

25 August 2020

Mr Tim Donnan
Land Access and Approvals Strategy Manager
Network Planning & Operations
TransGrid
180 Thomas Street
SYDNEY NSW 2000

**Re: Land & Easement Acquisition Forecast Costs
Project EnergyConnect**

Dear Tim,

We refer to our recent communications regarding the provision of forecast land acquisition costs required to support the Contingent Project Application (“CPA”) to be submitted to the Australian Energy Regulator as part of Project EnergyConnect (“PEC”).

We understand that the purpose of the CPA is to seek approval for the costs of PEC.

Following that meeting, and following subsequent discussions we understand our instructions are to provide advice on the following matters:

- Advice as to an appropriate negotiating margin i.e. an amount above valuation which is considered reasonable and likely;
- Advice as to unforeseen and unanticipated property costs that are likely to be incurred;
- Likely cost to secure to land for temporary work areas;
- Legal, Valuation and other Professional Fees; and
- An estimate of costs to secure a parcel of land for the extension of a substation.

Background & Context

JLL have been appointed to provide land and easement acquisition services to TransGrid for PEC.

These services include a variety of tasks required to obtain access to land for construction purposes and agreement to the highest form of land tenure available to accommodate a proposed 330kV transmission line and ancillary facilities between SA/NSW border and Wagga Wagga in NSW. A second transmission line extending from the Buronga substation to Red Cliffs (Vic) has recently been proposed. Assessments of Compensation for the Buronga to Red-Cliffs alignment have been included in this forecast.

In order to achieve the specific land and easement acquisition tasks within the project timelines and to the high standards required by TransGrid, JLL will be required to discharge it’s duties exercising the skill and diligence expected

of a professional organisation with particular expertise in this field.

To that end, all recommendations and advice outlined below are done so on the basis of the implementation of a sound land and easement acquisition strategy leading to the efficient delivery of the services in the most cost effective manner whilst acknowledging the commercial realities and environment PEC will be subjected to.

JLL have progressively provided “desktop” estimates of compensation to TransGrid in relation to the proposed transmission line between the SA/NSW Border and Wagga Wagga as required. The desktop estimates of compensation have been augmented with site inspections in some cases where it is warranted.

We are pleased to report further as follows.

Summary of Recommendations

The following table summarises our forecast costs for each cost element of the property acquisition budget as requested by TransGrid. We note that previous forecasts referred to the SA/NSW border-Wagga Wagga alignment only. This forecast includes additional Forecast costs for the proposed Buronga-Red-Cliffs alignment.

Table 1.0 Forecast Cost Estimates

| COST ELEMENT | FORECAST COST |
|-----------------------------|---------------|
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| TOTAL FORECAST COSTS | [REDACTED] |

Supporting information regarding each of the items detailed above is provided below.

1. A Review of Previous Forecast Costs

Subsequent to the provision of previously provided estimates, changes to the proposed alignments of the various stages prompted a review of the initial Forecast Cost estimates. Community consultation, landowner engagement and market conditions also necessitated changes to the Assessments of Compensation.

Individual Assessments of Compensation were previously provided to TransGrid, for Stage 1, Stage 1A, and Stage 2 alignments ie between the SA/NT Border and Balranald and along the Buronga to Red-Cliffs alignment.

Individual Assessments of Compensation have been assessed for Stage 3, between Balranald and Four Corners, however, direct engagement and socialisation of compensation with affected property owners has not yet occurred.

A high-level review of design options for Stage 4, between Four Corners and Wagga Wagga is underway. Whilst an alignment for Stage 4 is not yet finalised, “draft” estimates of compensation have been undertaken on a northern alignment option and a southern alignment option. For the purpose of this review, we have adopted the Stage 4 – Southern Alignment option.

