



AEMO publishes this notice pursuant to its function under clause 5.16A.5(b) of the National Electricity Rules (NER).

Context

AEMO's *Integrated System Plan* (ISP) is a roadmap for the energy transition in the National Electricity Market (NEM) over at least the next 20 years, in line with government policies to reach a net zero economy by 2050.

On 15 December, AEMO published the Draft 2024 ISP¹ and identified the optimal development path (ODP) – the lowest-cost pathway of essential generation, storage and transmission infrastructure to meet consumers' needs for secure, reliable and affordable electricity, and to achieve net zero emissions targets. In parallel, AEMO issued an update to the 2022 ISP² to update the ODP with that set out in the Draft 2024 ISP. The 2022 ISP as updated is currently the most recent ISP.

The ODP set out in the most recent ISP contains a series of power system investments, some of which are needed at or near their earliest delivery date which AEMO classifies as "actionable ISP projects". The ISP triggers the application of the Regulatory Investment Test for Transmission (RIT-T) for actionable ISP projects by RIT-T proponents (transmission network service providers (TNSPs) identified by AEMO)³.

Following completion of the RIT-T, a TNSP may seek written confirmation from AEMO that the preferred option identified in the RIT-T remains aligned with the ODP in the most recent ISP and that the cost of the preferred option does not change the status of the

actionable ISP project as part of the ODP. This process is referred to as the "feedback loop".

This AEMO confirmation via the feedback loop must be provided for a TNSP to be eligible to submit a contingent project application (CPA) to the Australian Energy Regulator (AER) for an actionable ISP project⁴. The AER's contingent project decision may adjust the TNSP's revenue allowance to reflect efficient and prudent forecast expenditure associated with the contingent project⁵.

The VNI West project

Victoria to New South Wales Interconnector (VNI) West is a joint project between Transgrid and AEMO Victoria Planning (AVP) that will provide additional interconnection between Victoria and New South Wales. The proposed investment is a 500 kV interconnector connecting Western Renewables Link at Bulgana in Victoria with Project EnergyConnect at Dinawan in southwest New South Wales via a new terminal station near Kerang.

The VNI West RIT-T concluded on 16 October 2023⁶. The RIT-T estimated net market benefits for the project of \$1.4 billion.

Feedback loop request

On 18 December 2023, Transgrid requested a feedback loop assessment for the VNI West project. The request included the following information relevant to this feedback loop assessment:

¹ At <https://aemo.com.au/consultations/current-and-closed-consultations/draft-2024-isp-consultation>

² At <https://aemo.com.au/en/energy-systems/major-publications/integrated-system-plan-isp/2022-integrated-system-plan-isp>

³ The RIT-T is a cost benefit analysis test that transmission network service providers (TNSPs) must apply to prescribed regulated investments in the transmission network. The purpose of the RIT-T is to identify the credible network or non-network options to address the identified network need that maximise net market benefits to the NEM. If an ISP identifies any actionable ISP projects, the ISP must specify the relevant RIT-T proponent which must apply the RIT-T in accordance with clause 5.22.6(a)(6) of the

NER. RIT-T proponents (e.g. TNSPs) must apply the RIT-T to actionable ISP projects in accordance with rule 5.16A of the NER.

⁴ A TNSP must obtain AEMO confirmation of the matters specified in clause 5.16A.5(b) of the NER. AEMO feedback loop assessments are available at: <https://aemo.com.au/en/energy-systems/major-publications/integrated-system-plan-isp/integrated-system-plan-feedback-loop-notices>.

⁵ AER contingent project decisions are available at: <https://www.aer.gov.au/industry/networks/contingent-projects>.

⁶ The AER published a RIT-T dispute determination on 16 October 2023 finding that none of the grounds of dispute raised provide a basis to require the Project Assessment Conclusions Report (PACR), published by Transgrid and AVP on 27 May 2023, to be amended.



- The estimated total cost of the VNI West project is \$3,963.61 million, which includes \$1,096.33 million for early works activities⁷.
- The scope of the VNI West project remains consistent with that considered and identified as preferred in the RIT-T⁸.
- Proposed project timing:
 - In service: December 2028
 - Full capacity: December 2029

Feedback loop assessment requirements

To be eligible to submit a CPA in relation to an actionable ISP project, a RIT-T proponent must obtain written confirmation from AEMO that:

- the preferred option addresses the relevant identified need specified in the most recent ISP and aligns with the ODP referred to in the most recent ISP; and
- the cost of the preferred option does not change the status of the actionable ISP project as part of the ODP (as amended by ISP update where applicable)⁹.

Notice of AEMO confirmation that feedback loop requirements are satisfied

AEMO has undertaken this feedback loop assessment for the VNI West project using the most recent ISP (i.e. the 2022 ISP as updated) and the cost estimates provided in Transgrid's feedback loop request. When considering the cost of the preferred option, AEMO

assessed the total cost of the VNI West project including early works (\$3.96 billion).

The ODP in the most recent ISP included the VNI West project as an actionable ISP project. The project timing proposed in Transgrid's feedback loop request is consistent with that of an actionable project in service at its earliest delivery date. Transgrid's proposed project scope and total cost are also consistent with the scope and cost considered in the most recent ISP¹⁰.

AEMO publishes this notice to confirm that:

- the VNI West project addresses the relevant identified need and aligns with the ODP specified in the most recent ISP; and
- the total cost of the project, \$3,963.61 million (\$2022-23), does not change the status of the actionable ISP project as part of the ODP specified in the most recent ISP¹¹.

This feedback loop confirmation satisfies one of the criteria needed for Transgrid to be eligible to submit a CPA to the AER to recover total project capital costs for the VNI West project. Transgrid's feedback loop request provides that it intends to apply for contingent project funding in stages. CPA-1, to be lodged shortly, will include early works costs and CPA-2, currently scheduled to be lodged by September 2024, will include the balance of project costs. The total cost of the project may be updated to reflect the outcomes of Transgrid's early works activities.

If there is an increase in the total cost of the project assessed in this feedback loop, Transgrid must repeat the feedback loop to confirm that increase does not affect alignment of the project with the ODP before CPA-2 is lodged and any cost increases can be considered by the AER¹².

⁷ All costs provided in this feedback loop notice are expressed in real terms (\$2022-23) unless otherwise stated.

⁸ The VNIW RIT-T identified Option 5A as the preferred option. VNI West RIT-T reports are available at <https://www.transgrid.com.au/projects-innovation/vni-west>.

⁹ Clause 5.16A.5(b) of the NER.

¹⁰ Details are provided in Draft 2024 ISP, Appendix 5: Network Investments, p.35 and Appendix 6: Cost Benefit Analysis, p.45.

¹¹ Draft 2024 ISP Appendix 6 provides the total project cost of VNI West is \$3,870 million in 2029-30 (\$2022-23) using the transmission cost escalation methods described in the 2023 *Transmission Expansion Options Report*.

AEMO confirms VNI West remains actionable at a total project cost of \$3,963.61 million, noting the project contributes more than \$0.7 billion in net market benefits in the *Step Change* scenario.

¹² Clause 5.16A.5(d) of the NER requires the cost of the preferred option set out in a contingent project application to be no greater than the cost considered by AEMO in the feedback loop. See also, AER, Guidance note: Regulation of actionable ISP projects, available at: <https://www.aer.gov.au/industry/registers/resources/reviews/regulation-large-transmission-projects>.