

# Transgrid Advisory Council (TAC) Meeting summary and actions

20 July 2023

<b>Meeting title:</b>	TAC Meeting #6 for 2023		
<b>Location:</b>	Wilarra Room, The Grace Hotel Sydney and via Microsoft Teams		
<b>Chairperson:</b>	Nicole Ryan, General Manager Community, Stakeholder and Government		
<b>Date of meeting:</b>	Thursday 20 July 2023	<b>Time:</b>	9.30am - 12.30pm
<b>Attendees:</b>			
Transgrid Advisory Council Members	<b>Andrew Richards</b> , CEO, Energy Users Association Australia (EUAA) <b>Christiaan Zuur</b> , Director Energy Transformation, Clean Energy Council (CEC) <b>Craig Memery</b> , Senior Advisor Energy, Public Interest Advocacy Centre (PIAC) <b>Kim Woodbury</b> , Chief Operating Officer, City of Sydney <b>Michael Lynch</b> , Senior Policy Officer, Public Interest Advocacy Centre (PIAC) <b>Mitchell Hume</b> , Australian Energy Market Operator (AEMO) <b>Paul Beaton</b> , Senior Policy Officer, Clean Energy Council (CEC) <b>Sean Mullins</b> , Director, Australian Energy Regulator (AER) – observer <b>Scott Young</b> , Commonwealth Bank <b>Tennant Reed</b> , Head of Climate, Energy and Environmental Policy, Australian Industry Group (AIG)		
Transgrid representatives	<b>Belinda Ackermann</b> , Stakeholder Relations Advisor <b>Brett Redman</b> , Chief Executive Officer <b>Cassie Farrell</b> , Stakeholder Engagement Manager <b>Emma Ashton</b> , Government and Stakeholder Relations Manager <b>Gordon Taylor</b> , EGM Major Projects <b>Harry Mercer</b> , Major Project Delivery Director <b>Ian Davidson</b> , General Manager, Maintenance <b>Jeremy Roberts</b> , Project Director, HumeLink <b>Marie Jordan</b> , EGM of Network <b>Maryanne Graham</b> , EGM Corporate and Stakeholder Affairs <b>Nathan Rhodes</b> , GM Major Projects Delivery <b>Nicole Ryan</b> , GM Community, Stakeholder and Government <b>Stephanie McDougall</b> , GM of Regulation		
Apologies	<b>Josef Tadich</b> , Senior Manager, Engineering, Tesla <b>Sam Fyfield</b> , GM Grid and SCADA, Goldwind		

## 1. Meeting summary

### 1.1. Overall summary of meeting

The meeting opened with a review of action items from the previous meeting. CEO update topics included the energy transition, inquiry into feasibility of undergrounding transmission infrastructure, and HumeLink costs. This was followed by a Q&A session with the CEO, which saw a deeper discussion on these topics.

Transgrid then presented an update on our major projects portfolio, including Powering Together Tomorrow (PTT), allowing for scalability to ensure we are delivering as efficiently as possible through a program

approach. Progress highlights included the Integrated Management Team (IMT) tender being released to market, development of a Transgrid portfolio-wide social licence playbook, and initiatives such as drone stringing and digital engineering planning that are now underway.

The team shared an update on the EnergyConnect (PEC) timeline, highlighting that construction is well progressed for Lines 1 and 4, with three camps operational to service these lines. The Construction Environmental Management Plan (CEMP) is now approved, allowing for construction of Lines 2 and 5.

A Victoria to NSW Interconnector West (VNI West) update highlighted that dedicated landholder liaison teams will be in place throughout route development and project delivery, recent engagement with landowners on the draft corridor report and establishment of a Community Consultation Group.

A presentation on the Hunter Transmission Project, under the Priority Transmission Infrastructure Projects (PTIP), highlighted finalisation of the Request for Proposal (RFP) to be submitted to The Energy Corporation of NSW (EnergyCo) for evaluation.

