <u>Regulated contestable pathway</u>: customer funded, contestably procured (>\$Xm, separable), AER remit to be clarified by the Victorian Government 	<p>Stakeholders sought to clarify what stakeholder engagement AusNet had conducted or has underway in relation to its submission on the roles of various parties and potential changes to responsibilities.</p> <p>Stakeholders sought to clarify the Federal government's role in facilitating various transmission projects.</p> <p>Stakeholders asked AusNet for further clarification on whether contestability would be retained in the event that AusNet assumed the role of network planner.</p>	<p>AusNet clarified that while it has engaged with stakeholders on its submission to the Victorian Government, stakeholders may also participate directly in the consultation program being conducted by the Victorian Government. A detailed brief on AusNet's submission was provided to stakeholders in the pre-reading.</p> <p>AusNet advised that state and federal governments seek to coordinate inputs. AusNet also clarified that where government funding fully funds assets, costs are not recovered from customers.</p> <p>AusNet stated that augmentations and connections in Victoria are contestable. Connections would continue to be contestable even if AusNet assumed planning responsibilities. Augmentation contestability could also be retained with VicGrid potentially running tenders.</p>
<p>Integrated Systems Plan (ISP)</p> <ul style="list-style-type: none"> - AusNet stated that the majority of ISP projects are new lines and will not interact with load stations - Two exceptions to this are at South Morang and Sydenham, where the replacement is driven by market modelling - The NSW interconnector and market modelling change at South Morang in AusNet's Revenue Proposal enables AusNet to defer a \$30M transformer replacement out of the period - The Sydenham Terminal Station project is an example of material impacts of the transformation on risk to specific stations - AusNet explained the rebuild presented an opportunity to move to a less expensive (by \$50M) AIS construction and improve the security of the switching arrangements 	<p>Stakeholders enquired to what extent AusNet includes provisions for future station expansion based on the ISP and local DNSP.</p> <p>Stakeholders sought to clarify the impact on AusNet's decision-making of a narrower set of scenarios (e.g. relating to pace of change, carbon reduction targets).</p> <p>Stakeholders queried whether the Sydenham replacement project being \$50M less expensive was based on NPV analysis, and how reliability was taken into account when calculating the cost impact.</p>	<p>AusNet stated they will work with AEMO and Department of Environment, Land, Water and Planning (DELWP) to determine the requirements for future expansions.</p> <p>AusNet explained that they develop models based on the information available at the time, and recognise that this may change where inputs change.</p> <p>AusNet clarified that AIS and GIS solutions do not significantly differ in functionality, and that cost differences are due to the underlying technology. AusNet advised that while an AIS solution will require less maintenance over its life, maintenance when it is required will be more costly. This and other lifetime factors are calculated into AusNet's capex.</p>

