

VNI West – PADR Submitter Session

Forum:	AEMO Victorian Planning (AVP) and Transgrid VNI West – PADR Submitter Session
Date:	Thursday 1 December 2022
Time:	10:00 am – 3:00 pm
Location:	Hybrid – Online via Teams and in person at AVP’s Melbourne Office
Information to note:	<ul style="list-style-type: none"> – Participants provided submissions in response to the PADR which was published on 29 July 2022 – Preliminary responses to key questions or comments made through participant’s submissions were provided in advance of the session – Detailed responses to questions will accompany the PACR.

Disclaimer

This document provides a high-level overview of the main points of discussion at the AVP and Transgrid VNI West – PADR Submitter Session meeting convened by AVP and Transgrid on 1 December 2022.

This document is a summary only and is not a complete record of discussion at the forum. Its purpose is to share more broadly the key matters raised and actions arising, in the interest of transparency. The slides presented on the day are also published for reference.

1 Session Overview

Purpose: To respond to feedback provided by participants through PADR submission process through open forum discussion.

Presentation Agenda	
Background	<ul style="list-style-type: none"> - Introductions and purpose - PADR Submissions – what we heard
Session one: engagement approach, credible options and cost estimations	<ul style="list-style-type: none"> - VNI West engagement approach - Further assessment of and additional options being considered
Session two: market modelling and NPV	<ul style="list-style-type: none"> - Anticipatory benefits - Carbon budget methodology - Capex benefits/costs

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Presentation Agenda	
	<ul style="list-style-type: none"> - Benefits beyond the assessment period and the use of terminal values - Sensitivity testing - Interactions with WRL ['Take one out at a time' (TooT) analysis]
Session three: Q&A	<ul style="list-style-type: none"> - Open format to address over-flow questions

2 Discussion overview – key discussion points

Opening comments

- Purpose of the session is for all parties to learn and gain further understanding.
- Seeking a cooperative session but acknowledging that there will be areas of disagreement and genuine concern.
- Three principles of social licence: legitimacy, credibility and trust, need to be applied to all stakeholders.
- We have listened to the feedback received during the Project Assessment Draft Report (PADR) consultation and are modifying our approach and scope for the cost-benefit analysis in response. We will discuss the changes with this group today.
- AVP would consider the suggestion that understanding of the benefits would be assisted by publishing the constraints book used in the modelling, and details of the binding constraints derived from the modelling.

Session one: engagement approach, credible options and cost estimations

- AVP and Transgrid reinforced a commitment to transparency, learning and ongoing collaboration with stakeholders, including through sessions like this one.
- Stakeholders discussed the importance of appropriate stakeholder engagement and communication including the provision of transparent and timely information, through the period leading up to the Project Assessment Conclusions Report (PACR). Engagement after that point is not seen as genuine as a key decision has already been made.
 - o AVP invited suggestions as to what additional engagement should occur before the PACR.
- Stakeholders noted that AVP is constrained by the Regulatory Investment Test for Transmission (RIT-T) framework. Multi-criteria analyses such as AusNet's in the early stages could build trust and avoid a regretful path. AVP should identify key land planning and environmental constraints in the RIT-T framework and provide them to the AER.
- Stakeholders requested more detail be provided pre-PACR to allow time for genuine input and feedback
 - o Stakeholders acknowledged the genuine commitment to engagement being made by AVP and Transgrid through the feedback session.

- AVP advised they're seeking further clarification on the implication of the recent Government announcement about 'Rewiring the Nation' which included fast-tracking VNI West for a 2028 delivery.
- AVP provided an overview of submission themes including why more options were not tested in the PADR and concerns about the social, environmental, and cultural impacts of the proposed preferred option.
- Stakeholders queried why more detail on options considered and rejected in previous stages of the transmission investment regulatory framework was not provided. AVP noted this and the need to ensure information is accessible.
- AVP provided an overview of potential alternative options being considered, connecting VNI West at alternative points along the proposed Western Renewables Link (WRL) route. Participants were advised that work is progressing on the costs, market benefits, level of renewable generation harnessed, and land constraints for each option; and to better understand any potential impact on WRL and the RIT-T and Environment Effects Statement (EES) regulatory processes.
- Stakeholders commended AVP and Transgrid for listening and responding to feedback received in submissions, but raised concerns about the process from here if there was no further opportunity for consultation. They recommended a second further report be released for consultation (and discussion with this group) before the PACR. Otherwise, there was significant potential for stakeholders to perceive a lack of transparency, resulting in disputes because of the change in project scope.
- Stakeholders advised this was an opportunity to benefit from lessons learned, draw on local knowledge and identify a path of least regret.

