

SUBMISSION

VICTORIAN TRANSMISSION INVESTMENT FRAMEWORK PRELIMINARY DESIGN CONSULTATION PAPER 15 AUGUST 2022



INTRODUCTION

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

We welcome this opportunity to respond to the Victorian Transmission Investment Framework Preliminary Design Consultation Paper (Consultation Paper) and look forward to a productive, collaborative process with the Victorian Government. As always our mission is to ensure the long-term interests of consumers are met. As an independent group representing consumers we feel well placed to do so.

The EUAA support the pursuit of net zero targets and seek to achieve it at least cost, not at any cost. We argue that an efficient transition requires efficient transmission investment. We do not believe that over investment in transmission, in scale (far too big), timing (far too early) and cost (far too expensive) represents efficient transmission investment and is not in the long-term interests of consumers. If governments or other stakeholders want transmission investment to exceed efficient levels as defined by consumers (i.e. higher degree of reliability or lower levels of generator constraint), then they should be prepared to pay the extra cost.

CONTEXT

We would like to take this opportunity to provide a consumer context to the various debates around achieving net zero and the role transmission could play in achieving this. Our focus is on ensuring consumers only pay for an efficient level of transmission investment, that consumers are not bearing an unfair level of cost and risk and that communities who will be hosting the decentralised energy system of the 21st century do not end up as collateral damage.

We believe the issues can be distilled down into two aspects of social licence that the entire energy supply chain (and governments) must manage; customer social licence and community social license. Each are equally important to a successful energy system transition.

Customer Social Licence

We often hear that transmission costs are small in comparison to other elements (wholesale costs, environmental programs etc) and that consumers should just play their role and pay the bill. We also hear that the RIT-T is too cumbersome and should be weakened even further or even discarded.

The 2022 ISP identifies that capex of \$12.7 billion is required to deliver a number of high priority transmission projects. This figure is based on an AACE class 4 cost estimate (-15% to +50%) and therefore subject to the risk of significant change. Given recent experience of project cost escalation, we anticipate that ISP costs will be closer to \$20B. Under existing regulatory frameworks, consumers take this risk.

Why do we think the ISP will cost more than the headline number suggests? Recent experience with both Project Energy Connect and Humelink (both are ISP projects) tells us that costs always go up, never down. For example, the costs of Humelink increased nearly 250% from \$1,350m in the PADR (January 2020) to \$3,317m in the PACR (July 2021) which was still only a Class 4 estimate, so we expect costs to escalate further.

Our Material Cost Rule Change¹ is designed to ensure more accurate costs estimates are used in the feedback loop/CPA when consumers get to know if the project is still part of the ISP Optimal Development Path and the AER decides what is a prudent and efficient level of capex. Unfortunately, the Draft Determination’s proposed changes, which we consider will make little difference for consumers, will not start until 2030 and have no application to the 2022 ISP Actionable Projects.

It appears that consumers will continue to rely on the TNSP (or as proposed in the Consultation Paper, VicGrid) to show that the individual project still has net benefits, with no independent umpire to test that conclusion. This creates unnecessary tension between energy users and the TNSP, ultimately leading to a significant reduction in trust and another round of “gold plating” claims being levelled at networks. This situation is bad for networks, consumers and governments. We would like to see the Victorian process not end up with the same shortcomings to ensure consumers have confidence that its outcomes do put consumer interests at the centre.

Unfortunately, there are those who don’t seem to care about these negative consumer impacts. We would suggest that those who are advocating a “build it and they will come” or “just get on with it” approach would have a significantly different view of the world if they were the party facing these significant escalations in costs. We wonder why these parties expect consumers to just wear these costs increases when they wouldn’t. We would further suggest they wouldn’t be calling for a dilution of the RIT-T framework but demand it’s strengthening.

If consumers are continually seen as some form of magic pudding, where all manner of costs and risks can be justified simply by claiming it is in the customer interest (as defined by non-consumers), and this leads to an inequitable allocation of costs, bill spikes and consumers bearing market participant risks, then customer social licence for the transition will evaporate.