Key discussion items

Topic	What stakeholders said	How AusNet responded
<p>REZ Development Plan</p> <ul style="list-style-type: none"> - AusNet re-capped VicGrid's objectives for the REZ Development Plan and outlined that the REZ Development Plan is divided into two stages: <ul style="list-style-type: none"> - Stage 1: detailed plan which is primarily aimed at ensuring that generation already built can be dispatched - Stage 2: medium-term projects, aimed at emerging network issues and constraints, requiring further analysis and consultation - AusNet identified two major impacts on their projects as a result of Stage 1: <ul style="list-style-type: none"> - Stage 1 of the Plan proposes installing a synchronous condenser at Horsham – if confirmed, this would negate the need for AusNet's project. In response, AusNet proposes to shift Horsham to a contingent project (or, if there is sufficient certainty, to remove it) - Stage 1 of the Plan proposes to bring forward the replacement of the South-West Comms Loop, which is also in AusNet's plans. In response, AusNet proposes that the Victorian Government remove this replacement from its plans. - AusNet asked the following questions to invite feedback and discussion: <ul style="list-style-type: none"> - What are your views on how the uncertainty due to RPD Stage 1 projects should be managed in the Revised Proposal? - What are your views on our proposed approach to managing uncertainty associated with RDP Stage 2 projects? 	<p>Stakeholders sought to clarify how AusNet will ensure optionality is retained for Stage 2 of the REZ Development Plan to optimise customer outcomes.</p> <p>Stakeholders sought to confirm that the VNI-West ISP project was established to relieve congestion in the area of Kerang.</p> <p>Stakeholders reported on community concerns associated with the potential visual impacts associated with new construction and upgrades to the transmission network.</p> <p>Stakeholders wish to have clarification around the value of re-allocating resources currently invested in building synchronous condensers.</p> <p>Stakeholders seek to ensure consumer charges are minimised by ensuring coordination between TNSPs and other network planners. A stakeholder expressed concern with passing on the costs of upgrades to the South-West Comms Loop project, and in particular the Terang project, to consumers. The stakeholder stated that their concern was not with the project itself, but with the sourcing of funding. The stakeholder clarified that their view is that generators should make financial contributions and that the Horsham major project should be made contingent.</p> <p>Stakeholders sought to understand the impact of potential decommissioning costs incurred as thermal electricity generation exits the system.</p> <p>Stage 2 Stakeholders queried how transmission costs and savings would be passed on to consumers.</p> <p>Stakeholders questioned the easement tax implications with regards to interactions with Stage 2 RDP projects, and suggested factoring this into calculations in future so that the total cost to consumers is visible.</p>	<p>AusNet advised that based on the information available through the REZ Development Plan, optionality will be retained across all six REZs. AusNet also advised that they respond to and work within government decisions about where generation is embedded into the system.</p> <p>AusNet confirmed that the VNI-West ISP project is intended to relieve congestion in the surrounding area of Kerang. AusNet also advised that benefits include lower cost options and new generators.</p> <p>AusNet advised that its Revised Revenue Proposal will consider existing investments and ensure the most efficient solution is identified through the RIT-T process.</p> <p>AusNet stated that Victorian Government funding was allocated to shift the timing of the South-West Comms Loop project forward. As AusNet's Revenue Proposal meets this need, the Victorian Government funding is not required. AusNet also advised that, while generation capacity will be increased in the comms loop upgrade, the primary driver for the project is the condition of the existing assets, which is poor and requires replacement. As such, this project does not constitute an augmentation project under the National Electricity Rules.</p> <p>AusNet advised that there may be potential costs associated with decommissioning which would be paid by generators, and that this will be discussed in more depth when covering the closure of the Yallourn power station in Workshop 4.</p> <p>Stage 2 AusNet advised that cost savings are passed by the entity responsible for planning the investment: where generators fund augmentation, they recover the costs through the wholesale market; where consumers fund projects, cost savings are passed to consumers.</p> <p>AusNet clarified that only shared network lines upgrades that result in new easements are affected by easement tax implications.</p>

Key discussion items

Topic	What stakeholders said	How AusNet responded
<p>VicGrid implications</p> <ul style="list-style-type: none"> - AusNet advised that the TRR should proceed on current scope, timelines and assumptions. AusNet stated that future arrangements are highly uncertain, and as a result AusNet does not intend to propose contingent projects associated with assuming planning functions in Victoria or in anticipation of REZ Development Plan projects. - AusNet noted that legislation changes would be required for major changes to TNSP responsibilities. - AusNet advised stakeholders that it considered it prudent to embed some mechanisms in the Final Decision to provide for flexible responses by the AER during the upcoming period. - AusNet asked the following question to invite feedback and discussion: <ul style="list-style-type: none"> - What are your views on this approach to managing the potential transfer of obligations and costs to AusNet Services as a result of the VicGrid reforms? 	<p>Stakeholders expressed a view that AusNet must be transparent in relation to capital gains in context of CESS processes. Stakeholders also expressed an expectation that the AER would review costs and identify cost efficiencies to pass through to customers, where non-contestable augmentation occurs.</p> <p>Stakeholders asked for further clarification regarding AEMO's level of involvement with integrated planning of shared networks and when AER and AusNet are running a RIT-T process.</p> <p>Stakeholders identified that ensuring the most efficient outcome for customers is a core objective when embedded generation connections are being managed by different organisations.</p>	<p>AusNet agreed with the need to be transparent in relation to capital efficiency and noted stakeholders' views in relation to the AER's role. AusNet advised that where non-contestable augmentation applies, it would be expected that the AER would review costs and identify efficiencies to pass through cost savings to customers, rather than through a competitive process.</p> <p>AusNet explained the RIT-T or an alternative process will be delivered by either VicGrid or AEMO under the <i>National Electricity (Victoria) Act</i>. Both processes will account for the existing RDP and ISP plans.</p> <p>AusNet stated that AEMO's Victorian Annual Planning Report is a key part of ensuring transparency for customers, and that in the event of a new planner being appointed, it will be vital that they lay out their plans in that document to assist in identifying integration opportunities.</p>
<p>Discussion items and close</p> <ul style="list-style-type: none"> - KPMG re-caped the questions asked throughout the session and invited stakeholders to make further comments or ask questions - Stakeholders were asked for their view on: <ul style="list-style-type: none"> - How well has the process delivered on our Engagement Principles - Are there ways we could better engage and consult with you? - Do you have any comments or suggestions for future workshops? 	<p>Stakeholders provided positive feedback on the engagement process to date, stating that AusNet had been "open and forthcoming". Stakeholders reported that continued engagement with AusNet is helpful in navigating the complex energy landscape.</p> <p>Stakeholders expressed the desire to continue engaging with AusNet in this manner on a regular, long-term basis.</p> <p>Stakeholders requested that AusNet's planning continue to consider the functions that assets contribute, regardless of potential changes in the energy landscape in future.</p> <p>Stakeholders requested that AusNet consider alternative funding sources to minimise the financial impact for consumers.</p>	<p>AusNet acknowledged the importance of continued engagement, including in the long-term through continued operation of its transmission Customer Advisory Panel.</p> <p>AusNet acknowledged stakeholder requests to continue to ensure plans remain sufficiently flexible to meet the needs of the network in future.</p>