Session two: market modelling and NPV

EY presentation¹

- EY noted that due to time constraints, not all topics could be covered. However, the information had been made available in the pre-reading, particularly around consistency with government policies in matters raised.
- EY provided an overview of the RIT-T approach that focuses on the whole of system optimisation over the full assessment period. Noted the PADR modelling references specific interaction with the carbon budget constraint creating some unintuitive outcomes. Several nested carbon budgets were applied over the modelled period based on the scenario-specific annual emissions outcomes in the 2022 ISP, including the whole twenty-five years. Only the twenty-five year budget constraint bound. No carbon price was applied.
- EY confirmed consistency with the Victorian Government's legislated carbon emission target. In Step Change and Hydrogen Superpower scenarios, the model outcomes overachieve on all the legislated nearer-term policies and most of the anticipated ones.
- VPEC commented that the failure to put a time value on carbon is a fundamental failing of the modelling and that hard wiring a price in that budget allocation for each period is implausible. EY acknowledged that applying a carbon price would change the outcomes.

¹ The information provided during this session was preliminary. Work on modelling and NPV is ongoing.

- EY noted the change being proposed by AVP/Transgrid for the PACR would address that matter of banking of carbon savings early in the modelling period to allow higher emissions towards the end of the modelling period, and that changing the approach to the carbon budget, would change the base case and the VNI West case, increasing overall system costs for both.
- Discussion on the counterfactual: EY noted that for the base case in the PADR Step Change scenario around 97% Victorian renewable generation by 2035 is being achieved in the base case (with VNI West Option One achieving 98%).
- TW noted that VNI West extends the life of coal. AVP and EY noted the comment had been raised in submissions and the outcome was an artefact of the way the carbon budget was applied, as discussed above. By using more of the ISP parameters (including scenario-specific coal closure timings and decadal carbon budgets) this concern is expected to be addressed in the PACR modelling.
- EY noted meeting the demand with a very low carbon budget in the 2040s, requires more wind, solar and storage in the counterfactual. EY also advised this could take away a substantial amount of pre-commissioning benefits stated in the PADR and push more of the benefits later in the planning horizon, however, won't know for sure until the modelling is complete.
- EY detailed the purely presentational aspect of capex benefits/costs that differ from the usual way the ISP presents this which may have caused confusion. Confirmed assessment process and NPVs are the same. Some stakeholders expressed a preference for the presentational approach in the PADR, and the PACR will aim to include both approaches for clarity.
- Stakeholders queried the outcomes and impacts of government policies and non-market factors. Noting graphs could look drastically different in the PACR, making disputes difficult to raise, and undermining credibility of the process.
- AVP noted the RIT-T needs to use evidence currently available to make decisions.
- Discussion on wind farms: EY noted that marginal loss factor changes have had a huge impact on developers. They are paying a lot of attention to this.

HoustonKemp presentation

- HoustonKemp addressed matters raised in submissions on terminal value, size and expected benefits after the end of the assessment period.
- The terminal value used in the PADR ensures consideration of costs and benefits occurs over the same assessment period (to 2047-48) and reflects the investment in long-lived assets.
- Long-lived assets that are invested in and are not fully depreciated over the assessment period result in a terminal value at the end. The sole role of the terminal value is to equate the period over which costs and benefits are assessed.
- HoustonKemp confirmed explicit assumptions were made about future benefits after the end of the market modelling period (including from fuel substitution).
- HoustonKemp detailed the payback period, which wasn't emphasised in the PADR, but will be included in the PACR. This will allow stakeholders to review the benefits that are anticipated for this project in order to understand how they outweigh the total cost of the project during the assessment period.
- HoustonKemp confirmed that the economic analysis includes the full capital cost of VNI West not just annuities in the study period. Since the net benefit includes the full capital cost, the terminal value is subtracted at the end of the period to ensure the costs and benefits are assessed over the same period.