This is particularly relevant given the approach being adopted by state governments to derogate away from National Electricity Law and dilute independent oversight by the AER. The Consultation Paper outlines a state based assessment and approval process for new transmission and REZ in Victoria. This follows a similar path taken by NSW in their electricity infrastructure road map. The reasoning behind this is that they believe the current RIT-T approach takes too long and is seen as holding up transmission infrastructure. We do not believe this is sufficient justification to kick good process to the curb and cut corners in the regulatory assessment process.

In any case we would argue that it is social licence that is driving the timetable for transmission build, not the need to assure consumers that the proposed project stacks up with net benefits. The RIT-T for the Western Renewables Link finished in July 2019, yet we still have no idea when the project will start as social licence issues are negotiated. We also have no idea what the revised costs will be and whether the project still has net benefits that were shown in the PACR.

¹ See <https://www.aemc.gov.au/rule-changes/material-change-network-infrastructure-project-costs>

Another issue to consider is that even where net benefits of a new transmission project are demonstrated, consumers typically wait many years before these net benefits are realised² while paying certain costs (which networks want to increase through accelerated depreciation). For connecting generators the net benefits of the transmission asset are generally seen much sooner. Once again consumers are bearing the cost and risk of the transmission asset based on a promise that sometime in the future they will (or might) be better off.

If governments, the energy industry and regulatory bodies want to ensure customer social licence is built and not destroyed as we embark on a rapid transition of our energy market, then serious thought must be given to a far more equitable sharing of costs and risks than is currently the case.

Community Social Licence

We do not see that the RIT-T process is the material cause of project delay. Rather, we see failure to achieve community social license and environmental approvals as the issues that will de-rail new transmission projects.

It is encouraging that governments, the industry and regulatory bodies are beginning to understand both the risks to a least cost transition and the great inequity that could be created if communities are not central to the transition. As we have said many times, the regulatory process may slow you down but social license will stop you dead in your tracks.

In this regard we can see some positive initiatives outlined in the Consultation Paper, which we will expand on later in this submission, but would add that it is supply side participants (generators, network service providers etc) who should in the first instance take primary responsibility for ensuring social license is achieved including the risks and costs of doing so. Any approach that seeks to directly move these costs and risks onto energy consumers is wholly inappropriate given energy users have no ability to impact social license outcomes, manage risks or avoid costs.

If generator contributions are being sought (we strongly believe they should) then these contributions should be used to reduce the transmission costs that consumers will pay. Any additional costs associated with social licence should be dealt with by the proponent in the first instance. Any additional costs associated with other government objectives such as local content or regional development should not be funded by energy consumers but by governments.

INITIAL RESPONSE TO THE CONSULTATION PAPER

The EUAA have becoming increasingly concerned with the progressive balkanisation of the NEM as state jurisdictions derogate away from a nationally consistent approach to energy policy and regulation. Of relevance to this Consultation Paper, the intent to depart from a rigorous, transparent and independent net benefits assessment of network infrastructure by the AER is of particular concern. This concern is magnified by a significant change to the economic test for new transmission being “least cost” rather than “net benefits”. It may well be the case where a REZ is pursued that is least cost of the options considered but still may not deliver net benefits to consumers. In other words, it could be the best of a bad bunch.

² For example, see the FiT modelling of the timing of benefits to NSW consumers from Project Energy Connect pp 11-13 https://www.aemc.gov.au/sites/default/files/documents/new_rule_change_proposal_-_national_electricity_rules_-_transgrid_-_making_isp_projects_financeable_-_fti_report_-_20200930.pdf

Despite assurances to the contrary, we maintain the view that moving to a state based approach where a single entity is developing the whole of (state) system plan, choosing priority projects, running project assessment and approval and managing procurement as this Consultation Paper outlines, can lead to poor outcomes for consumers. In particular, we fear this approach will lead to a breakdown in good governance and less rigor being applied to project financial assessment than otherwise would have occurred. This situation will contribute to consumers losing trust that the process will deliver outcomes that are consistent with the NEO.

