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Australian Energy Market Operator
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Victoria to NSW Interconnector (VNI) Upgrade

RIT-T PADR

The Major Energy Users is pleased to respond to the AEMO Project Assessment Draft Report (PADR) for its proposed Victoria to NSW Interconnector (VNI) upgrade

The MEU was established by very large energy using firms to represent their interests in the energy markets. As most of the members are located regionally, and are the largest employers in these regions, the MEU is required by its members to ensure that its views also accommodate the needs of their suppliers and employees in those regional areas. It is on this basis the MEU and its regional affiliates have been advocating in the interests of energy consumer for over 20 years and it has a high recognition as providing informed comment on energy issues from a consumer viewpoint with various regulators (ACCC, AEMO, AEMC, AER and regional regulators) and with governments.

The MEU stresses that the views expressed by the MEU in this response are based on looking at the issues from the perspective of consumers of electricity and it has not attempted to provide any significant analysis on how the proposed changes might impact other stakeholders.

About independence of assessments

The MEU accepts that AEMO (and TransGrid) have approached the development of the VNI upgrade with care and diligence. Despite this acceptance, the MEU has three major concerns:

1. The MEU accepts that the modelling undertaken to support the preferred option has been carried out diligently but, as the modelling is complex and prepared by entities that will benefit from the construction of the upgrade (TransGrid because it will earn a return on the investment for the next 40+

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years and AEMO because the upgrade will make operating the NEM easier) the MEU considers that the modelling should be reviewed by an independent party.

The MEU considers that this independent review of the modelling should be carried out under the oversight of the AER which will approve (or otherwise) the expenditure sought. Such an independent review and oversight will give the end users that will pay for the upgrade the confidence that AEMO and TransGrid have identified the optimum solution for the needed upgrade of VNI.

2. The MEU has provided input into the AEMO forecasting processes and has expressed concerns about the excessive conservatism AEMO includes in its forecasting (especially the 10% probability of exceedance of demand). The MEU would expect that the VNI upgrade process is based on the AEMO forecasts of demand into the future, so there is a concern that the forecast need for the upgrade might be over-stated.

However, the MEU is of the view that there was a clear need demonstrated earlier this year for increased capacity for imports of power into Victoria, and that there is a high probability of a continuing need for this in the future. The MEU is not so convinced of the need for greater exports of power from Victoria to NSW, even with the forecast closure of Liddell power station when considering the significant amounts of new generation forecast for NSW and the proposed upgrade of the Queensland to NSW interconnector (QNI).

3. The proponents for the VNI have asserted that the upgrade proposed is supported through the Integrated System Plan (ISP) approach and they use this as a supposed independent verification of the proposed preferred option. The MEU points out that the ISP is prepared by AEMO which uses the various annual planning reports from each of the TNSPs (including from TransGrid) as the source information for the development of the ISP. This means that effectively, the proposed preferred option for VNI (and even its very need) is an outcome from the very parties that developed the ISP, using the same data.

This means the proponents have erred in claiming that the ISP provides independent support for the proposed preferred outcome for the VNI upgrade. Further, as AEMO itself prepared the ISP, to assume that the ISP assessment is an independent verification of need stretches the meaning of independence.

Who are the beneficiaries of the proposed option?

The RIT-T process is supposed to generate the value of the market benefits from a new investment and for the net present value of these to exceed the cost of the investment. This is the process that AEMO has instituted in its analysis.

In recent times, the AEMC has been examining this process under its Coordination of Generation and Transmission Investment (CoGaTI) review. The approach embedded in the CoGaTI is that the beneficiary should pay for new investment in transmission assets rather than arbitrarily assigning the cost of all transmission services (except entry assets) to consumers.

Analysis of the market benefits assessed by AEMO indicate that some of the benefits of the VNI upgrade would be a benefit to NSW consumers (through lower generation fuel costs) but a significant benefit will be for the Victorian generators that will have an expanded market for their product.

Despite this, the major cost of the proposed investment lies with the Victorian consumers that will have to pay for the transmission assets being built in Victoria. The MEU is very concerned that the project does not result in a beneficiary pays outcome.

The need for flow in both directions

The MEU notes that earlier this year, Victoria experienced the bizarre outcome where there was load shedding in the region, while at the same time, there were exports of power from Victoria to NSW. The MEU understands why this occurred but sees the outcome as a driver for a better review of the needs of the VNI upgrade. The MEU is aware that the generation plant in the Snowy region still has the capacity to constrain flows on VNI and by doing so to set the prices for electricity in Victoria and NSW. The MEU considers that the development of Snowy 2.0 has the potential to exacerbate this ability of Snowy Hydro to set regional prices resulting in considerable harm to consumers.