This was followed by a HumeLink CPA 1 update, referencing final contract negotiations with two contract delivery partners, and pending approval of CPA 1 (part 2) to enable us to lock in prices and commodity risk for steel with our delivery partners. The team highlighted that 45% compensation has been agreed to in-principle and that the Department of Planning and Environment (DPE) are currently undertaking an adequacy review of our Environment Impact Statement (EIS) soft lodgement.

A HumeLink CPA 2 presentation showed our investment in social licence initiatives and the release of our Community Partnerships Program grants. The team explained the HumeLink CPA 2 estimate refinement in more detail, a topic requested by the TAC at a previous meeting. Contractors are being secured for early works to ensure we have price certainty for our CPA 2 submission and critical resources are locked in to deliver the project to meet the Integrated System Plan (ISP) timeframe.

An update on the Waratah Super Battery (WSB) project discussed the Australian Energy Regulator (AER) public forum held on our proposal, which we submitted on 30 June 2023. The team recapped the benefits of the project, highlighting forecast CAPEX and OPEX, and referenced our position on the Capital Expenditure Sharing Scheme (CESS).

The Regulatory Policy update discussed submission of the Commonwealth and Energy Networks Australia (ENA) financeability rule change, which Transgrid worked closely with the ENA and sought TAC member views on. The update also referenced Transgrid's submission to the Australian Energy Market Commission's (AEMC) consultation paper on the concessional finance rule change, suggesting a three-step process for the treatment of concessional finance in the National Electricity Rules (NER).

The final update on Government Relations referenced the federal government's newly announced *Community Engagement Review* to bolster reforms in community engagement around renewable energy infrastructure upgrades and new developments. The team also highlighted their focus on engaging with local members of Parliament.

The meeting closed with a short poll to help measure our engagement with the TAC.

Item	Topic presented	Summary of stakeholder comments	Summary of Transgrid response
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1.	<p><b>Welcome and Introductions</b> Nicole Ryan, General Manager Community, Stakeholder and Government</p>		
2.	<p><b>Actions from last meeting</b> Nicole Ryan, General Manager, Community Stakeholder and Government</p>		All actions completed or in progress.
3.	<p><b>CEO Update and group discussion</b> Brett Redman, Chief Executive Officer</p>	<p><b>Craig Memery, PIAC:</b> On undergrounding, do you have any thoughts on what you could have done in 2022 to put it to bed? Are you disappointed we are still having conversations on undergrounding after the report was released? Are there any learnings?</p> <p><b>Tennant Reed AIG:</b> In relation to the inflated project costs, the numbers about to be published reflect what has happened. Do they reflect any further movements you anticipate over the next few years? The global supply chain is moving and things pushing some costs higher are easing, while other pressures are coming in to play. For wind and solar, some cost pressures are declining, others are magnifying. Will costs need to be significantly adjusted again?</p>	<p><b>Brett Redman, CEO:</b> Our network is AC. Long undergrounding and offshore wind are point-to-point DC projects. To connect a DC cable is roughly \$400-500 million for DC and \$100-150 million for AC. For windfarm developers, or those connected to them, this would damage the economics of renewable projects. Globally, we cannot find a project over 40km for AC (at the voltage) that is undergrounded. There is also that social licence issue around trust, despite our actions and the facts. We need to press forward and remain respectful of the impacts to landowners.</p> <p><b>Brett Redman, CEO:</b> For HumeLink, they are fairly reliable quotes - equivalent of P10/P20 quality of five to seven years ago. The point of the early works budget was to have firm numbers. The numbers we have commenced socialising will initially go into the AEMO feedback loop and need to be the maximum numbers. If it exceeds that later, we need to go back through the feedback loop – so we are solving for a maximum to ensure it will pass the benefits test, then working with the AER on more detail. When we submit, many components will be locked in, such as Long Lead Equipment (LLE). We are ramping up other sources for major equipment - this process has worked well, and price points have landed within estimates, which is the value of the program approach through grouping large enough orders for a good outcome. Labour is a primary cost driver. For HumeLink, the numbers are more bankable than the early estimates. Projects such as VNI West and Hunter are applying the experience of HumeLink to refresh their numbers, so we are feeding learnings into</p>

