HumeLink Stage 1 (Early Works) CPA

20 June 2022

1. Purpose

To set out the questions received from the EUAA on our Stage 1 (Early Works) CPA together with our responses.

Note – Transgrid's responses are in blue text for ease of reference.

2. Stakeholder questions and Transgrid responses

1. Please add the corresponding total PACR cost to the Stage 1 (Early works) capex table which shows capex by category and class estimate in:

> RIT-T PACR

> Stage 2 CPA

Response:

Attachment 1 shows the expected class estimate for forecast capex in the PACR as well as the expected class estimate undertaking Stage 1 (Early Works) activities will result in for Stage 2 (Implementation). This shows that our costs become more accurate once we have undertaken Early Works activities.

2. Is the 'Further design work…' part of the Early Works for Procurement - Long-lead time equipment – Substation transformers and reactors'?

Response:

We confirm that further design development will be progressed in our early works for long lead equipment. There may also be some detailed design relating to software configurations required in Stage 2 (Implementation). Humelink requires large equipment - project specific requirements must be analysed and to inform the design of this equipment.

3. Are you saying that it is a class 2 land acquisition where you have an options agreement and class 3 for compulsory acquisition? If so, why is it not a class 1 for options agreement land? I assume the options agreement will set out an agreed price – will it not do that? And will the option agreements term include the time required for exhaustion of the appeals right that owners of compulsory acquired land have to the Land and Environment Court?

Response:

The option agreement itself will indeed look to achieve an agreed fixed price which is only valid for a limited (2-year) period, however costs such as disturbance, landowner valuation and legal costs and Transgrid's legal land agent costs are variable and in addition to option agreement costs. Whilst these are budgeted based on tendered rates, they remain variable and accordingly are cannot be locked down to a class-1 level. Final route selection and the number and location of towers will be refined during the detailed design phase once contractors are engaged. The accuracy of the timing of the transactions and possibility of prolongation beyond the two years may also result in additional costs.

4. Can you explain a bit more about compulsory acquisition? eg are you saying that for a portion of the route (do you have any idea about the %?) that you will not be able to negotiate options agreements? And is the assumption that for those you cannot negotiate an option agreement you will have to compulsory acquire? If so, what are the government guidelines/conditions on compulsory acquisition? how will you come to a Class 3 estimate? As I read the NSW Government Guidelines they suggest you can get a much more accurate estimate than Class 3 (-20% to +30%) of the 'fair compensation' for the land; why can't Transgrid have detailed discussions with the Valuer General on the this as part of early works?

Response:

We have budgeted in CPA-1 that we will achieve 70% negotiated option agreements, and the remaining 30% will need to go through the compulsory acquisitions process. This is an optimistic / stretch target, as we currently only have consent to enter covering around 60% of the route (which could be considered a litmus indicator of the current outlook of best case scenario of option agreements). The compulsory acquisition process is outlined in the Land Acquisition (Just Terms Compensation) Act 1991.

A Transgrid guide to understanding the easement process can be found here: https://www.transgrid.com.au/media/qrzfqes1/landowner-compensation-easement.pdf;

The NSW Government Centre for Property Acquisition has useful information also, here: https://www.nsw.gov.au/housing-and-construction/property-acquisition/how-property-acquisition-works.

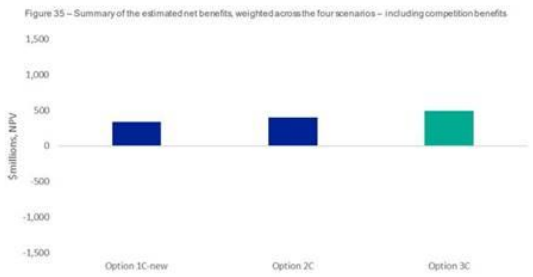
We will engage closely with NSW Government through the land and easement acquisition process. We use independent valuers to estimate compensation payable, however there is still variability in these assessments, and final valuer general outcomes can differ significantly to the independent valuations (this is currently being experienced on Project Energy Connect and other major projects in NSW). Accordingly whilst all efforts will be made to achieve accurate estimates, it is likely that the best estimates will be at the class 3 level.

