

Mr Tony Chappel
Chief External Affairs Officer
Australian Energy Regulator
Level 2, 20 Bond Street
SYDNEY N.S.W. 2000
Email: Tony.Chappel@aemo.com.au

16 March 2021

Dear Mr Chappel,

Re: Western Victoria Transmission Project (WVNT) – Request for Re-application of RIT-T Process

We refer to our previous correspondence to you in relation to the WVNT.

- 1.1 As you are aware, the regulatory investment test for transmission (**RIT-T**) process is governed by the National Electricity Rules (**NER**). Section 5.16.4(z3) of the NER relevantly provides:

If:

- 1. a RIT-T proponent has published a project assessment conclusions report in respect of a RIT-T project;*
- 2. a Network Service Provider still wishes to undertake the RIT-T project to address the identified need; and*
- 3. there has been a material change in circumstances which, in the reasonable opinion of the RIT-T proponent means that the preferred option identified in the project assessment conclusions report is no longer the preferred option,*

then the RIT-T proponent must reapply the regulatory investment test for transmission to the RIT-T project, unless otherwise determined by the AER.

- 1.2 For the reasons below, we believe AEMO, as the RIT-T proponent of the WVNT, should reapply the RIT-T test to the WVNT in accordance with section 5.16.4 of the NER. We will address each limb of the above section in turn.

Project Assessment Conclusions Report

A RIT-T proponent has published a project assessment conclusions report in respect of a RIT-T project.

- 1.3 AEMO published a project assessment conclusions report (**PACR**) in July 2019 for the WVNT. This limb is therefore met.

Network Service Provider

A Network Service Provider still wishes to undertake the RIT-T project to address the identified need.

- 1.4 Mondo, the commercial division of AusNet services, was awarded the contract for the WVNTP and still wishes to undertake the WVNTP. This limb is therefore met.

Material change in circumstances

*There has been a **material change in circumstances** which, in the reasonable opinion of the RIT-T proponent means that the preferred option identified in the project assessment conclusions report is no longer the preferred option.*
(Emphasis added.)

- 1.5 The section goes on to state:

For the purposes of paragraph (z3), a material change in circumstances may include, but is not limited to, a change to the key assumptions used in identifying:

- (i) the identified need described in the project assessment conclusions report; or*
- (ii) the credible options assessed in the project assessment conclusions report.*

- 1.6 The original PACR was the final stage in the RIT-T test used to identify the investment option that maximises the present value of net economic benefit to all those that produce, consume and transport electricity in the market.

- 1.7 The preferred option that was identified was option "C2", which broadly speaking, involved three key elements:

- (a) construction of a new 500kV circuit line from Sydenham to Ballarat;
- (b) construction of a new 220kV circuit line from Ballarat to Bulgana; and
- (c) cut in Ballarat to Moorabool 220kV circuit No.2 at Elaine.

- 1.8 The estimated capital cost of the project was \$473m, with an expected commissioning year of 2025.

- 1.9 It has recently become evident that a decision has been made to materially change one of the three key elements of this preferred option. The planned variation to the WVNPT means that instead of a new 220kV circuit line from Ballarat to North Bulgana being constructed, a 500kV circuit line will be constructed (**Planned Variation**).

- 1.10 This Planned Variation can be found in the most recent Department of Environment, Land, Water and Planning (**DELWP**) Victorian Renewable Energy Zones Development Plan Directions Paper, released in February 2021 (**Directions Paper**), which is **attached** to the email containing this letter.

- 1.11 On page 10 of the Directions Paper, the increase of voltage of the circuit line is listed as a new "project" that will have the "expected benefit" of enabling the connection of up to 1200MW of renewable energy projects above the existing WVNTP.

- 1.12 We note that when assessing "credible options", The RIT-T proponent is required to quantify the following classes of costs:

- (i) **costs incurred in constructing or providing the credible option;**
- (ii) **operating and maintenance costs** in respect of the credible option; and
- (iii) **the cost of complying with laws, regulations and applicable administrative requirements** in relation to the construction and operation of the credible option.

- 1.13 The conclusions made about the classes of costs listed above are central in identifying the investment option that maximises the present value of net economic benefit to all those that produce, consume and transport electricity in the market.
- 1.14 Page 25 of the Directions Paper provides further information about the Planned Variation. We note especially the following points:
- (a) The expected capital cost is stated to be between **\$132 - \$308m**. Even taking the average of those two figures, the expected capital cost to undertake the Planned Variation is likely to be almost 50% of the original expected capital cost of the entire WVNTP. If the Planned Variation ends up costing towards the upper end of that estimate, then it will cost almost 75% of the expected capital cost of the WVNTP.
 - (b) The delivery risk for the project is listed as “high”. The high-risk rating is due to three main factors, being:
 - (i) Environmental factors – the “corridor assessment” and “constraint” analysis for the WVNTP will have to be updated; the project is within a greenfield area; and the infrastructure is close to “sensitive” areas.
 - (ii) Planning factors – the planning assessments as part of the WVNTP would need to be amended; there is conflicting land use; potential conflict regarding future residential development; and a limited amount of land available.
 - (iii) Community – potential community concerns regarding increased visual impacts and loss of agricultural land.
- 1.15 Both 1.14 (a) and (b) above demonstrate that if the Planned Variation goes ahead, there will likely be significant impact on the classes of costs that had been previously assessed by AEMO when electing option “C2” as the preferred option.
- 1.16 The assumptions that underpinned the market benefits resulting from option “C2” would also be significantly impacted, given the expansion in the circuit rating and the adjustment to future supply and demand.
- 1.17 Such a significant impact to the expected costs and benefits of the WVNTP would undoubtedly classify as a material change to the “*key assumptions used in identifying the credible options*” that is suggested by section 5.16.4(z3) as the type of material change that would require a reapplication of the RIT-T test.
- 1.18 AEMO, as the RIT-T proponent for the WVNTP, has a strict obligation to follow the RIT-T process as it is outlined in NER. Section 5.16.4(z3) places an **obligation** on AEMO to reapply the RIT-T test if there is a **material change in circumstances**, which means that in the reasonable opinion of AEMO, the preferred option is no longer the preferred option for the WVNTP.
- 1.19 Given we do not have access to the underlying assumptions and models that AEMO used to weigh up each credible option and determine the preferred option, we are unable to undertake or commission any economic analysis that would assist in determining if option “C2” is no longer the preferred option.

- 1.20 We therefore cannot say definitively as to whether option “C2” is still the preferred option or whether another credible option should now be preferred.
- 1.21 However, we believe it is incumbent on AEMO to form its own view as to whether this material change results in option “C2” no longer being the preferred option
- 1.22 A detailed investigation by AEMO (which may include the commissioning of an independent report that assesses the economics of the Planned Variation) with the stated objective of determining whether the RIT-T test should be reapplied would help to alleviate any concerns that AEMO may be at risk of breaching or misapplying the NER.
- 1.23 In order to properly understand the basis for AEMO’s decision please share the assumptions and methodology you used during the RIT-T process.

If you have like any questions or would like to speak further about the contents of this letter, please do not hesitate to get in contact with me.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Derek Madden', is positioned above the printed name.

Derek Madden
Chief Executive Officer