With reference to the whole alignment, Option Agreements have been negotiated with 24 landowners, as summarised in the table below;

Table 2.0 Number of Option Agreements per Stage

| STAGE | SECTION | NO. OF OWNERS | NO. OF OPTION AGREEMENTS |
|-------|-----------------------------|---------------|--------------------------|
| 1 | Border to Buronga | 17 | 12 |
| 1A | Buronga to Red Cliffs | 13 | 1 |
| 2 | Buronga to Balranald | 25 | 11 |
| 3 | Balranald to Four Corners | 26 | - |
| 4 | Four Corners to Wagga Wagga | TBD | - |

The total negotiated Compensation and Option Payments amounts to _____ as summarised in the following table.

Table 3.0 Compensation Agreed

| STAGE | SECTION | COMPENSATION AGREED | OPTIONS AND OTHER AMOUNTS AGREED | TOTAL AGREED |
|--------------|-----------------------------|---------------------|----------------------------------|--------------|
| 1 | Border to Buronga | ██████████ | ██████████ | ██████████ |
| 1A | Buronga to Red Cliffs | ██████████ | ██████████ | ██████████ |
| 2 | Buronga to Balranald | ██████████ | ██████████ | ██████████ |
| 3 | Balranald to Four Corners | ██ | ██ | ██ |
| 4 | Four Corners to Wagga Wagga | ██ | ██ | ██ |
| TOTAL | | ██████████ | ██████████ | ██████████ |

TransGrid has now instructed JLL to provide an updated forecast cost for each cost element of the property acquisition budget.

In providing updated forecast costs, JLL has considered the following:

- Alignment variations;
- Recent real estate transactions;
- Changes to land use on affected properties; and
- Variance in Compensation between negotiated Option Agreements and Assessments of Compensation.

A review of individual Assessments of Compensation, cross-referenced against negotiated Option Agreements identified that in general, owners are accepting of JLL’s Assessments of compensation.

Of the 24 negotiated option agreements:

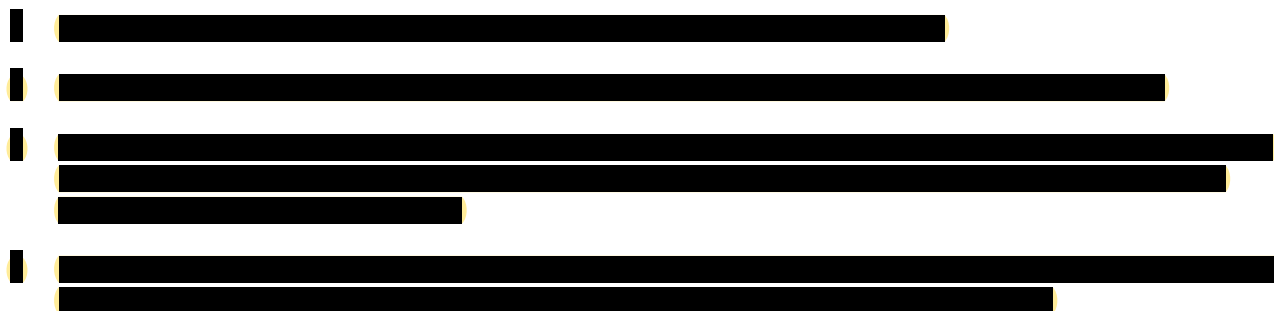
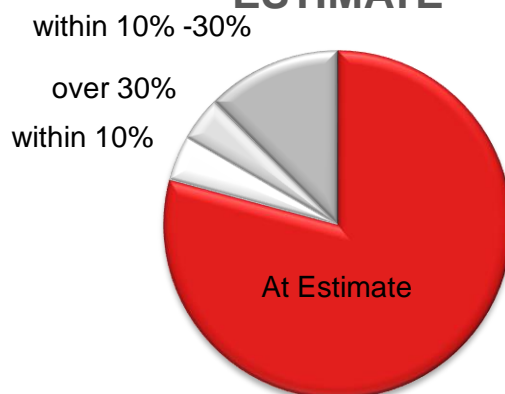


Chart 1.0 Agreed Compensation compared to Assessment of Compensation

OPTION AGREEMENTS NEGOTIATED AT ESTIMATE



JLL provides updated “desktop” estimates of Compensation to TransGrid, in relation to;

- the proposed transmission line between the SA/NSW Border and Wagga Wagga.
- the proposed transmission line between Buronga and Red-Cliffs.