		<p><b>Andrew Richards, EUAA:</b>          You referenced net benefits, which you expect to remain positive. It is not so much the net benefits, but when they accrue to consumers and the potential further role of Rewiring the Nation (RTN), or other support to bridge that gap for consumers. Everything is costing more, including connecting generators which provide value in that net benefits scenario. Often, we see a number at the end and have to backtrack into the assumptions that sit behind it. If you could bring us in at the start of process, we can understand the steps and logic, to ensure it is as efficient as possible and consumers are prepared, as a lot hinges on the final energy price, not just wholesale prices.</p> <p><b>Craig Memery, PIAC:</b>          I agree with your points on bushfires. I sat on the Powerline Bushfire Safety Taskforce (PBST) in Victoria after the 2009 bushfires. We were tasked with considering the proposal to underground the entire regional Victorian distribution network. The conclusion was that it does not make sense at that level, a sub transmission level and the higher the voltage goes, the less sense it makes. You made the point that the Australian Energy Market Operator (AEMO) updates models every year or two on transmission – the good</p>	<p>these, to get to a firmer footing.</p> <p><b>Brett Redman, CEO:</b>          Our starting challenge is that we operate within the regulated framework, especially for ISP projects such as HumeLink. There is a set of rules on how revenue is constructed. To make a change there are rule changes or other interventions, which is challenging. On RTN, we are close to finalising what we need for HumeLink and VNI West CPA 1. This contributes to what is required to stay within the regulated framework and return. This means cost enters before full benefits emerge - the nature of infrastructure. It will come under additional pressure where the rule change has been reviewed by the Australian Energy Market Commission (AEMC) to facilitate future projects finance problems without a RTN concessional loan, focussed on pulling forward depreciation. There are two ways to help address this. The first is if the AER gave us a revenue determination that was bankable, and in contract for 20+ years. The second, is government subsidy intervention, which is effectively happening through that concession loan as we already have to manage staying within the regulatory envelope. With the rule change on whether an extra concession is intended for consumers, we would need greater benefit from the federal government to allow us to push it into early bills. There is debate about the best way to do this - a broader approach where everyone gets the benefit, or direct subsidies to vulnerable community members to help them through the change – that is the other pathway government may pursue. You need a long-term contract to allow different revenue smoothing, however there is no mechanism to drive it. Or you need government subsidy, which we would quickly pass this through and help facilitate.</p> <p><b>Brett Redman, CEO:</b>          We have considered how we explain the HumeLink numbers in a way that doesn't hinder the conversation. It means we keep reviewing how we model. Many large infrastructure project estimates go back a while and begin to go beyond the regular capacity of what the business is used to.</p>
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		<p>appears to the public as budget blow-outs?</p>	
<p>4.</p>	<p><b>Major Projects (PTT) Update</b> Jeremy Roberts, Project Director, HumeLink</p>	<p><b>Andrew Richards, EUAA:</b> <i>On VNI West:</i> Are you concerned about project timing and therefore cost blowout because of what is happening south of the border? Do you have any commentary on that? On PEC, do you have an update on how you are tracking on CAPEX and whether that is being tracked in the budget and if we should expect any post-commissioning surprises at the end?</p> <p><b>Andrew Richards, EUAA:</b> If south of the border is materially delayed, what does this mean from your side? You want to take people from PEC to this, but if this is not ready to go, do you have the confidence to build your side first?</p> <p><b>Christiaan Zuur, CEC:</b> Are you looking at batteries and other sources of technologies to support Inverter-based Resource</p>	<p><b>Harry Mercer, Major Project Delivery Director:</b> There is a detailed review underway on cost and timing for PEC.</p> <p><b>Brett Redman, CEO:</b> We are seeing pressures in cost and time. We are putting in every effort to keep it moving forward operationally. In the next six months we will get a sense of whether we have adequate labour on site, and it is positive that the Visa approvals have come through, to unlock skilled labour entering the country where we have a shortage. We also have CEMP approval. So, we are managing the pressure and hope to get benefits on the later projects. You learn from a project and can transfer these learnings to the next one.</p> <p><b>Brett Redman, CEO:</b> Part of this is infrastructure. Once building momentum occurs, it can be tuned, but it is difficult to come back - you need to keep moving forward. We will be planning how they come together. There may be a slightly imperfect schedule, but waiting until it perfectly aligns will add years to the project.</p> <p><b>Harry Mercer, Major Project Delivery Director:</b> Around 30% of the NSW route is covered by three landowners, which is positive from a landowner's perspective. It intensifies as you get to the Murray River due to the nature of the land. In terms of a delay due to the south, there is a new terminal station being built near Kerang, around 35 kms over the border. If we can access this and finish from Dinawan to Kerang, this presents opportunities. The major unrest is in the St Arnaud area. We are ready to engage wherever possible to create a better understanding of what we are building.</p> <p><b>Marie Jordan, EGM of Network:</b> When you look at where we are going with PEC and consider the South-West REZ, we need to ensure connection to South Australia, which is already challenged with having a good heartbeat on their network.</p>