PLANNING PROCESS

The proposed Victorian Transmission Investment Framework (VTIF) has a number of positive features, especially related to the early engagement with landowners and communities and assessment of environmental impacts associated with transmission line route selection. As we have seen in ISP projects pursued to date, significant cost over-runs are occurring due to poorly defined environmental and community/landowner risk.

For example, recent reporting indicates that an additional \$1B in cost will be added to the Humelink project due to the corrective environmental actions that will be required. We are also witnessing significant community resistance to the project that is impacting route selection, landowner negotiations and compensation payments. The Western Renewables Link is another clear example of insufficient, early stakeholder engagement that now threatens the project.

With respect to the Victorian Transmission Planning Objective (below), we are in general agreement with the objectives as they largely align with the NEO but have a concern regarding the final point. We assume these objectives will be used to guide and justify investment in new transmission infrastructure and REZ. We are concerned that a “least regrets” objective allows a high degree of discretion to essentially justify any network investment, even if it doesn’t meet the long-term interests of consumers but may meet the short term needs of others. Due to the highly subjective nature of this objective we strongly recommend that it is removed entirely.

BOX 4

Draft Victorian Transmission Planning Objective

To promote efficient investment in, and efficient operation and use of, electricity transmission services for the long-term interests of Victorian consumers of electricity with respect to:

- Price, quality, safety and reliability and security of supply of electricity
- The reliability, safety and security of the national electricity system
- The orderly transition of the Victorian electricity system, consistent with the commitment to net zero emissions by 2050
- The delivery of transmission, consistent with a least regrets development pathway

We see much of the planning design features outlined in this Consultation Paper to be similar to that which is undertaken by AEMO in developing the ISP. The EUAA have been deeply involved in the ISP process and participated as a member of the ISP Consumer Panel.

We strongly recommend that a similar panel is set up to advise VicGrid as they develop their own state based version of the ISP. We suggest this group be appointed for a period that covers a number of iterations of the Victorian Transmission Plan and that a reasonable level of sitting fee is paid to participants.

Based on our experiences with the ISP, we offer the following:

System scenarios: Given the rapid changes taking place in energy markets, a process that considers a range of broad scenarios is appropriate. A degree of flexibility to either speed up or slow down the timing of infrastructure build is also appropriate (provided the decision is transparent and conclusions based on robust analysis).

The AEMO sought broad stakeholder input in developing scenarios for the 2022 ISP then engaged in a Delphi process to seek advice from a smaller group of industry experts and stakeholders. This group (the Delphi panel) then voted on the most likely scenario that might unfold. The most “popular” scenario was then adopted as the central scenario for ISP planning.

Our experience of this (and other processes outside of the ISP) is that a significant imbalance exists between supply side participants (those who will directly and immediately benefit from the investment) and demand side participants (those who will immediately pay for the investment but receive net benefits sometime into the future).

As the Consultation Paper contemplates establishing similar expert panels we strongly recommend that greater balance is sought between supply side and demand side participants. We would also recommend that more details on the scenario weighting methodology is provided, with the ability of stakeholders to comment on it.

One of the advantages that a VTIF approach may have over the ISP is that it should be able to bring in a deeper appreciation of the changes that are occurring at a more granular level in the energy system. One criticism that continues to be levelled at the ISP is that it still does not dig deeply enough into what is occurring at a more local level within the DNSP. This is understandable as the ISP is already a significant undertaking and there are limits to the layers AEMO are able to peel back.

We expect that scenario planning at a state level will uncover more of what is occurring at “street level” such as consumer driven non-network solutions (i.e. community batteries and energy efficiency measures) that may reduce the need for large generation and transmission investment. This more granular assessment could then enhance the AEMO ISP process, giving a more accurate picture of the transition. We strongly recommend that the ISP and VTIF processes are synchronised to the highest degree possible.

