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# Victoria to New South Wales Interconnector West (VNI West) Regulatory Investment Test for Transmission

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**March 2021**

Progress update

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# Important notice

AEMO and TransGrid have prepared this document to provide an update on the Victoria to New South Wales Interconnector West Regulatory Investment Test for Transmission.

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## VERSION CONTROL

Version	Release date	Changes
#1	24/3/2021	

# Progress update summary

## Background

AEMO and TransGrid are progressing a [joint Regulatory Investment Test for Transmission](#) (RIT-T) to assess the technical and economic viability of increasing transmission interconnector capacity between Victoria and New South Wales. [The Project Consultation Specification Report](#) (PSCR) was published in December 2019 and identified the need for additional transfer capacity between New South Wales and Victoria to realise net market benefits by:

- Efficiently maintaining supply reliability in Victoria following the closure of further coal-fired generation and the decline in ageing generator reliability – including mitigation of the risk that existing plant closes earlier than expected.
- Facilitating efficient development and dispatch of generation in areas with high quality renewable resources in Victoria and southern New South Wales through improved network capacity and access to demand centres.
- Enabling more efficient sharing of resources between NEM regions.

Public [submissions](#) on the VNI West RIT-T PSCR closed on 13 March 2020.

## Key developments

The [2020 Integrated System Plan](#) (ISP) published by AEMO in July 2020 identified VNI West as an actionable ISP project with decision rules. Under the Application of the RIT-T to Actionable ISP Projects Rules, the VNI West RIT-T Project Assessment Draft Report (PADR) was due to be published by 31 March 2021.

AEMO and TransGrid have continued to progress PADR activities and refine key inputs related to the ISP decision rules for the project, and need additional time to increase the accuracy and confidence in key inputs required to assess whether the ISP decision rules are triggered. With this in mind, AEMO and TransGrid have successfully requested an extension from the Australian Energy Regulator (AER) to extend the PADR publication date from 31 March 2021 until 10 December 2021.

In addition, the National Electricity Rules (NER) require RIT-T proponents to adopt the most recent ISP parameters. As defined by NER clause 5.10.2, these include the inputs, assumptions and scenarios set out in the most recent Inputs, Assumptions and Scenarios Report (IASR). The final 2021 IASR is targeted for release in July 2021 and will inform the Draft 2022 Integrated System Plan due in December 2021. Deferring the PADR publication will also allow the RIT-T modelling to adopt these IASR updates.

## Project Assessment Draft Report timeline extension

AEMO and TransGrid consider these factors critical to facilitating an efficient and accurate cost-benefit assessment to determine the best outcome for energy users.

The AER has consequently granted AEMO and TransGrid's request to extend the PADR publication date from March 2021 to December 2021 to accommodate these developments.

As a result, the VNI West RIT-T PADR will be aligned with the Draft 2022 ISP and the subsequent VNI West RIT-T Project Assessment Conclusions Report (PACR) will be aligned with the Final 2022 ISP. Aligning these cycles will ensure consistency between the VNI West RIT-T PADR and PACR modelling, and the ISP, and facilitate a robust RIT-T assessment and subsequent outcome for energy consumers.

# 1. Background

AEMO and TransGrid are progressing a joint RIT-T to assess the technical and economic viability of expanding transmission interconnector capacity between Victoria and New South Wales.

A RIT-T is a technical and economic impacts assessment required under the NER. The RIT-T process seeks to support efficient transmission investment in the National Electricity Market (NEM) by promoting greater consistency, transparency, and predictability in transmission investment decision-making.<sup>1</sup> In effect, this means that before investing in a large transmission project to meet a need on the network, a RIT-T proponent must consider all credible options and select the option that maximises the net economic benefit to all those who produce, consume and transport electricity in the NEM. This is done to ensure proponents make prudent network investments on behalf of electricity consumers who ultimately fund such projects.

The RIT-T process is designed to facilitate efficient investment in, operation and use of electricity services in the long-term interest of electricity consumers. It does this by reducing the risk that consumers will pay for network investments that don't have or meet an identified need, or provide only limited economic benefits compared to the cost. In short, the RIT-T process helps to protect consumers from paying more than necessary for their electricity.

A RIT-T can be likened to a public economic cost-benefit test. It is the first stage of a development and represents an early hurdle before a project can progress to the next stages of investment, planning and approvals. The matters that can and cannot be considered are set out in the RIT-T and the application guidelines developed by the AER. Specifically, the RIT-T considers technical, cost and time parameters. For more information, see <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/guidelines-to-make-the-integrated-system-plan-actionable>.

While the RIT-T framework focuses on a project's technical and economic impacts, AEMO and TransGrid acknowledge that these sit alongside important social, environmental, amenity and cultural impacts. Should the VNI West RIT-T satisfy the NER, these impacts will be assessed during subsequent planning, environmental and development approval processes.