		<p>(IBR) rollout along these routes?</p> <p><b>Christiaan Zuur, CEC:</b> There is interest from developers in that South-West area. The 800 megawatts in South-West REZ, which I understand will be 2.5 gigawatts on completion of PEC, is that based on the syncon build or will that volume increase if you install batteries etc.? Or does the thermal limit kick in?</p> <p><b>Christiaan Zuur, CEC:</b> I'm curious to know where those limits kick in. You can only do so much with syncons and batteries to resolve the convertor driven instability - at some point the thermal limits kick-in. Is that roughly 2,000 megawatts of capacity on PEC or can you go higher?</p> <p><b>Andrew Richards, EUAA:</b> Thank you to Transgrid for setting up the consumer-focussed System Strength working group. Are the 18 syncons part of the direction you expect from AEMO around system strength requirements, or additional? Christiaan (CEC) makes the point that there may be an opportunity for a generator to install their own grid forming battery, so consumers potentially get left with a stranded asset - the syncon.</p> <p><b>Andrew Richards, EUAA:</b> What is the lead time on syncons?</p>	<p>It is important to get something mechanical into that node. You can repurpose equipment, sell a secondary service out of an existing service, such as a battery with a good grid forming inverter. We are looking at all of this, testing it and watching the overseas market. We do not want synchronous condensers to be our only option.</p> <p><b>Marie Jordan, EGM of Network:</b> We are continuously working with EnergyCo to ensure we look at where our infrastructure is best to handle it - they are looking at where renewables etc. are best placed.</p> <p><b>Marie Jordan, EGM of Network:</b> It is designed to carry more. HumeLink and VNI will provide support in that region. There is also discussion on how we get non-ISP projects like the Darlington Point to Dinawan, an important project not approved in our RP3. We are continuing to look at how we do the infrastructure reinforcement. There is also the Waratah Super Battery (WSB) and what you can do with battery technology that can help with the capacity.</p> <p><b>Marie Jordan, EGM of Network:</b> We are looking at it that way. This is in the CWO REZ. We will see what goes forward after the rule change that occurred in March. Their plan is 18 syncons. There are many things apart from syncons. We will not predetermine any solution until we have studied it. We still have places we need to put in syncons, but for now, with the two on PEC, our EOI may need something to support the Newcastle region. We are going to progress the EOI and non-network solutions.</p> <p><b>Marie Jordan, EGM of Network:</b> Around three years, or five by the time they are installed. They are expensive and only up to ten are being made at some plants. If the market is not producing them, and many are going to the renewable portfolio, we need to follow that next generation thought about how to manage system strength, stability, and inertia.</p>
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			<p><b>Brett Redman, CEO:</b>  It is a rolling discussion, and the future may include a mix. The answer in energy is never all of one, and none of another. We need to blend mechanical and synthetic solutions. Where there are LLE items, we are challenged with making decisions with imperfect information. As there is a need, filling it with LLE makes sense. The larger regulatory issue is that for non-network solutions, where we procure a service compared to buying an asset which goes into our Regulatory Asset Base (RAB), how do we make a margin. The regulatory model was designed for the network owner to receive the margin from owning assets as part of return on assets, and costs got passed through, so you do not profit on the cost. If you purchase a syncon, put it in the RAB and earn a low Rate of Return (ROR) for 50 years, there is a profit driver there, compared to procuring a service without a margin. This is not sustainable and can lead to distorted decisions. The first issue is working out how margins can be built in that are reasonable for procuring services that make it indifferent between assets and services. The second issue is in procuring a service. To provide that service the 'supplier' has to add capital where they need a 20–30-year return, like a battery. If we have five-year revenue determinations, but must enter a 20-year contract, then how do we do that.</p>
5.	<p><b>HumeLink CPA 1 (Part 2) and CPA 2 Update</b>  Jeremy Roberts,  Project Director,  HumeLink</p>	<p><b>Andrew Richards, EUAA:</b>  On the \$89 million estimate for NTP1 works, to what extent can you shrink that estimate, as you are doing some real time live testing by building a transmission line which looks similar to this, or are we talking about different designs?</p>	<p><b>Jeremy Roberts, Project Director, HumeLink:</b>  They are different designs. The terrain of PEC is wide and flat open landscapes, so the design is a guyed tower, which is a single structure with guide wires off the side. Less steel is needed, and they are quicker to build. It is different for HumeLink – when we go from the Snowy Mountains into the high mountains region, there is different topography where a more traditional tower is required. We are standardising a suite of towers, which is a great step forward. What will be spent on HumeLink will see benefit for other projects. We have seen a trade-off in efficiency in timing through the competitive tender process and have reduced more than 30 towers in one section. There are also less impacts such as biodiversity as it</p>