With this in mind, the MEU considers that there is a need to increase the capacity of the VNI, **in both directions**, as stated in its response to the PSCR. However, despite the observation in section 2.3 of the PADR that AEMO recognises the need for increased capacity for flows into Victoria from NSW, AEMO asserts that there is both a short term need and a long term need, without the need for increased flows into Victoria in the medium term.

AEMO advises that the short term need for increased flows to Victoria was examined in 2018 but it identified that these needs could not be economically addressed, even after it sought non-network solutions¹. Yet despite this, the preferred option provides better supply to NSW consumers at Victorian consumer expense and does nothing to address a repeat of what occurred earlier in 2019.

AEMO states that rather than consider amending the current RIT-T process to address the longer term needs for Victorian consumers, it will raise another RIT-T in the future to address the longer term needs for Victorian imports from NSW.

¹ The MEU also notes that AEMO did have RERT supplies available which were dispatched but which were insufficient for the needs of all Victorian consumers and load shedding occurred in 2019

While AEMO makes the observation that there are both short term and long term needs for more import capacity from NSW into Victoria, it considers that in the medium term, the additional renewable generation being added to the Victorian generation fleet under the Victorian government incentives will alleviate the import concerns. The MEU is not so sanguine, pointing out that incidences of increased failure rates of generation in the Latrobe Valley have led to concerns about reliable supplies from that source and the recent second failure of BassLink has also raised concerns about its level of reliability. The MEU considers that the PADR does not fully address the concerns that consumers have about sufficient reliable supplies for Victorian end users,

Table 12 indicates that the upgrade will provide an indicative impact of 170 MW increased transfer from Victoria to NSW from the preferred option, yet there is no indication of any benefit that will accrue to Victorian consumers. It is absurd to consider that as the bulk of the work under the referred option will be at Victorian consumers' expense, yet all the benefit will go to NSW consumers², especially when it is Victorian consumers that suffered involuntary load shedding³ and will get no relief as a result of the investment.

The MEU considers that the AEMO approach is not sufficient for the needs of consumers and that it must address the need for increased capacity in both directions within the current RIT-T process, so that the load shedding that Victorian consumers suffered in early 2019 should not be repeated.

The MEU does not consider that the current PADR meets the needs of Victorian consumers and needs to be improved.

Options not considered

The MEU is aware that there has been a massive growth in new renewable generation to be located in the western part of Victoria and that AEMO has proposed a significant augmentation of the Victorian transmission network (WestVic project) to allow this increase in generation access to the Victorian electricity market. The MEU is also aware that the increase in capacity of VNI was initially proposed to allow much of the output from this new Victorian based renewable generation to flow into NSW.

The proposal for the WestVic project provides for electricity flows from this new generation source to flow to the south east, towards the electricity users in Melbourne. While the MEU considers that this is appropriate, if a proportion of this new generation is expected to flow to NSW, the MEU asks why the VNI project only considered a modest single circuit line via Bendigo and Shepparton to Dederang as an (unacceptable) option when perhaps a greater capacity double circuit line might

² The MEU notes that the IRTUoS process might redress some of this inequity but there is no certainty this will be the case

³ Even though there were surplus supplies available in NSW

deliver a more robust outcome for export from the new Victorian renewable zones served by WestVic, particularly if some of the WestVic projected costs could be reduced by having a lesser capacity flow southeast from western Victoria.

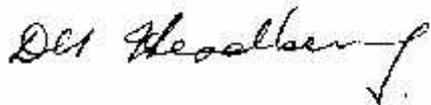
The MEU also points out that this (rejected) option for the VNI upgrade has more commonality with the proposed HumeLink, KerangLink and Marinus future interconnection options⁴ where a stronger system is proposed allowing increased flows from Snowy 2.0 and from Tasmania's Battery of the Nation (BoTN) via a new interconnector between Tasmania and Victoria (Marinus). The proposed KerangLink provides a strong transmission system that connects Melbourne to NSW via Ballarat, Bendigo, Kerang, Darlington Point⁵ and Wagga Wagga when the WestVic project already increases the capacity of some of these elements as does the EnergyConnect project moving electricity between SA and NSW.

Strengthening the link from Bendigo to Shepparton and onto Dederang would appear to be a better solution for the VNI upgrade as it integrates better with WestVic and KerangLink than perhaps than the proposed option 2 for VNI.

It seems that AEMO has not addressed these other projects (EnergyConnect, KerangLink and WestVic) in tandem with VNI, focusing only on VNI for flows into NSW independently rather than with the other three proposed interconnectors of the integrated flow process into NSW.

The MEU is happy to discuss the issues further with you if needed or if you feel that any expansion on the above comments is necessary. If so, please contact the undersigned at davidheadberry@bigpond.com or (03) 5962 3225

Yours faithfully



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⁴ See Building power system resilience with pumped hydro energy storage available at https://www.aemo.com.au › Electricity › NEM › Planning_and_Forecasting

⁵ Darlington Point is also on the route for the new SA to NSW EnergyConnect project