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Sonya Petreski

From: Burkitt, Blair
Sent: Monday, 2 August 2021 9:34 AM
To: Savage, Clare; Cox, Jim; Lowe, Catriona; Oliver, Justin; Groom, Eric
Cc: Develin, Liz; Standen, Kathie; Funston, Kris; Kaur, Kami; Roberts, Sebastian; Hassan, Ali
Subject: Update: fyi PACR for Humelink published [SEC=OFFICIAL]

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Dear Members

See update fyi below on the release of the final RIT-T (PACR) for the Humelink project which will connect Snowy 2.0.

Late last week the [Project Assessment Conclusions Report \(PACR\)](#) for Humelink RIT-T and accompanying modelling report provided by EY was published. Key points to note are as follows:

- The PACR identified the preferred option comprising new 500 kV lines in an electrical 'loop' between Maragle, Wagga Wagga and Bannaby. The preferred option is estimated to cost \$3.3b with \$491 million of estimated net market benefits provided over the 25 year assessment period (2021/22- 2045/46). Construction is expected to commence in 2023/24 with delivery and completion of inter-network testing expected by 2026/27. The estimated costs of the project were assumed to be around \$2.1b in the 2020 ISP, and the cost increase mainly reflects increased environmental offsets costs.
- The PACR states there is a high degree of uncertainty regarding the estimated capital costs of the project in the PACR and if these costs increase by 24 per cent the preferred option (on a weighted scenario basis) no longer provides net economic benefits.
- The PACR estimated the net economic benefits of the preferred option to be \$39 million (excluding competition benefits) and increasing to \$491 million of net benefits with the inclusion of competition benefits, weighted across the 2020 ISP scenarios.
- The PACR states that under all scenarios, the benefits of the preferred option are primarily driven by avoided, or deferred, costs associated with generation and storage build.
- The PACR has relied on inputs and assumptions from the 2020 ISP as well as the 2020 Electricity Statement of Opportunities (ESOO), but has departed in some instances (e.g. the PACR has included the impact of the NSW Infrastructure Roadmap and has considered competition benefits which were not considered in the 2020 ISP). The PACR also notes that the preferred option was found to be robust to a range of sensitivity tests including:
 - the impact of the recently announced new Kurri Kurri and Tallawarra B gas generators;
 - delaying VNI West until 2035/36 (in-line with the core 2020 ISP assumption for the central scenario);
 - whether adding Modular Power Flow Controller as proposed by Smart Wires (similar in VNI minor RIT-T) would increase the expected net benefits of the preferred option;
 - increasing the weighting of the step-change scenario, in-line with recent commentary from the ESB;
 - adopting higher and lower network capital costs of the credible options (note for a P90 estimate such that there is a 90% of a cost underrun, the preferred option is net negative \$193m);
 - alternate commercial discount rate assumptions; and
 - adopting the draft 2021 IASR assumptions.
- The PACR states that if the draft 2021 inputs and assumptions, published in December 2020, are used the net benefits of the preferred option are higher (PACR estimates the net benefits increase by around \$400 million in the central scenario, excluding competition benefits).

Next Steps

- Interested parties have until 30 August 2021 (30 calendar days) to lodge a dispute with the AER. The disputing party can only dispute conclusions that a RIT-T proponent made in the PACR regarding application of the RIT-T and/or the RIT-T proponent's assessment about whether the preferred option will have a material inter-network impact.

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- Following the confirmation from AEMO through the feedback loop process, TransGrid intends to submit two contingent project applications (CPAs) to the AER in relation to the regulatory cost recovery for the project, namely:
 - 'Initial CPA' – will seek cost recovery for works to-date and the cost of the works necessary to develop a robust cost estimate for the project, based on the preferred option and
 - 'Final CPA' – will seek cost recovery for the implementation costs, including construction cost of the project, once a final estimate is available (this CPA will cover the bulk of the project cost).
- Staff intend to update the Markets Committee on 11 August on interrelated issues regarding application of AEMO's feedback loop to Humelink. We also intend to seek direction from the Committee on proposed options to address issues around timing for the application of the feedback loop.

**Blair Burkitt**Director | **Transmission and Gas****Australian Energy Regulator**Level 17 | Casselden Place, 2 Lonsdale Street Melbourne 3000 | <http://www.aer.gov.au>

T: +61 3 9290 1442

The AER acknowledges the traditional owners and custodians of Country throughout Australia and recognises their continuing connection to the land, sea and community.

We pay our respects to them and their cultures; and to their Elders past, present and future.