Candidate REZ pathways: We can see merit in the approach being adopted as it is more likely to unearth the challenges that will need to be overcome before too many resources are committed and costs incurred. The proposed Strategic Land Use Assessment and Multi Criteria Assessment appear to be appropriate models. This meaningful, early action undertaken in a systemic way across the state seems to be a reasonable approach to balancing the needs of communities, the environment and our future energy system. In doing this early work we also hope to also avoid the nasty surprises we are encountering as project costs rapidly escalate due to poorly defined community and environmental impacts.

We believe that ensuring a well-defined, clearly identified need for new transmission or REZ is critical to developing the candidate REZ pathways. This should consider the cost of technologies connecting to the REZ (i.e. wind, solar,

off-shore wind, biomass, storage etc) as a critical impact on the total system costs that energy users will pay. The ability of imports from other jurisdictions to lower overall system costs in Victoria must also be key consideration as the VTIF is developed.

Finally, it is critical that the VTIF delivers an efficient level of investment. We would be very concerned if the VTIF process was aimed at achieving a significantly higher level of reliability than consumers have indicated is acceptable (i.e. AER VCR analysis clearly shows that consumers do not see value in building out the system to avoid HILP events) or to avoid VRE generators from being constrained at certain times. We would not support a system build out that avoided all constraints as this would lead to significant network gold plating and destroy a significant incentive for storage to time shift energy and balance the system.

Optimal REZ pathways: We note at this stage that a cost benefit analysis will be undertaken. While some of the risks would be better defined at this stage (i.e. environmental impacts, route selection) due to an improved engagement approach, the capital costs would not be defined to any meaningful degree.

We are already experiencing price shocks as project proponents undertake a process of firming up project scope and costings, most of which occurs after AER approval, or in this case after the CBA is completed. We would suggest that the cost benefit analysis be required to meet specific AACE cost accuracy categories³ throughout its refinement with a minimum of AACE Class 2 (-5% to +20%) at the time of the investment decision.

REZ transmission Projects: Our primary concern is that a new test is being introduced that seeks a “least cost” outcome rather than a “net benefits” outcome for projects that are deemed to be part of the optimal REZ pathway, which as we have already stated, is based on a cost benefit analysis that is likely to be highly inaccurate.

The demonstration of net benefits is a fundamental test that consumers rely upon to give them some level of comfort that the asset they will be paying for over the next 50 years will, at some point in the future, deliver net benefits to them. A least cost approach, especially paired with a proposed “least regrets development pathway” turns the delivery of any benefit to consumers into something of a lottery.

It is also unclear in the Consultation Paper if there is a role for the AER in making this assessment. Our interpretation of the process is that the AER has no substantive role and that it will be VicGrid itself that makes this decision. There does not appear to be any other form of independent review or oversight of an approval process that will lead to consumers funding billions of dollars in new investment over the coming decade. We will elaborate on these concerns later in this submission where we address questions related to the Roles and Responsibilities of VicGrid.

We recommend that further engagement is required to develop an assessment framework that provides consumers with a degree of comfort that least cost outcomes are the focus of project selection. The Consultation Paper provides insufficient detail on this key part of the process.

Approvals: We note that no changes to existing processes are proposed. However, this still remains a critical stage of the project development process as the successful bidder seeks relevant approvals. These approvals can still be withheld and decisions challenged that could have a significant impact on project design, timing and costs.

³ See http://web.aacei.org/docs/default-source/toc/toc_96r-18.pdf

It is not clear how these issues will be dealt with. Will VicGrid be required to re-run stage 2? Who bears the cost? What compensation will be paid to the project proponent whom we assume relies on the work undertaken by VicGrid to be highly credible?

We would hope that the Western Renewables Link can serve as a learning experience and that a significant improvement in process will result.

Procurement and Delivery: This is difficult for us to comment on given much will depend on the terms and conditions of the contract between VicGrid and the project contractor. It does seem clear that VicGrid will enter into these contracts on behalf of the Victorian Government and its taxpayers. Should disputes arise, as they inevitable do, who will be bearing that risk? Will Vic Grid/State Government bear these risks and costs as part of a contingency underwritten by treasury? Will these costs be passed through to energy users? There are many questions still to be answered and we are looking forward to deeper engagement on risk allocation and management.

