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# Briefing note

Moorabool and Central Highlands Power Alliance
27 September 2022

The Moorabool and Central Highlands Power Alliance (**Alliance**), through its legal advisers Thomson Geer, wrote to the Chief Executive Officer and Managing Director of the Australian Energy Market Operator (**AEMO**) on 26 August 2022 in relation to the Western Victorian Regulatory Investment Test for Transmission (**West Vic RIT-T**). A copy of the letter was sent to the directors of AEMO.

The West Vic RIT-T was conducted under the National Electricity Law (**NEL**), which includes the National Electricity Rules (**NER**) and the Application Guidelines: RIT-T December 2018 (**Guidelines**).

The West Vic RIT-T assessed options for what is now known as the Western Renewables Link (**WRL**). It determined an option known as **C2** as the 'preferred option'. It did so on the basis that C2, according to AEMO's analysis and calculations, maximised the *present value of net economic benefit to all those who produce, consume and transport electricity in the market* (being the objective of the RIT-T under the NER). AEMO's determination was published in the West Vic RIT-T's Project Assessment Conclusions Report dated July 2019 (**West Vic PACR**).

C2 comprises a new overhead transmission line from Sydenham to Bulgana, including a new terminal station to the north of Ballarat. AusNet Transmission Group Pty Ltd (**AusNet**) was awarded a tender by AEMO in December 2019 for the delivery of C2.

The NER recognise that matters may emerge or events may occur after publication of a PACR which lead to changes, amongst other things, in key assumptions used by a RIT-T proponent such as AEMO in undertaking a RIT-T. The NER requires AEMO, where there has been material change in circumstances, to form an opinion as to whether the preferred option is still the preferred option. If it is not, then AEMO must reapply the RIT-T. AEMO must form its view reasonably.

In the letter to AEMO, the Alliance identified a series of significant material changes in circumstances and submitted that as a consequence of these changes, AEMO had no choice other than to form an opinion that C2 was no longer the preferred option and was therefore obliged under the NER to reapply the West Vic RIT-T.

There were four distinct categories of material changes in circumstances discussed in the Alliance's letter.

***Project costs***

The project cost estimate for C2 (as published in the WRL PACR) is no longer accurate. Calculations undertaken for the Alliance show (conservatively) an increase to the published estimate of $473 million ($357 million present value or **PV**) for C2 of between 37 and 57%. This is supported by AEMO's own publications since July 2019. Furthermore, the costings disclosed in the recently published Victoria to New South Wales Interconnector West Regulatory Investment Test for Transmission Project Assessment Draft Report (**VNI-West PADR**) indicate an increase of more than 100% in the cost of the 190 km C2 project.

The cost increases (which will continue to rise as a result of the delay in the C2 project and current economic conditions) constitute a material change in circumstances under the NER, obliging AEMO to act.

***Relevant Events***

A number of events have taken place since July 2019 impacting on the National Electricity Market (**NEM**). All of these events are consistent with the move to renewables.

First, Energy Australia, Origin Energy and AGL have announced the early closure of coal generated power stations (Yallourn – now 2028; Eraring – now 2025; Bayswater – now 2033; and Loy Yang A – now 2040-2045).

Secondly, in November 2020 the New South Wales Government announced its Electricity Infrastructure Roadmap.

Thirdly, in early 2021 EnergyAustralia announced a commitment to build Australia's first four-hour utility scale battery of 350MW capacity at Jeeralong in the Latrobe Valley.

Fourthly, the Victorian Big Battery at Geelong was commissioned in December 2021.

Fifthly, in March 2022 the Victorian Government published its Offshore Wind Policy Directions Paper envisaging first power generation by 2028 (with targets of 4GW by 2035 and 9GW by 2040). In alignment with this state policy, the Federal Energy Minister Chris Bowen announced on 5 August 2022 the new Federal government's 'Unlocking the power of offshore wind' plan.

Sixthly, there has been an upscale in consumer led transformation (including rooftop PV and battery energy storage), a fact plainly acknowledged by AEMO in its 2022 Integrated System Plan published in June 2022 (**2022 ISP**).

