



27 March 2020

Audrey Zibelman
Chief Executive Officer and Managing Director
Australian Energy Market Operator (AEMO)

Submitted via email: VNIWestRITT@aemo.com.au

Dear Ms Zibelman,

VNI WEST – PROJECT SPECIFICATION CONSULTATION REPORT

Origin Energy Limited (Origin) welcomes the opportunity to comment on AEMO's and TransGrid's Project Specification Consultation Report (PSCR) which examines potential options for additional transfer capacity between New South Wales (NSW) and Victoria (VIC).

We provide the following comments for consideration:

- **Optimal timing:** The project assessment draft report (PADR) should discuss the choice of optimal timing for the VNI West, including a detailed explanation of the drivers behind the required completion date.
- **Inputs and assumptions:** The PADR should use the most up-to-date forecasts of inputs and use assumptions consistent with the final 2020 integrated system plan (ISP). Any differences between the ISP and PADR should be included as sensitivities.
- **Ongoing transmission projects:** The PADR should be clear on which other projects are included and provide sensitivities for them so stakeholders can understand how they affect VNI West's benefits.
- **Victorian Government transmission powers:** The PADR should explain how it has incorporated the outcomes of the bill through sensitivity analysis and by discussing the impact of the 2020 system integrity protection scheme (SIPS) project on VNI West's business case.
- **Sensitivity analysis:** The PADR should include sensitivity analyses as mentioned above as well as: high and low discount rates; high and low capital costs; public policies; demand and supply shocks.
- **Capital costs:** The PADR should include all necessary/additional augmentation of both the NSW and Victorian networks in the project costs for all options.
- **Modelling approaches:** The PADR should use a weighted-average net benefits test. If not, it should provide a clear explanation of the methodology used and how the outcomes differ from a net benefits test.
- **Credible options:** The PADR should expand on the role of the two REZ expansions and how they fit into the ISP's optimal development path. The PADR should assess all relevant credible options, including any additional network and non-network ones raised by stakeholders in response to the PSCR.
- **Transparency:** The inputs, outputs and full models should be made available with the PADR to enable stakeholders to provide more informed and useful feedback.

We expand on these comments below. Our feedback is aimed at improving transparency, clarity and understanding of VNI West and its benefits, in order to promote confidence that the outcomes are in the best interest of consumers.

Optimal timing

We understand from the PSCR that the proposed upgrades have a 6-to-8-year lead time but there is no discussion on optimal timing. Based on the draft 2020 ISP, early completion of VNI West is driven by the step change scenario or least worst regret cost under certain conditions. In other scenarios, VNI West is not needed at all, or not until 5-6 years .

Even though the draft ISP recommended VNI West as a low regret option with completion by 2026-27, there is a level of uncertainty around how early it may be required. The PADR should therefore include discussion on the choice of optimal timing for the VNI West and provide a detailed explanation of the drivers behind the required completion date. For example, if early completion is driven by the step change scenario, it would be useful for stakeholders to understand what else needs to occur for that scenario to eventuate in practice.

Inputs and assumptions

AEMO/TransGrid should use the most up-to-date forecasts for the PADR, while remaining consistent with the ISP in terms of assumptions. It would also be useful to provide a brief explanation where the inputs used in differ, to promote understanding of how the PADR modelling differs from the ISP outcomes.

Ongoing transmission projects

There are several network augmentations under way at present, each at different stages of the regulatory process. We understand that the PSCR has considered most of these, except for MarinusLink. The PADR should be clear on which projects are included and excluded from the modelling, with an explanation of why these choices have been made.

It is not clear whether the inclusion of other projects (and uncertainty around construction dates) in the cost-benefit analysis means that individual RIT-Ts over-estimate the benefits of a project, by double counting gains from other projects. Providing sensitivities that exclude other transmission projects under way help understand these interactions.

Victorian Government announcement

The Victorian parliament has recently passed a bill giving the Minister the ability to amend or bypass the RIT-T in certain circumstances. The PADR should explain how it has incorporated any outcomes from the bill using sensitivity analysis.

To date, the new powers have only been used for the 2020 SIPS program. The PADR should therefore comment on how it has incorporated this program. Given that the 2020 SIPS project is aimed at increasing transfer capacity between NSW and Victoria at times of peak demand, it would be useful to understand its impact on the VNI West identified need and net benefits.

Sensitivity analysis

In addition to the sensitivity analyses noted above, we suggest that AEMO/TransGrid should also provide the following to promote confidence in the RIT-T:

- **High and low discount rates:** High discount rates provide a better reflection of commercial investment realities, while low discount rates are also useful for comparison.
- **High and low capital costs:** The PSCR states that the accuracy of the project costs provided is of +/- 50 per cent so we suggest sensitivity analysis to reflect this. Providing a higher capital cost sensitivity is also good practice given the tendency for infrastructure projects to go over-budget.
- **Public policy or government announcements:** If any public policy is included (such as the NSW electricity strategy or Snowy 2.0), they should also be provided as a sensitivity to understand their impact on net benefits.
- **Demand and supply shocks:** Early and late retirement of relevant coal-fired power stations and early closure of smelters should be provided to understand the effect of any such shocks on the net benefits and timing of the proposed upgrades.

Capital costs

All necessary augmentation of both NSW and Victorian networks for increased interregional transfer should be included in the costs for all options. For example, some options may require intra-regional upgrades in order to alleviate congestion caused by the new transfer capacity or to unlock the full benefits of augmentation. The PADR should present and discuss all costs.

Modelling approaches

We suggest that the PADR should consider and appropriately weight the scenarios. Weighing the scenarios would be consistent with the current RIT-T application guidelines.

Given that the final ISP rules and cost-benefit analysis guidelines are yet to be finalised, it is unclear if AEMO/TransGrid intend on deviating from the current net benefits test in the PADR for this project. We consider that the RIT-T should remain a highest weighted-average net benefits test. However, should the PADR apply a different approach, we would expect a clear explanation of the methodology used and discussion of what the outcomes would have been under the weighted-average net benefits test.

Credible options

The PADR should include an explanation on the role of the two REZ expansions and how they fit into the ISP's optimal development path. It is not clear whether the two REZ expansions are separate options serving a different identified need or whether AEMO and TransGrid intend to assess them together with the primary interconnector upgrades (e.g. VNI 6 with a potential expansion to Glenrowan and VNI 7/8 with a potential expansion to Red Cliffs). If they are assessed together, the PADR should also provide outcomes for VNI 6, 7 and 8 without the expansions to promote transparency.

The draft ISP identifies VNI 6 or 7 as being part of the optimal development path. We suggest that AEMO and TransGrid should nonetheless continue to assess all relevant credible options, including any additional network and non-network ones raised by stakeholders in response to the PSCR. It is important for individual RIT-Ts to continue assessing all options in order to keep the test thorough.

Transparency

We suggest that AEMO and TransGrid publish as much information on the inputs and outputs as possible with the PADR. We consider that the full models should be made available with the PADR to enable stakeholders to provide more informed and useful feedback.

Should you have any questions or wish to discuss this submission further, please contact Sarah-Jane Derby at Sarah-Jane.Derby@originenergy.com.au or by phone, on (02) 8345 5101.

Yours sincerely



Steve Reid
Group Manager, Regulatory Policy