

Mr Tony Chappel
Chief External Affairs Officer
Australian Energy Market Operator
Level 2, 20 Bond Street
SYDNEY N.S.W. 2000

9 October, 2020

File: 13/03/010

via email: Tony.Chappel@aemo.com.au

Dear Mr Chappel,

Re: Western Victoria Network Transmission Project (WVNT) – further request for information

We refer to your letter dated 16 September 2020 which responded to our initial letter of 13 August 2020. Thank you for your response.

We look forward to meeting with you to discuss how and why the decision was made to construct overground transmission lines as opposed to putting them underground. Although it was long overdue, we appreciate the latest “fact sheet” that has been released by AusNet Services on this issue.

We acknowledge and understand that the reason for undergrounding being disregarded as a potential option was because of the cost differential between undergrounding and overgrounding, however we wanted to know where this assessment had come from, so asked for the relevant modelling or data that supported this decision.

You responded that the assessment was based on “*market and industry information*”, but chose not to elaborate further. We hope that in the proposed meeting we will be able to gain a greater insight into the exact data and evidence that was used by AEMO to disregard undergrounding in the initial stages of the RiT-T process.

The WVNT has significant implications for our community and it is therefore imperative we obtain as much information as possible in respect of the WVNT on behalf of our residents, businesses and Shire community. After discussions about the WVNT within the project team in our Council, we have a number of further questions that hopefully you will be able to assist with.

1. AC/DC Transmission

It is our understanding that all conclusions reached in the PSCR, PADR, and PACR were based on the transmission network supporting an alternating current (AC) system as opposed a direct current (DC) system.

Initial research from an independent report we have commissioned shows that transmission based on a DC system has the following benefits:

- A DC system requires less cables as compared to an AC system. One example used was the Basslink (Victoria to Tasmania) DC system. It can transmit 600MW with 1 large cable + 1 earth return cable. Therefore, in order to transmit 3,000MW, the DC system will only require 5 large cables + 1 earth cable (earth cable may not be required, depending on the design) as compared with 12 cables for the AC system.
- With a DC system, there are few losses. AC system related losses like capacitive, inductive and skin effect are non-existent in DC systems. DC systems are therefore far more efficient (especially over long distances) meaning they are cheaper over their operational life.
- Controllability: A HVDC line offers better voltage regulation.
- DC transmission lines require less of a capital cost to implement (again, especially for transmission lines over longer distances).

It is also clear that DC systems better support the undergrounding of transmission cables (for example, underground DC systems become cheaper when compared to AC systems over a much shorter distance than overground DC systems).

Question 1: Was using a DC system considered by AEMO in the RiT-T process, including if it was considered in the context of undergrounding? If so, please explain the reasoning used to deem the use of a DC system as infeasible, which may include relevant modelling or data utilised to reach this determine.

2. Loss of Social Licence

You note in your letter that “AEMO and AusNet are aware of the importance for the assessment of options, routes and powerline type must extend to the consideration of environmental, indigenous and cultural, agricultural, aesthetic and community matters”. You go on to state that “AusNet Services will work with local communities and undertake detailed investigations to avoid and minimise the impacts as much as possible”.

Moorabool Shire hopes this will be the case and looks forward to working with AusNet Services to ensure the impact to the Moorabool Shire community is minimised.

Notwithstanding this, it is clear there has been significant push back over aspects of the WVTNP from various key stakeholders, which ultimately led to the recent online Zoom panel organised by State opposition Members of Parliament.

This (and your recent letter) was the first sign that there would be an appropriate amount of engagement with these stakeholders in order to appease their concerns.

Though it is nice to hear that there will be “detailed investigations to minimise impacts” and “consideration of community matters”, it is still unclear exactly how the concerns of local communities like ours will be heard, including whether there will be appropriate compensation for affected locals.

Given the RiT-T process is fundamentally a process designed to achieve the best economic outcome for society, and largely ignores any social or environmental concerns, we remain doubtful that this project can be carried out in a fashion that appropriately addresses the massive social cost that will come to rural communities.

Question 2: Practically speaking, how will AEMO or AusNet Services address the loss of social licence over the WVTNP moving forward?

3. Commercial Matters

Our Council respects the tender process that AEMO has conducted, and acknowledges that as the winning tenderer, AusNet Services has ultimate control over how the project is implemented.

The PACR specified that the total cost of the project is estimated to be approximately \$370 million, however there is little breakdown provided as to where these costs are anticipated to be sourced from.

As AusNet Services has now been awarded the project and the project has progressed into the planning phase, we assume that initial projections on costs have been generated by AusNet Services. As these costs are ultimately being passed on to the consumer, we believe ensuring there is a degree of transparency on these costs is essential.

Question 3: When will the first forecasts on AusNet Services actual capital expenditure and operating costs for the WVNTP be made available to the public? Will these forecasts include a detailed breakdown of all cost components?

The Australian Energy Regulator's (AER) AusNet Services transmission determination (determination) regulates the revenues that AusNet Services can recover from its customers, and amongst other things, sets the allowable weighted average cost of capital for electricity infrastructure that AusNet Services invests in, for both its transmission and distribution networks.

Many reports¹ have shown that historically, expenditure in transmission network infrastructure in Australia significantly outpaced demand, with the costs of this over-investment ultimately passed on to consumers. Transmission network providers were incentivised to over-invest, as their return on capital was linked directly to their regulated asset base. Against this backdrop of waste in the energy industry, we are wary of the commercial necessity of the WVNTP.

As the distribution and transmission Determination by the AER is available to the public, and AEMO is the body that forecasted the estimated capital and operating cost of the WVNTP, we presume it will be able to provide an insight as to when the project will become profitable for AusNet Services.

Question 4: At approximately what point in time will AusNet Services start profiting from the WVNTP? What role does AEMO play in ensuring the regulated rate of return on investment is set as low as possible for AusNet Services beyond 2025, when the project is expected to be complete?

¹ See, for e.g., Grattan Institute Report No. 2018-06, "Down to the wire: A sustainable electricity network for Australia", March 2018.

4. Conclusion

We invite AEMO to address each of the 4 questions raised in this letter via a written response. In order to ensure our local community is across all of the above issues and assist with the smooth running of this project, we ask that we receive a response by no later than 23 October 2020.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Derek Madden', with a stylized flourish at the end.

Derek Madden
Chief Executive Officer