The results, as at 25 August 2020 are summarised hereunder.

Table 4.0 Estimates of Compensation per Head

| HEAD OF COMPENSATION | FORECAST COST |
|--|---------------|
| Section 55(A) – The Market Value of the land to be acquired | ██████████ |
| Section 55(B) – Special Value | ██ |
| Section 55(C) – Severance | ██ |
| Section 55(D) – Disturbance – General | ██████████ |
| Section 55(D) – Disturbance – Business/Construction Losses | ██████████ |
| Section 55(E) – Disadvantage resulting from relocation | ██ |
| Section 55(F) – Increase or decrease in value of other land adjoining the acquired land owned by the Claimants | ██████████ |
| TOTAL | ██████████ |

*Values are expressed in Australian Dollars, exclusive of GST.

NB. The Total Estimate of Compensation has been assessed as at 10 August 2020 and is largely based upon a “brownfield” transmission route where the new transmission line is proposed to largely parallel an existing transmission line from the Darling River to Wagga Wagga and Buronga to Red-Cliffs with the exception of greenfield section within Stage 4 where the final corridor is yet to be determined.

2. An Appropriate Negotiating Margin

When considering an appropriate factor to apply to the estimate of compensation costs summarised above there are various factors which may influence this including;

- Project Timelines
- Community acceptance
- Importance and value of Social Licence to Operate
- Competing projects

Project Timelines

The timelines for requiring access to land for construction activity (possession of site) and subsequent project delivery in general has the greatest bearing on the extent to which a proponent is prepared to negotiate a voluntary commercial agreement in excess of valuation.

It follows that the tighter the delivery timeframe for access to land for construction purposes, the less time is allocated to negotiating voluntary commercial agreements with directly impacted landowners and subsequently agreed compensation will be inflated to a greater degree above valuation.

Landowners and their advisors in the current environment are very astute and are more cognisant of their ability to drive a higher compensation amount if proponents are under pressure to achieve access to land in a short timeframe.

This is particularly evident in instances where a proponent has insufficient time to acquire land and easements by compulsion. There are a number of case studies and examples where this has been the case.

Case Study No. 1 – North Island Upgrade Project (NZ)

In its report entitled “*NORTH ISLAND GRID UPGRADE PROJECT, APPLICATION FOR INCREASE OF MAJOR CAPEX ALLOWANCE*” dated September 2013, Transpower cited delays in obtaining regulatory approvals as a key reason for placing upwards pressure on the property compensation budget. Landowners were able to leverage reduced timeframes to drive acquisition costs upwards. This was particularly accentuated by the fact that Transpower commenced overhead line construction on the project with nearly 40% of agreements remaining outstanding.

Ultimately, Transpower exceeded their initial forecast estimate of property costs by 49.09% as per the table below.

Table 5.0 NIGU Property Costs

| DATE | DESCRIPTION | AMOUNT | VARIANCE |
|--------------|-------------------------|---------------|--------------|
| October 2006 | Original Estimate (P90) | \$125,700,000 | 12 |
| July 2013 | Forecast End Cost | \$187,400,000 | \$61,700,000 |

Source: North Island Grid Upgrade Project, Application for increase of Major CAPEX Allowance – September 2013, Transpower

Case Study No. 2 – 60 km High Pressure Gas Pipeline Project (Qld)

This fast track project was constructed in a region where upstream (wells) and midstream (pipelines) gas development is prevalent and landholders in the region are well versed in the rights and obligations of both landowners and gas companies alike. The project development was on a very tight timeline and the ability to use compulsory acquisition powers by the gas company was limited due to time constraints.

The initial estimates of compensation were considered very generous for the reasons detailed above as these factors were well known at the time of preparing the original estimates.

However, the negotiated voluntary agreements eventually settled at a factor of approximately 2 times valuation, which were already at the higher end.