- VPEC queried whether the payback period calculation includes the significant O&M costs. HoustonKemp noted this and has subsequently confirmed that O&M costs during that period are included in the payback period analysis.
- EUAA noted they cannot see the benefits and proposed that the project is three to four times more expensive than estimated in the PADR. VPEC noted it is not appealing to commercial investors. TW noted the unpredictability of forecasting 25 years ahead.
- HoustonKemp/AVP noted the purpose of the payback analysis is to address concerns around cost recovery and put into perspective the materiality of any benefits expected beyond the assessment period.
- VPEC queried the approach and potential for missing costs.
- VPEC proposed HoustonKemp avoid using the current break-even period because the break-even period is inconsistent with the way in which the sums have been done in the RIT-T.
- AVP clarified the purpose of detailing the break-even period was to provide some comfort that the business case for the project delivering net market benefits for consumers does not rely on future benefits beyond the modelling horizon.
- EUAA agreed that payback periods are helpful but also suggested that a more forensic analysis of the options on the basis of the calculation of residual value beyond 2050 is still needed.
- HoustonKemp confirmed that the payback period analysis is purely intended as supplementary analysis to help the discussion around the terminal value. The approach taken in the PADR to the residual value is in-line with the approach taken across other RIT-T assessments.

Other business

- EUAA questioned the assessment of the 'class' of the cost estimate. Transgrid noted further offline discussion would be had with EUAA on this matter.
- Stakeholders noted they expect to see a more detailed and accurate cost estimate and information to justify a $\pm 30\%$. Also require a greater level of sensitivity analysis, particularly around biodiversity and land acquisition costs (including potentially a sensitivity for land payments in Victoria, as is now the case in New South Wales).
- Stakeholders had several comments in relation to the incremental benefits and costs, including the perception of double counting of benefits and missing costs. AVP provided preliminary feedback to clarify that this was not the case but identified that there was not enough time to cover that matter in sufficient detail and that further information would need to be provided to stakeholders to clarify that point.
- As time ran out to discuss further, post meeting, a stakeholder shared his view that amending the connection point of VNI/WRL will substantially reduce the full costs of VNI but is inconsistent with the NER and with the AER Guideline that requires the inclusion of the direct costs for each option. In his opinion, the change in the WRL/VNI connection point would require the WRL RIT-T to be re-run under the NER.
- AVP closed out the session, thanking participants for their time and input and confirming that notes and actions would be circulated.

Closing comments

- Stakeholders proposed the need for further sessions, potentially in sub-groups, and acknowledged the need to let the project team continue the work they are doing in the lead-up to the next report.
 - o EUAA requested a commitment to further discussions and advice as soon as possible on the timetable to allow stakeholders time to prepare.

- VPEC spoke for all stakeholders acknowledging the work done so far by AVP and Transgrid and noted the need for further engagement before the PACR was finalised and published.
 - o Stakeholders expressed a view that this was now back to a pre-PADR stage, not ready to go forward to PACR without further consultation and a revisiting of options for both WRL and VNI West. Asked for further clarity to be subsequently provided on process from here.
- AVP and Transgrid committed to taking and circulating notes and arranging more discussions. AVP and Transgrid thanked the teams that have been working around the clock to pull this together because it has been a huge effort and will continue for some time.
- AVP and Transgrid thanked all stakeholders for their dedication to the engagement process and for their attendance at the session. Further discussions will be arranged.