Attendance

Participants

Stakeholder Name	Organisation	Attendance
Gavin Dufty	St Vincent de Paul	Attended
David Headberry	Major Energy Users	Attended
Prajit Parameswar	Hydro Tas	Attended
Evan Lutton	AER	Attended
Nicholas Summers	DELWP	Attended
Juris Kuznecovs	AER	Attended
David Monk	AER	Attended
Mark Henley	AER CCP	Attended
Tennant Reed	AI Group	Attended
Bev Hughson	AER CCP	Attended
Thanh Bui	Jemena	Attended
Elizabeth Carlile	CitiPower / Powercor	Attended
David Prins	AER CCP	Attended
Trevor Lim	Total Eren	Apology
Jane Kelly	AER	Apology
Bridgette Carter	BlueScope Steel	Apology
Julian Hales	DELWP	Apology
Steve D Foster	DELWP	Apology
Ben Ferguson	DELWP	Apology
Jess Young	DELWP	Apology
Roshanth Sivanathan	United Energy	Apology
Ciara Sterling	Thriving Communities	Apology
Tom Parkinson	Clean Energy Council	Apology
Sarah Walsh	AEMO	Apology
Rudi Strobel	Jemena	Apology
Guillermo Alonso	GPG	Apology
Mark Grenning	EUAA	Apology
Andrew Richards	EUAA	Apology
Adam Peterson	AER	Apology
Lillian Patterson	Clean Energy Council	Apology
David Markham	Australian Energy Council	Apology
Nick Eaton	Alcoa	Apology
Simon Elias	Air Liquide	Apology
Aaron Tan	Air Liquide	Apology
Rodney Bray	United Energy	Apology
Joe Spurio	AEMO	Apology

Attendance

Facilitators and Observers

Stakeholder Name	Organisation	Attendance
Tom Hallam	AusNet	Attended
Robert Ball	AusNet	Attended
Melanie Tan	AusNet	Attended
Stephanie Judd	AusNet	Attended
Charlotte Eddy	AusNet	Attended
Lucy Holder	AusNet	Attended
Stephanie Judd	AusNet	Attended
James Bleed	AusNet	Attended
Matt Pearce	KPMG	Attended
Grace Smith	KPMG	Attended
Victoria Lloyd-Jones	KPMG	Attended



Contacts in relation to this document:

Inherent Limitations Disclaimer

This report has been prepared as outlined with AusNet Services in the Scope Section of the engagement letter/contract dated 25/02/2021. The services provided in connection with this engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by the Australian Auditing and Assurance Standards Board and, consequently, no opinions or conclusions intended to convey assurance have been expressed.

The findings in this report are based on a qualitative study and the reported results reflect a perception of AusNet Services but only to the extent of the sample surveyed, being AusNet Services' approved representative sample of stakeholders. Any projection to the wider stakeholder group is subject to the level of bias in the method of sample selection.

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by KPMG stakeholder consulted as part of the process.

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KPMG have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report.

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