Finally, the successive Federal Governments have announced the Net Zero Commitment in Australia's Long Term Emissions Reduction Plan (in October 2021) and the Powering Australia Plan with a commitment to reduce emissions by 43% by 2030 (in December 2021). This commitment is now law under the recently enacted *Climate Change Act 2022* (Cth).

The key inputs in the AEMO analysis which led to the selection of C2 were:

(a) Transmission timing benefits (benefits from building parts of other future transmission projects, specifically VNI-West);

(b) Generation Capital Expenditure (**Capex**) benefits; and

(c) Fuel costs savings benefits (both over the modelling period of the RIT-T analysis and for the period from 2035 to the expected life of the transmission line 2074/75).

Key assumptions made by AEMO were that:

(d) Coal generation would continue until 2034 (being the end of the modelling period) as a significant portion of the generation market;

(e) Significant benefits from coal generation would extend (by extrapolation) from 2034 to 2074/75;

(f) VNI-West would proceed;

(g) Generation Capex benefits for C2 and for the alternate credible option called B3 are large and identical; and

(h) Interconnection between States (in particular between Victoria and New South Wales) is, and remains, both necessary and a priority.

The Alliance's submission to AEMO is that none of these assumptions withstands the changes to the NEM since the date of publication of the West Vic PACR.

As to fuel costs savings benefits, these are expressly stated in the West Vic PACR to arise primarily from the displacement of black goal generation in New South Wales and Queensland and gas generation in New South Wales with brown coal generation in Victoria. The largely coal based benefits are calculated by AEMO out to 2074/75, with 75% of their value derived between 2035 and 2074/75. However, the relevant events described above make it clear that coal generation will retire well in advance of the dates assumed in the West Vic PACR.

The same relevant events demonstrate a move from dependence on intra and inter-regional transfers of coal generated power to utility scale wind and solar generation. This refutes the argument for any further need for interconnection between States and also brings into question the need for VNI-West.

AEMO's acknowledgment of this transformation of the NEM is demonstrated by the scenarios it adopted in the VNI-West PADR. None of the scenarios used in modelling for the West Vic RIT-T are now in play, with the most likely scenario (accepted by AEMO, key stakeholders and industry) known as the *Step Change Scenario*. This scenario represents an entirely new framework against which future transmission projects will be assessed. Notably, in direct contradiction to the assumption in the West Vic RIT-T, this scenario assumes that there will be no Victorian brown coal generated power beyond 2031-32.

***Redefinition of VNI-West* and *Failure to account for costs***

VNI-West is a new transmission interconnector link between Victoria and New South Wales. The defined route of VNI-West in the West Vic PACR is different to the defined route of VNI-West in the VNI-West PADR.

In the West Vic PACR (which attributes benefits to the early construction of components of VNI-West), the VNI-West route commences in Sydenham; in the VNI-West PADR, the VNI-West route commences from a proposed new terminal station located north of Ballarat. This redefinition invalidates both the assumption made in the West Vic PACR about the scope of VNI-West and the calculations of net economic benefits for C2 which rely on an early build of part of VNI-West. These assumptions were critical to the selection of C2 as the preferred option.

The redefinition also means that neither the West Vic RIT-T nor the VNI-West RIT-T cost benefit analyses account for the cost of the early build components of VNI-West (that is, the 500 kV transmission line from Sydenham to the north of Ballarat and the construction of the new terminal station). Based on the latest VNI-West PADR costings, the Alliance estimates these VNI West components within the WRL may cost in excess of $500 million. Neither RIT-T accounting for such a massive and real cost is a material change in circumstances which obliges AEMO to act.

***Next steps***

The Alliance seeks in clear terms from AEMO exercise of its statutory power under the NER. It seeks a decision from AEMO that in AEMO's reasonable opinion C2 is no longer the preferred option. Once AEMO forms that opinion, AEMO must reapply the West Vic RIT-T and in the public interest undertake a new cost benefit analysis which addresses the materially changed circumstances now prevailing.

The Alliance requested a response to its letter by 16 September 2022. A response was received from AEMO on 16 September 2022 indicating a formal reply by 14 October 2022.

A copy of the 26 August 2022 letter has been sent to the Hon Lily D'Ambrosio, Minister for Energy (Victoria).

If AEMO fails to respond to the Alliance's request or rejects the call for reapplication, the Alliance's next steps include legal recourse through the courts.