



21 December 2020

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Sent by email: AERInquiry@aer.gov.au

**TransGrid and AEMO
VNI Minor upgrade
TransGrid Contingent Project Application**

Major Energy Users Inc (MEU) is pleased for the opportunity to provide its views on the contingent project application (CPA) made by TransGrid in relation to the Victoria to NSW Interconnector upgrade project (VNI Minor) – an augmentation to the intra-regional networks in both Victoria and NSW which connect to the existing interconnector between Victoria and NSW. The network augmentations as proposed in the PACR of themselves do not form part of the interconnector infrastructure between Murray and the Upper and Lower Tumut power stations but act to improve the intra-regional flows to it.

The MEU was established by very large energy using firms to represent their interests in the energy markets. With regard to all of the energy supplies they need to continue their operations and so supply to their customers, MEU members are vitally interested in four key aspects – the cost of the energy supplies, the reliability of delivery for those supplies, the quality of the delivered supplies and the long term security for the continuation of those supplies.

Many of the MEU members, being regionally based, are heavily dependent on local staff, suppliers of hardware and services, and have an obligation to represent the views of these local suppliers. With this in mind, the members of the MEU require their views to not only represent the views of large energy users, but also those interests of smaller power and gas users, and even at the residences used by their workforces that live in the regions where the members operate.

It is on this basis the MEU and its regional affiliates have been advocating in the interests of energy consumers for over 20 years and it has a high recognition as

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providing informed comment on energy issues from a consumer viewpoint with various regulators (ACCC, AEMO, AEMC, AER and regional regulators) and with governments.

The MEU has been an active participant in the development of the proposed VNI minor project since the Project Specification Consultation Report (PSCR) stage. The MEU accepts that the upgrade will provide benefits to consumers in both regions but mainly to NSW consumers and, based on the assessments of the various options, would appear to be the optimal approach to serving the needs of consumers. The MEU notes that the Project Adequacy Conclusions Report (PACR) for this project was released in February 2020.

Despite being supportive in principle of the proposal, the MEU expressed a view to the proponents (TransGrid and AEMO) that the upgrade would be of greater benefit to NSW consumers despite the bulk of the costs being borne by Victorian consumers. Further, the MEU expressed a concern that while NSW consumers needed the increase in supply that the upgrade would deliver, Victorian consumers also needed additional access to NSW supplies in the event of a Victorian shortage of supply. In the PACR, AEMO notes that this increase in capacity of flows to Victoria would be assisted by (page 13 of PACR)

- “Installation of a 100 megavolt amperes reactive (MVAR) cap at Wagga Wagga to improve the voltage stability limitation.
- A Network Capability Incentive Project Action Plan (NCIPAP) project to install modular power flow controller on the Jindera – Wodonga line to improve thermal limitations.
- A review of stability constraints to improve the voltage stability limitation.
- Use of short-term line ratings and post-contingent load shedding to improve thermal limitations.

These initiatives will help manage the risks posed by bushfires, extreme weather conditions, and unplanned generator outages in Victoria. The operational initiatives are low-cost with short lead times, and will help manage risks in the short to medium term until longer-term planning solutions are identified.”

The MEU accepted these assurances as a part of its acceptance of the VNI minor project but we note that none of these network augmentation projects form part of the VNI minor project – the subject of this AER Contingent Project Application (CPA) review – and which will be completed independently to any decision by the AER regarding this CPA request..

The MEU notes that the AER intends to address both the RIT-T for this project as well as the TransGrid CPA concurrently and supports this approach. Subject to the AER approval of the RIT-T, the MEU has no objection to the CPA being accepted.

To support this acceptance, the MEU notes there are a number of critical aspects of the project that should be noted, including:

- The NSW element of the project is an essential element that, with its incorporation, will obviate the need for AEMO to declare a shortfall in unserved energy (USE) in NSW for quarter 1 of 2024 against the Interim Reliability Measure (IRM) of 0.0006%
- The recent Infrastructure Roadmap issued by the NSW government includes the project and notes the need for this project to be completed before the forecast closure of Liddell power station
- The project is an element of the 2020 Integrated System Plan (ISP)
- TransGrid has advised that its costs for the project have risen by 11% but even so the project remains the optimum option for delivering the needed services.
- AEMO has issued an ISP “feedback loop” advice dated 24 November 2020 confirming that even with the increase in cost of the project advised by TransGrid in its CPA, AEMO observes:

“...using the latest available cost information (\$140 million (2019-20 real dollars) ... [AEMO] publishes this notice of its written confirmation to TransGrid that the VNI Minor project meets the identified need and aligns with the optimal development path specified in the 2020 ISP”

The MEU notes that the costs for the TransGrid element of the project have increased (by 11%) and TransGrid has provided a statement of where the increases come from. The cost increase is modest when considering the total amount of benefits that should accrue from the proposed investments, especially the outcome that it would obviate the need for the T-3 RRO instrument currently being sought by AEMO.

We note the Victorian elements of the VNI Minor project are not specifically required to improve flows from NSW to Victoria but to improve flows from Melbourne towards northeast Victoria. With new committed generation in northeast Victoria connecting to the Shepperton and Glenrowan terminal stations and the strong 220 kV connections between these terminal stations and the Murray Switchyard, it is unclear to us if the Victorian elements are still required.

While this is an issue for the AER in its review of the PACR, it is appropriate to raise this issue now. Specifically, the MEU accepts that the TransGrid leg of VNI Minor is an essential part of generating the benefits of the project as it will reduce known network congestion between southern and central NSW. However, the MEU questions the magnitude of the benefits generated by the two Victorian elements

and also questions whether an alternative scenario would provide similar or greater benefits.

Despite support for at least the TransGrid element of the project, the MEU notes that TransGrid has implied that the project might not be commercially viable for it unless there is acceptance of a rule change proposed by it which

- Converts ISP projects to be funded under a nominal WACC x Depreciated Actual Cost approach rather than the current Depreciated Replacement Cost x real WACC, and
- Allows depreciation of the investment as capital is expended rather than on commission

The MEU has advised the AEMC that it opposes this rule change proposal. Even without the rule change The MEU does not consider that the size of this project will create any difficulties on TransGrid's financial status as alluded by it in the CPA. The MEU considers the AER should assess this project on its fundamentals rather than addressing the implications of the rule change.

The MEU is happy to discuss the issues further with you if needed or if you feel that any expansion on the above comments is necessary. If so, please contact the undersigned at [REDACTED]

Yours faithfully

[REDACTED]

David Headberry
Public Officer