Case Study No. 3 – 620 km High Pressure Gas Pipeline Project (NT/Qld)

This greenfields project traversed mainly large cattle station properties ranging from family owned pastoral operations to large corporate beef producers. The project was driven by the Northern Territory Government's desire to move foundation gas to the east coast of Australia and therefore communities and landholders along the proposed route were not directly benefitting from the project. The client was motivated by a desire to maintain a strong Social Licence to Operate in the regions and was keen to reach commercial agreements where at all possible. The project was also on an extremely tight delivery timeframe and the use of compulsory acquisition or resumption powers was not realistically a viable option.

Desktop assessments of compensation payable for the acquisition of an easement were undertaken by a certified valuer with experience in compensation valuations however as negotiations unfolded it became apparent that the desktop estimates did not adequately address matters associated with business disruption and in particular the disruption to the normal operations of a cattle property.

Landowners and pastoralists engaged the services of lawyers and valuers to act on their behalf (at the proponents' costs) who attempted to quantify the business disruption.

Given the lengthy time taken to engage valuers and to prepare reports, time became a critical factor in negotiations as construction contracts had been entered into and the threat of liquidated damages loomed which in turn applied pressure to negotiations and entering into commercial voluntary agreements.

Original estimates of compensation across the project to acquire easements was set at \$840,000 with the final compensation payments totalling \$2,760,000 representing a circa 300% increase on the original estimates.

Community Acceptance

A very important element in any linear infrastructure project is the degree of project acceptance by those communities that are directly or indirectly impacted by the project. For example, a transmission line providing power to a coal mine development will be perceived very differently to a transmission line supporting a renewable energy project. These project drivers often determine the extent to which local communities support a project which in turn will impact directly impacted landowners willingness to cooperate.

Importance and Value of Social Licence to Operate

The weight given to developing and maintaining a Social Licence to Operate also has a strong bearing on the amount by which a proponent is prepared to negotiate.

JLL have been heavily involved with linear infrastructure development across Australia over many decades providing turnkey land acquisition services including assessing compensation and negotiating a variety of land access agreements.

Over the past 20 years in particular, the approach to the acquisition of easements for linear infrastructure projects has changed significantly from a "take it or leave it" approach to a more commercial approach in recent times.

An acquisition style approach favoured by authorities in the past utilised the powers and indemnities contained within the applicable land acquisition legislation to a much greater extent and afforded little flexibility for dispossessed landowners to negotiate above the original offer based on valuation.

In more recent times governments, authorities and infrastructure proponents have become more acutely aware of reputational risk and have an increasingly strong desire to develop and maintain a Social Licence to Operate in the areas in which they operate.

hazards will need to be removed as a result of the works and subsequently what business disturbance/loss may be suffered.

Such costs cannot be reasonably anticipated at this stage in the project and will only become known once landowner engagement commences. Therefore it is prudent to allow additional costs for unforeseen and unanticipated property costs above and beyond the estimates made.

Case Study No. 1 – North Island Grid Upgrade Project (“GUP”)

The NIGU Project was the first new transmission line project in New Zealand since the 1980’s and included construction of three new substations, 186km of overhead lines with 426 towers, and 11km of underground cabling. The works provide a significant increase in transmission capacity to the upper North Island, initially at 220kV with the ability to increase this in the future to 400kV.

The original GUP estimate of property costs as at October 2006 was \$125.7M with a forecast end cost of \$187.4M as at July 2013 representing a variation of some \$61.7M or otherwise expressed as a 49.1% increase over the original forecasts.

According to a report date September 2013 titled *“NORTH ISLAND GRID UPGRADE PROJECT, APPLICATION FOR INCREASE OF MAJOR CAPEX ALLOWANCE”* completed by Transpower New Zealand Limited there were several factors that contributed to significantly higher property costs than originally forecast primarily *“A failure to include costs associated with the movement of removal of buildings, trees and other hazards along the new transmission line route, compensation for the loss in business and value of land adjacent to the route...”*

In an extreme case, Transpower had to relocate a horse stud near Auckland as it was considered unviable to continue in business whilst they constructed the line.