There are a number of issues that have not been addressed in the Consultation Paper, the most important of which are:

- What level of transparency and independent oversight will be applied?
- How will the costs of projects built under the VTIF be recovered? Will the costs be rolled into the local TNSP RAB? What if the winning contractor is not the local TNSP? Will the costs simply appear as a line item on consumers energy bill, as is contemplated in NSW?

This are obvious questions for consumers to ask and it is disappointing that the Consultation Paper is silent on these threshold issues.

Review: We recommend that a 2 year planning cycle is adopted (as opposed to the 4 year cycle) and that it be timed so as to provide input into the ISP (and vice versa). This could take the form of the ISP and Victorian Transmission Investment Framework process being undertaken every other year, allowing each to feed into and leverage off one another.

Given the highly volatile nature of project costs, we recommend that an annual review of cap-ex is undertaken with an ability to re-open project assessment should a material change in costs occur such that (in the absence of a net benefits test being applied) the project is no longer part of the optimal REZ pathway.

ACCESS ARRANGEMENTS

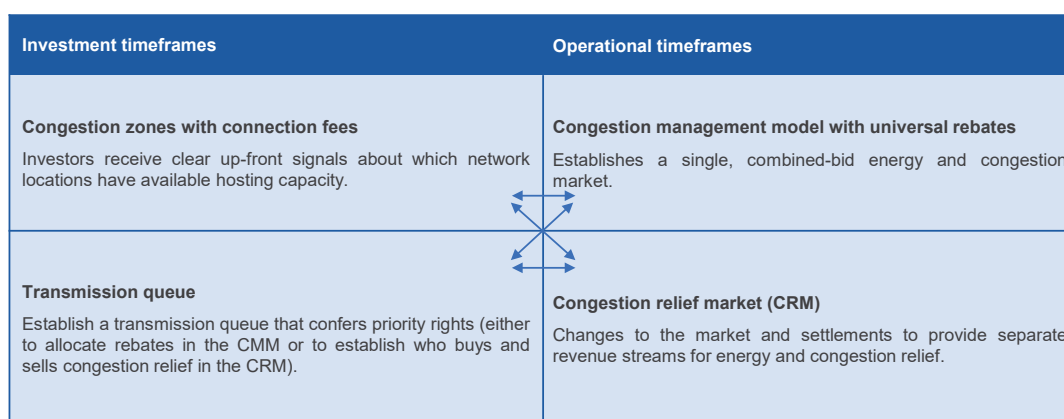
The EUAA, along with many other consumer advocates have been seeking a form of cost and risk sharing for new transmission investment. We note that Queensland is taking the approach where generators will pay the full cost of developing REZ, recovering these costs via wholesale energy markets and contracting arrangements (PPA's) they put in place.⁴ This results in a more competitive, market based approach to recovering REZ cost while ensuring costs are only recovered from those customers who want to access REZ generation.

⁴ <https://www.cefc.com.au/media/media-release/cefc-future-proofs-gld-rez-to-deliver-additional-renewables-capacity-and-a-stronger-grid/>

Recent discussions with the NSW government on the proposed Central West Orana REZ indicate they will introduce a degree of generator contributions, where an access fee of \$5,000 per MW per year will be required, although these amounts are still relatively small in comparison to total costs that will be recovered from energy consumers.

We also note that other TNSP's are looking at developing "merchant" REZ that would operate outside of the regulatory regime. We encourage this market based approach where at least a portion of the REZ costs are recovered from connecting generators and storage who stand to gain immediate benefit from these investments. We are currently engaging with the ESB on access reform and are pleased to see that some degree of generator contribution is beginning to be seriously considered in this process, although the amount is still relatively small.