3 Key action points

Item	Comment/Discussion	Action
Submission items addressed pre-PACR	1. Items raised in the submissions are responded to formally advising stakeholders how AVP will address and seek feedback prior to PACR release. (SE)	AVP to provide further information on engagement pre-PACR.
Report pre-PACR	2. AVP to come back with a report pre-PACR.	RL and VJ to meet to discuss. (RL to arrange)
Community Roundtable	3. Recommendation for establishing a community group roundtable. (MCHPA)	AVP and MCHPA to discuss.
VNI West validated	4. Using language 'VNI West validated' is not helpful. The perception is that it meets a rules requirement for net benefits when there are [perceived] significant issues around the calculation of those net benefits. (EUAA)	AVP to amend wording.
Lessons from WRL	5. Opportunity to learn from WRL experience, local knowledge and identify the least regret path (EGA).	AVP to meet with AusNet. (RL to arrange)
CAPEX	6. The proxy approach to carbon strategy provided in spreadsheets as per the PADR due to significant modelling changes. (VPEC)	AVP to include spreadsheet of results in PACR.
Terminal value estimation	7. To separately estimate terminal value to provide this information to stakeholders. (HoustonKemp)	HoustonKemp to provide terminal value estimate for the PACR. For the PADR analysis, terminal values can be found in the NPV spreadsheets released alongside the PADR.

Sensitivity testing	8. Clarification of sensitivity cost estimate assessment and parameters of pricing. (EUAA)	Transgrid and EUAA to discuss.
Outstanding questions	9. Query regarding how to manage outstanding questions that couldn't be covered within the session timeframe. (EUAA)	AVP/Transgrid to review outcomes of discussion to determine if further sessions/sub-group conversations required and confirm with participants.
Process Commitment	10. A commitment to discussions as soon as possible with a timeline and schedule of activities in advance of the PACR release. (EUAA)	AVP to provide further information.
Detailed PADR Submission Session notes	11. Request for detailed notes of the session to be provided to attendees. (EUAA)	AVP to provide.

Appendix

Organisation	Name	Role	In-person / Online
EUAA	Mark Grenning	Director Policy and Regulation	In-person
	Ron Logan	Senior Markets Adviser (Shell Energy Australia)	Online
	John Short	Strategic Adviser	In-person
Energy Grid Alliance	Darren Edwards	Director	In-person
Queensland Electricity Users Network (QEUN)	Jennifer Brownie	Coordinator	Online
Victoria Energy Policy Centre	Bruce Mountain	Director	Online
	Simon Bartlett	Chair of Electricity Transmission (UQ)	Online
	Hugh Outhred	Managing Director (Ipen Pty Ltd)	Online
Independent	Ted Woodley		Online
AER	Eugene de Guingang	Economic Analyst	Online
Hepburn Shire Council	Damien Kennedy	Strategic Advisor	Online
Victorian Farmers Federation	Lisa Gervasoni	Senior Policy Advisor	Online
Moorabool and Central Highlands Power Alliance	Vicki Johnson	Steering Committee member	In-person
PIAC			
AVP	Nicola Falcon	Group Manager Planning	In-person
	Sarah Walsh	Manager, Victorian Transmission Investment	Online
	Jason Pollock	Principal Engineer - Victorian Transmission Investment	Online
	Colin Holmes	Senior Advisor – Planning and Environment	Online
	Evan Morris	Principal Design Engineer	Online
	Catie Low	Senior Advisor – Project Communications	Online
	Rosanna Lacorcchia	Principal Stakeholder Engagement Advisor	In-person
	Louisa McPhee	Engagement Representative	In-person
	Erin Mulquiny	Engagement Advisor	In-person
	Jodie Kingston	Engagement Advisor	In-person
Transgrid	Mark McEneaney	Project Director, Major Projects Planning	In-person
	Kasia Kulbacka	General Manager Network Planning	In-person
	Doug Thomson	Manager, Major Projects Planning	In-person

Organisation	Name	Role	In-person / Online
	Gloria Zhang	Major Project Planning	In-person
	Farid Faiz	Engineering Manager VNI West	Online
	Michael Lloyd	Community and Stakeholder Manager – VNI West	Online
	Henry Tilly	Government Relations	Online
	Llinos Walters	Integration – VNI West	Online
	Taryn Woods	Communication and Engagement Manager	Online
	Nathan Menser	Communications and Engagement Advisor	Online
EY	Clare Giacomantonio	Partner	In-person
	Nadali Mahmoudi	Senior Manager	In-person
HoustonKemp	Ann Whitfield	Partner	Online
	Tom Graham	Senior Economist	Online