## Progress to date

To summarise, the VNI West RIT-T is assessing options to increase transfer capacity between New South Wales and Victoria to realise net market benefits by:

- Efficiently maintaining supply reliability in Victoria following the closure of further coal-fired generation and the decline in ageing generator reliability – including mitigation of the risk that existing plant closes earlier than expected;
- Facilitating efficient development and dispatch of generation in areas with high quality renewable resources in Victoria and southern New South Wales through improved network capacity and access to demand centres; and
- Enabling more efficient sharing of resources between NEM regions.

Public submissions on the VNI West RIT-T PSCR<sup>2</sup> closed on 13 March 2020. AEMO and TransGrid are considering these submissions in preparing the VNI West RIT-T PADR, and thank stakeholders for their input and advice to date.

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<sup>1</sup> Australian Energy Regular Regulatory Investment Test for Transmission Application Guidelines, August 2020, available at: <https://www.aer.gov.au/system/files/AER%20-%20Regulatory%20investment%20test%20for%20transmission%20application%20guidelines%20-%2025%20August%202020.pdf>

<sup>2</sup> Submissions are online at <https://aemo.com.au/initiatives/major-programs/victoria-to-new-south-wales-interconnector-west-regulatory-investment-test-for-transmission/stakeholder-consultation>.

In addition to completing the VNI West RIT-T PSCR, AEMO and TransGrid have commenced key activities in relation to the overall project. These include:

- Detailed power system studies to assess the feasibility of the credible options.
- Market modelling incorporating latest developments (such as the confirmed closure of Yallourn by 2028<sup>3</sup>) to determine the market benefits of each network and non-network option under different scenarios and sensitivities.
- Concept designs, cost estimates and practical feasibility considerations.
- Early desktop due diligence to identify credible development approval pathways.
- Engagement with the Victorian, New South Wales and Australian governments.
- Engagement with Transmission Network Service Providers, generators, and industry stakeholders.
- Early, high-level stakeholder engagement to seek feedback and understand potential concerns in relation to the project. This will help inform a targeted, long-term stakeholder engagement program should the VNI West RIT-T satisfy the RIT-T and reach the next stage of development.

## 2. PADR publication timeline

The PADR was due by 31 March 2021. Deferring the VNI West RIT-T PADR publication will allow AEMO and TransGrid to refine PADR inputs, and ensure the RIT-T modelling adopts updates from the 2021 IASR due for release in July. The VNI West RIT-T PADR and the final VNI West RIT-T PACR will now be published in the same IASR-ISP cycle. Aligning these cycles will ensure consistency between the VNI West RIT-T PADR and PACR modelling, and the ISP, and facilitate a robust RIT-T assessment and subsequent outcome for energy consumers.

### **VNI West as an actionable ISP project with decision rules**

The [2020 Integrated System Plan](#) (ISP) published by AEMO in July last year identified VNI West as an actionable ISP project with decision rules, which means the project can change if particular circumstances change. Specifically, the decision rules require a change in the project if:

- Transmission costs estimations exceed the benefits identified by the 2020 ISP.
- Enough new market-based dispatchable capacity is entering the Victorian market to sufficiently reduce the reliability risk following the next retirement of a brown coal-fired generator in Victoria.
- The ISP Slow Change scenario is unfolding, which includes asset life extensions of existing coal-fired generation.

The extension for PADR publication will allow AEMO and TransGrid to increase the accuracy of and thus confidence in the key inputs required to assess whether any of the decision rules are triggered.

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<sup>3</sup> See <https://www.energyaustralia.com.au/about-us/media/news/energyaustralia-powers-ahead-energy-transition> for more information.

### Integrated System Plan alignment

The RIT-T contemplates that proponents will adopt the most recent ISP parameters, which include the inputs, assumptions and scenarios set out in the most recent IASR. The Draft 2022 ISP is due in December 2021, with the inputs, assumptions and scenarios proposed for use in the ISP to be finalised by 30 July 2021.

Deferring publication of the PADR allows the VNI West RIT-T PADR to be aligned with the Draft 2022 ISP, and the subsequent VNI West RIT-T PACR to be aligned with Final 2022 ISP. Aligning the PADR and PACR with the ISP cycle will ensure consistency between the VNI West RIT-T modelling, and the ISP.

## 3. Next steps

AEMO and TransGrid value stakeholder feedback and advice on this RIT-T. The next formal consultation period will take place following the PADR publication, but feedback is welcome anytime.

AEMO and TransGrid will continue to provide updates through this process, including information on consultation opportunities closer to the PADR publication date.

For enquires on this update or to discuss the VNI West RIT-T, please contact:

- VNI West RIT-T Hotline: 1800 845 044 (calls within Australia – for enquiries from outside Australia, please call +61 3 9609 8000).
- VNI West dedicated email: [VNIWestRITT@aemo.com.au](mailto:VNIWestRITT@aemo.com.au)