Removal of hazards and other non-easement compensation including business disruption and loss cannot be reasonably foreseen at this point and therefore an allowance should be made for these costs.

In our report entitled *“DRAFT Desktop Assessments of Compensation”* dated 17 October 2019, JLL estimated a disturbance amount for business/construction losses in the amount of [REDACTED]. This estimate was based upon the application of an average gross margin amount for predominantly cropping and grazing land most likely to be affected by PEC.

These estimates are limited to the extent they have been undertaken on a desktop basis. Significantly, where the proposed transmission line may impact higher value horticultural and irrigation enterprises particularly at the eastern end of the project, business disruption and subsequent losses are very difficult to determine without the benefit of an on-site inspection and/or dialogue with the landowner/manager responsible for running the enterprise. To this end there may be isolated instances where business disruption is significantly higher than estimated.

In order to determine an estimate of unforeseen and unanticipated business losses we have adopted the following methodology.

Total Length of PEC Easement – 691.9 km

Estimated proportion of easement that may be subject to unknown high productive land – [REDACTED]

Estimated length of easement that may be subject to high value productive land – [REDACTED]

Estimated easement area that may be subject to high value productive land – [REDACTED]

Estimated proportion of easement that may be disrupted – [REDACTED]

Total land potentially disrupted – [REDACTED]

High productivity land gross margin - [REDACTED]

Total Unforeseen Business Disruption/Losses - [REDACTED]

4. Temporary Work Areas

During construction of the transmission line, the contractor will require access to various temporary sites/locations for lay-down purposes. We've been advised that these areas will typically be up to 40 ha and will be required for a period of up to 24 months.

Typically, these sites are leased/licensed with agreements made with local landowners to occupy the requisite land with a make good clause applicable to the end of the occupation period.

Payments associated with securing these sites are not usually linked to valuation principles or local land values but are typically an amount agreed between the parties based on precedent and what is able to be agreed.

On this basis, a reasonable allowance to secure 40 ha of grazing land from a local landowner would be in the range of [REDACTED] per month. Whilst this is in excess of say [REDACTED] of the capital value of the land in typical grazing areas, it does provide incentive enough to secure the necessary sites in a timely manner.

On this basis an allowance in a range of between [REDACTED] should be made to secure the land required for laydowns across the project as described above.

5. Legal, Valuation and other Professional Fees

Whilst not specifically a compensatable head under the *Land Acquisition (Just Terms Compensation) Act 1991 (NSW)*, it is generally accepted in matters of compensation that an authority meet the reasonable professional expenses incurred by a landholder.

Typically this representation may include:

- Legal
- Valuation
- Agronomy
- Accountancy

Whilst authorities differ in their approach (reasonable professional fees are a compensatable head in some states), it is convention across Australia within power and gas transmission authorities that an allowance of between [REDACTED] be made to meet these reasonable costs.

In this instance it is recommended that an allowance of [REDACTED] per landholder be made which is broadly comprised of:

- Legal fees - [REDACTED]
- Valuation fees - [REDACTED]
- Agronomy advice - [REDACTED]
- Tax/accountancy advice - [REDACTED]

Applied to this project, where there is an estimated 200 landholders as at 25th August 2020 and claimants that may seek third party advice, we believe an allocation of [REDACTED] should be made to account for these costs.

6. Land Purchases

A number of land purchases have now been agreed and therefore we're able to provide actual figures as shown in the table below:

Table 6.0 Agreed Whole of Property Purchase Amounts

| REGISTERED PROPRIETOR | AGREED PURCHASE PRICE & OPTION FEES |
|-----------------------|-------------------------------------|
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |

[REDACTED]

We trust the above information addresses the specific requirements of TransGrid. Naturally should any of the information contained herein require clarification or should TransGrid have any additional questions please do not hesitate to contact the undersigned.

Regards



Jamahl Waddington
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Advisory & Consulting Services – Australia