		<p><b>Tennant Reed AIG:</b> Looking beyond the impact that delay would have on the project costs and that Go/No Go decision, to the potential impacts if works are delayed when other projects are ramping up, how much concern is there about broader fragility of the ISP to those cascading delays? Should that degree of fragility be looming when we consider how much EIS time or whatever else we need, or is there room to move?</p> <p><b>Andrew Richards, EUAA:</b> We are working in a fluid environment. I have sympathy for those building in this environment, let alone something as complex as this. <i>To take offline:</i> we have been discussing CESS and how it links to CPA 1 and CPA 2 early works. The design of CPA 1 early works was to reduce risk, so we get to Class 2 without unexpected surprises at the end when you go through feedback loops etc.</p>	<p>reduces the number of access tracks required.</p> <p><b>Brett Redman, CEO:</b> This links to my earlier comment that the next 6-12 months are crucial to holding that 2023 timeline. The conversation has started on 'will you make transmission'. We are doing everything to get the right cost and time outcome for everyone. It would be easier for us to work sequentially, not pursue LLE or to have gone through extending CPA1 - and to have fixed price costs held for six months loaded with contingencies and a completed AER approval process. We are trying to maintain schedule but without extra costs, but there are obvious risks that start to emerge. The next 6-12 months will see fragility rising. We need to go through our process and do all we can in parallel, rather than series, and respect the processes we need to go through. You can see the momentum building with PEC, into HumeLink and VNI. It is fragile in the sense that Transgrid does not have a firm commitment to build HumeLink, VNI or the Hunter Transmission project. We could lean in quicker and harder if under the old regulatory system with its original intent that we would be doing things, or if we were a company getting returns through market processes. However, as we make a low return, which is good for consumers but there is no risk margin, we have to manage the competing need of capital being paid and a risk profile with a low return.</p> <p><b>Brett Redman, CEO:</b> The problem goes back to regulator return, as a brownfield return that does not allow for construction risk. We are in a better risk position on cost due to CPA 1, when we go to CPA 2. We have been promoting a model though, that is responding to the current construction market, that is a more fluid risk-sharing approach. We repeatedly say that the regulatory model forces us to have fixed prices as it allows no margin. If over the years, we decrease the regulated return, we either put a margin in for construction risk, or we keep looking at the best way to manage that risk as we move forward. CPA 1 is allowing us an informed decision on CPA 2. We are putting what</p>
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		<p>Consumers bought into that and share the risk, as the outcome is a well-known project at the end with no nasty surprises. Under that narrative, there should not be an issue with CESS. So, this is looking different again. Can you understand, where we had this narrative from Transgrid of 'pay us now and we will reduce everyone's costs', you are now saying there are more costs and risks. When I look at the cost on the delay chart (on the slide presented), yes, they are material, but consumers have no control over it. You may have more control than us, yet you are asking us to accept that risk.</p> <p><b>Andrew Richards, EUAA:</b> CESS is an important guardrail. Where are the other guardrails?</p>	<p>we think is the best time/cost trade-offs in a market that is highly constrained, so we can preserve timetable. We have been consistent with our narrative to say there is no margin for us to take construction risk. Either we push that into the constructors at a higher cost or work transparently about how we manage it. That creates a degree of flexibility in the final cost, where there will be upsides and downsides in the construction contract until you get to the end. While I cannot share the final outcome to the decimal point, I can tell you it is better than the fixed cost route.</p> <p><b>Brett Redman, CEO:</b> CESS represents a 30% penalty on the cost of the overrun. When the regulatory return is around 8.4%, there is no margin for a 30% penalty on, for example, a \$30 million overrun. There are two large penalties that Transgrid incurs if we have an overrun. We do not get any return on that overrun until the next regulatory period. Secondly, we do not get concessional financing or other finance breaks on that overrun. We are working with the Federal Government and RTN to finance these projects to fit within the regulatory return. An overrun will be substantially funded by equity, which is challenging. There are guardrails, and severe financial penalties, but they are not so catastrophic where there is no return for the shareholder to take that risk on.</p>
7.	<p><b>Waratah Super Battery (WSB) update</b> Stephanie McDougall, GM of Regulation</p>		
8.	<p><b>Regulatory Policy and Government Relations Update</b> Stephanie McDougall, General Manager of Regulation</p> <p>Emma Ashton,</p>	<p><b>Andrew Richards, EUAA:</b> How are you going to consider bringing in net-zero as part of your project financing or how you assess projects? How does that get</p>	<p><b>Stephanie McDougall, GM of Regulation:</b> We need to understand how that will flow into the various processes. We have submitted and received a determination and are now in our 2023-28 regulatory period. This is not reflected in the expenditure we put forward and won't be,</p>