5. Why is there no Stage 2 class estimate for procurement costs in **Attachment 1.** I thought these costs were part of the total capex and the amount would go into the RAB.

Response:

We do not expect to have any further indirect procurement costs in Stage 2 (we will only have direct procurement costs in stage 2). This is because the procurement process will be largely completed in Stage 1. Our Stage 1 indirect procurement costs (which are included in our Stage 1 (Early Works) CPA will be added to the RAB in the same way as all other capex for the Project.

6. Please provide a breakdown of the net benefits of the project that correspond to the following table in the PACR



Response:

We have published NPV models here (https://www.transgrid.com.au/media/xcmbninq/humelink-pacr-addendum-npv-model-results.xlsx), which contain the costs, benefits (including competition benefits) set out for the weighted scenario – please see the 'RIT-T Weighted' tab. This includes competition benefits that are set out separately.

Table 1 also shows:

- Total net benefits with competition benefits
- Total net benefits without competition benefits
- Gross benefits (which is all categories of benefits including competition benefits, and no costs)
- Competition benefits

Table 1 shows that Option 3C (the preferred option) is positive with or without competition benefits. The gross benefits show that while competition benefits are important, all categories of benefits assist with achieving a positive NPV. It's not just competition benefits but rather the package of all benefit categories that make options exhibit NPV positive results.

Table 1: Net benefits for HumeLink Options 1C New, 2C and 3C

PV, $millions	Option 1C-new	Option 2C	Option 3C
Total net benefits, with competition benefits	335	399	491
Total net benefits, without competition benefits	(11)	(44)	39
Gross benefits	2,062	2,595	2,626
Competition benefits	346	443	451

7. Given you will be unable to start construction before you have secured the whole route, why would you finalise the capex cost for the feedback loop before you have done just that eg before you have finalised the EIA, finalised the price for the compulsory acquisitions? Are you suggesting that you can start construction before you have secured all the land with the last bit by compulsory acquisition or before you have finalised all the biodiversity offsets? I would be surprised if that is possible under the NSW legislation.

We will submit our Stage 2 CPA and commence construction (subject to Stage 2 CPA approval) before we have secured all the land in order to meet AEMO's completion date of 2026-27. Our key target timeframes are:

- Complete voluntary agreement by mid-2023
- Start compulsory agreement by mid-2023
- Complete compulsory acquisition by 2025

We do not require 100 per cent of land to be acquired to commence construction. Rather, we are targeting to have enough land secured to commence construction, and then we will secure the required remaining

easements in time to meet the construction schedule. There is no legislative or planning approvals restriction on this.

8. Given you have to use the same capex in CPA2 as in the feedback loop (and that it excludes contingency) not finalising the land/biodiversity costs prior to the feedback loop exposes consumers to post construction pass through risk from higher than forecast land/biodiversity (and other) costs.

If the total cost of the Project changes from that reflected in our initial feedback loop confirmation, then we must re-enter the feedback loop prior to submitting our Stage 2 (Implementation) CPA. We expect to have completed the EIS and know the biodiversity costs prior to the AER making its Decision on our Stage 2 CPA – these costs will therefore be reflected in the AER's Stage 2 Decision.

9. Can you confirm that any cost overrun above the CPA1/2 total approved capex will be subject to CESS and Transgrid will bear 70% of that cost overrun (after the level has been assessed by the AER as prudent and efficient?. If so, does this mean that Transgrid will not use any underspend in its non-ISP project capex allowance to offset all or part of the cost overrun in HumeLink?