We are in favour of the current ESB approach to access reform for investment timeframes where congestion zones are identified and connection fees are applied as outlined in following diagram, taken from recent public presentations by the ESB on the access reform work stream.



This investments timeframe model could easily be adapted to the Victorian setting where a REZ is declared and generators pay an access fee, receiving access rights in return. Both should achieve a similar result of ensuring physical limits are managed and access fees are paid.

The proposed access arrangements outlined in the Consultation Paper appears to be following a similar path, although it is not explicitly stated that an access fee is payable by generators or that it will be used to offset consumer costs.

We would encourage further discussion on this topic with a view to requiring generators to pay a meaningful access fee for which they receive physical access rights. These rights should align with project lifecycle (i.e. 20 years) and generators should be granted an option to renew for a further 20 years should they wish to re-power their project (this comes with an undertaking from the proponent to do so).

Access fees paid by generators must contribute to lowering the TUOS paid by consumers and should not be allocated to delivering social license or other non-energy related outcomes. The cost of social license must be borne by participants (networks and generators) and incorporated into their business case. Other government objectives such as local content or regional development should be supported directly by state government not energy users.

To be clear, our clear preference is for REZ costs to be recovered from participating generators who then in turn recover these costs via their regular contracting arrangements. Absent this then significant generators and/or government contribution should be sought to soften the cost impact in consumers.

COMMUNITY ENGAGEMENT

We support early, meaningful engagement with communities, landowners and other regional stakeholders. Social licence has emerged as one of the greatest challenges faced by the transition to net zero and we must avoid a situation where regional communities feel they are collateral damage of the energy transition. As we have said on many occasions, the regulatory process may slow you down (one of the reasons behind the approach set out in this Consultation Paper) but social license will stop you dead in your tracks.

One of the key issues that has emerged is the mis-match in compensation received by those hosting wind and solar to those hosting network infrastructure. We would encourage work to be undertaken that looks at moving from a once off, relatively meagre compensation payment to network infrastructure hosts to paying some form of annual payment. We would be interested in understanding what impact this would have on annual TUOS costs paid by consumers and if it would help smooth the development path (saving time and money) while ensuring just treatment for these landowners. An NPV analysis of this approach would be most helpful.

BENEFIT SHARING

We support benefit sharing approaches provided it is funded in the first instance by project proponents (networks and generators) not from access payments that have been made.

ROLES AND RESPONSIBILITIES OF VIC GRID

It would appear from the Consultation Paper that VicGrid is likely to be the end-to-end entity for transmission planning, economic assessment and procurement. The following is taken from Consultation Paper:

“Should the Victorian Government proceed with the proposed Framework, the VTIF would replace the current regulatory framework for planning and investment decisions in Victoria.”

As we have stated before in this submission and in the face-to-face engagement to date, removal of an independent assessment body such as the AER is highly problematic for consumers. Even where the AER is still involved, such is the case in NSW, the rules which they will be required to follow in making assessments is significantly diluted from the usual approach.

We fear that serious governance issues are likely to arise as VicGrid becomes a black box of approval and procurement processes. Consumers need transparency and accountability in order to trust that the approach being taken is in their long-term interest. Based on the Consultation Paper there does not appear to be a sufficient degree of either.

We strongly recommend that a robust governance framework is put in place that facilitates consumer input at all stages of the VTIF, that is transparent and that involves robust, independent assessment of REZ costs and benefits.

Establishment of a consumer reference group would be most helpful to provide advice and a degree of consumer oversight of the process.

It is clear that much more work needs to be done and we welcome the opportunity to engage with Vic Grid at this early stage. We encourage you to continue to engage with energy consumer advocates over the coming months, including the establishment of a standing customer council to assist in further of the approach and for the development of the bi-annual plan.

Once again, thank you for the opportunity to make this submission. Do not hesitate to be in contact should you have any questions. We look forward to engaging with the Victorian Government over the coming months.

Kind regards,

A handwritten signature in black ink, appearing to read 'A Richards', written in a cursive style.

Andrew Richards
Chief Executive Officer