	Government and Stakeholder Relations Manager	<p>incorporated? There is a concern that we start to double-count emission reductions, through transmission and the generator point. We need to avoid that. How do you deal with that issue?</p> <p><b>Christiaan Zuur, CEC:</b> It needs to flow through the rules first, then go through the Regulatory Investment Test for Transmission (RIT-T) application guidelines and ISP changes.</p> <p><b>Andrew Richards, EUAA:</b> Our concern is that we don't want to double count emissions. We don't want them value applied in transmission, which applies a revenue stream and level of abatement, but then a generator also applies that, or another kind of offset, so you can get a double estimation of emission.</p>	<p>in terms of the revenue proposal for our prescribed transmission services, until the next reset in 2028. How it will be undertaken and considered as part of the Regulatory Investment Test (RIT) will be interesting, given we have not been funded for it. More work in this space is required. It is a good point and raises an opportunity for us to work with the TAC on amending the RIT term sheet we collaboratively developed.</p>
9.	<b>Summary and next steps</b> Nicole Ryan, General Manager Community, Stakeholder and Government		

## 2. Action items

Action	Responsible	Due date/status
<i>On PEC:</i> Provide an update on how you are tracking on CAPEX and whether that is being tracked in the budget.	Nathan Rhodes Harry Mercer	
<i>On HumeLink CPA 1:</i> Provide further information on delay costs in relation to consumer narrative and risk.	Jeremy Roberts	
Provide more information on how net-zero in project financing or assessing projects is incorporated.	Stephanie McDougall	
Schedule a TAC visit/tour of the Wallgrove Battery	Cassie Farrell	

### 3. Next meeting

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The next meeting will occur on **Thursday 24 August** via MS Teams.

### 4. Contact details

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If you require any information on this summary or in relation to TAC meetings, please contact:

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