The AER has indicated that the CESS will apply to all Contingent Project Applications in the current regulatory period i.e. Project EnergyConnect, HumeLink Stage 1, VNI Minor and QNI Minor, however this will be confirmed as part of the AER's 2023-28 Revenue Determination. Once capex for HumeLink is approved, this will form part of our total capex and we must manage our network within our overall capex allowance. The CESS is calculated based on:

- our total actual capex for the regulatory period, which includes our BAU capex and capex on approved contingent projects (e.g. HumeLink, Project EnergyConnect, VNI Minor and QNI Minor), and
- the AER's total capex allowance for the regulatory period, which includes HumeLink and other approved Contingent Project.

10. When does the 2 year validity period for the options agreements end? And why only 2 years given the uncertainty around timing for the compulsory acquisitions? Is it a legal/legislative limit? Given Class 1 can be +15% it is surprising that you are unable to do class 1 for the land that has options agreements. So does this mean 70% of land acquisition at Class 2 and 30% at class 3?

The option agreements are for a 2 year initial term from date of execution. This can be extend for a further two years, however an additional option payment to the landowners would be required – we have not budgeted for at this time. We will have reasonable certainty in relation to the easement compensation where option agreements are in place. However, overall, the land and easement acquisition cost is class 3 estimate due to uncertainty arising from:

- the potential route refinement and asset positioning within the corridor
- variable legal and land agent costs, and
- compulsory acquisition costs.

A.1 Attachment 1 – Class estimate for capex by category

Table 2: Capex by category – expected class estimate in PACR for CPA 2

Category capex	Description	Expected Class estimate for Stage 2 CPA	Comments	Expected Class estimate for PACR	PACR Cost		
					Real$2020 *(as per the PACR)*	Real$2018 *(as per the Humelink CPA)*	Share
Direct capex							
Procurement	Substations and transmission lines	Class 3/2	Striving for Class 2 but will be dependent on level of accuracy possible for high risk scope items which are part of the ECI procurement.	Class 4	1754	1732	54%
	Long-lead time equipment – Substation transformers and reactors	Class 2	Options to be exercised to secure slots to maintain program. Further design work to be completed to achieve class 2 accuracy	Class 4	121	119	4%
Land acquisitions	Acquisition costs	Class 3	Class 3 due to the anticipated number of compulsory acquisitions and variability in these numbers.	Class 4	207	205	6%
	Environmental 'offset' costs	Class 2	Class 2 due to timing of and inherent forecasting uncertainties related to how biodiversity offsets will be finalized and implemented	Class 4	922	911	28%
Other Costs					0	0	0%

Category capex	Description	Expected Class estimate for Stage 2 CPA	Comments	Expected Class estimate for PACR	PACR Cost		
					Real$2020 *(as per the PACR)*	Real$2018 *(as per the Humelink CPA)*	Share
Labour and indirect capex (Development and Approvals)							
Labour and related costs							
Project team resources	Labour and corporate support for project management, procurement, land and environmental activities	Class 2	Class 2 due to potential variability in project team requirements and turnover		262	259	8%
Indirect Costs							
Project development	Development, engineering, legal and economic support	Class 2	Class 2 due to variability in project team support requirements, including variable legal advisory costs.				
Land and environment	Fees, labour and indirect costs	Class 2	Class 2 due to variability in land and easement support requirements based on number of complex and/or compulsory acquisitions				

Category capex	Description	Expected Class estimate for Stage 2 CPA	Comments	Expected Class estimate for PACR	PACR Cost		
					Real$2020 *(as per the PACR)*	Real$2018 *(as per the Humelink CPA)*	Share
Procurement	N/A		Expected direct costs only				
Total					**3,266**	**3,226**	**100%**
Direct capex							
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Indirect Costs							
Project development	Development, engineering, legal and economic support	Class 2	Class 2 due to variability in project team support requirements, including variable legal advisory costs.				
Land and environment	Fees, labour and indirect costs	Class 2	Class 2 due to variability in land and easement support requirements based on number of complex and/or compulsory acquisitions				
Procurement	N/A		Expected direct costs only				
Total					**3266**	**3226**	**100%**