Victorian Transmission Investment Framework (VTIF) - Preliminary Design Consultation Paper (July 2022)

12 August 2022

VicGrid

Dear Sir/Madam

Thank you for the opportunity to respond to the much-anticipated 'Victorian transmission investment framework (VTIF)' consultation paper. This is important framework with the improvements it proposes to deliver to Victoria's energy market and indeed, all Victorians. In this submission I have responded to all questions raised, have provided general observations, and have attached supporting papers relating to social licence, understanding externalities and transmission setback policy guidance.

Energy Grid Alliance (EGA) Response to the VTIF Consultation Paper

Energy Grid Alliance appreciate the opportunity to contribute to the Victorian Transmission Investment Framework (VTIF) Preliminary Design Consultation Paper. This is an important step in defining the much-needed policy and framework to help redefine Victoria's future electricity grid. Social licence and public policy are central to the delivery of renewables, associated electricity infrastructure and enabling legislation. Without knowledge of disbenefits, appreciation for empathy, and for those who are adversely impacted to play an instrumental role in effecting change; acquisition of social licence for transmission will be a challenging road indeed.

VTIF Background

The proposed Framework would introduce a strategic and proactive process to ensure timely co-ordination of investment in transmission, generation, and storage infrastructure across Victoria's REZs, tailored to Victoria's energy needs. It also seeks to better integrate land use considerations, environmental impacts, and community views into the planning process. This includes opportunities for earlier and deeper engagement with local communities to help better manage impacts and to make the most of regional development opportunities for host communities.

Energy Grid Alliance - General Observations

Page 3: Executive summary (paragraph 6)

EGA agree *it is important to lower prices for consumers, unlock regional development opportunities and protect important regional assets, such as indigenous cultural heritage, agriculture, biodiversity, and visual amenity*. EGA believe this is a challenging balancing act as one objective (IE lower prices) should not be prioritised above other considerations. Decisions should not always be made based on the cheapest investment or lowest price. Decisions should be made based on what is good – good policy, good foundations, good economics, and good long-term benefits that mitigate risk and create returns to both business, industry, society, environment, and the economy.

Page 3: Executive summary (paragraph 8)

EGA agree a *considered development of renewable energy zones (REZs) provides an opportunity to better coordinate transmission, generation, and storage in areas of abundant solar and wind resources*. Thinking about the local community where renewable energy infrastructure is planned to be hosted is important to build trusting relationships with people. This is something the AEMO and its ISP does not do. As the climate emergency worsens, there is too much at stake to adopt the current 'decide, announce, defend' method of infrastructure roll-out. It's encouraging to see the Victorian government moving to adopt a community-first approach as this can better build the widespread support needed to accelerate climate action. Adopting a community-first framework, followed by state-level REZ and grid planning will allow Victoria to determine its planning priorities and quantify the true generation and firming capacity. Any need for interconnection (as determined by the ISP) to increase security, reliability and resilience can then be addressed through the ISP once the true level of need and risk of future supply has been identified.

Page 4: Paragraphs 9 and 10

EGA agree that *transmission planning framework should be more strategic, timely and well-coordinated, with meaningful community engagement. It is important that our planning and investment settings build confidence among industry and communities to ensure we maximise the benefits of REZ development.* EGA also agree *our planning approach should integrate local values and ensure local communities can influence the planning and investment process and directly benefit from regional development opportunities.*

Page 5: Paragraph 1

The consultation paper states the proposed VTIF *would apply to all future Victorian transmission development, **but not apply retrospectively** to projects that have already commenced regulatory processes.* EGA believe this is an unreasonable proposition given that current projects, namely the Western Renewables Link (WRL) have been delivered under framework (the Regulatory Investment Test for Transmission (RIT-T)) that has been identified by government and the VTIF consultation paper as not-fit-for-purpose. The VTIF consultation paper states:

- These arrangements (RIT-T) were not designed for major changes in generation sources, size or location.
- The current framework provides limited support for strategic, anticipatory transmission investment.
- There is limited coordination between renewable energy generation and transmission development, which complicates the timely delivery of transmission infrastructure and contributes to uncertainty about connection timelines and grid constraints.
- Existing transmission planning frameworks also provide limited opportunities to integrate land use, environmental impacts and community views early in the transmission planning process.

The final stage of the WRL RIT-T (the PACR) was released in July 2019. The RIT-T proponent (AEMO) and the Victorian government should recognise the energy sector has undergone significant transformation since release of the PACR in 2019. Material changes in terms of fuel cost savings, development of dispatchable

storage, project CAPEX and easement acquisition costs, to name a few, should, at the very least, require reapplication of the WRL RIT-T should the proposed VTIF not apply retrospectively to this project. The transformation of Victoria's energy grid and the development of the VTIF provides a once in a lifetime opportunity to reset the process on new and existing transmission projects, designing a new framework suitable for the future decentralised system.

For these reasons and the many well-justified reasons set out in this consultation paper, I do not believe it is defensible to not apply the VTIF retrospectively to projects that have already commenced regulatory processes. The VTIF proposes a more robust, responsible and defensible criterion to project assessment and development than the RIT or ISP frameworks. I therefore believe it's essential, for all stakeholders and indeed Victoria, that the assessments of these projects be brought under the proposed VTIF, without further delay.

Energy Grid Alliance – Response to consultation

1 What are your views on the proposed Victorian Transmission Planning Objective? Does it incorporate the right issues that impact the development of transmission in Victoria?

Page 5: Figure 1 - Proposed Victorian Transmission Investment Framework objectives and approach

EGA agree with the objectives and proposed approach outlined in Figure 1 but see benefit in the consideration of Greenhouse Gas Emissions (GHG) as an objective. If the VTIF does not consider impacts of transmission development to the environment or GHG emissions, how can there be any certainty that transmission projects or REZ developments will meet legislated climate change objectives? And how can renewable advocates say with any justification, that transmission will reduce emissions?

By way of example, evidence of rapidly changing economics can be seen in the cost-benefit analysis that AEMO completed in 2019 for the largest transmission augmentation in Victoria over the last two decades, the WRL. The cost-benefit analysis of this line, which followed the rules of the AER's cost-benefit test, found that the main benefit of the line would be that it would in fact allow more polluting brown coal generation in Victoria to displace less polluting black coal generation and gas in New South Wales and Queensland. Absurdly therefore, a new transmission line ostensibly motivated by transport of green energy and reduction of emissions was justified based on an analysis that it would increase emissions. By implication the WRL is found to effectively make no difference to production from the new wind and solar farms, whose connection to the grid motivated the new line.

With respect to objective 8 (*Fair and meaningful benefits*). It's important to recognise that cumulative environmental impacts of large-scale linear infrastructure projects are broad, the volume of people impacted is often material and the range of impacted communities diverse. Given most benefits in terms of economic growth, employment and regional development often occur at the end of linear infrastructure, it is difficult to quantify 'fair and meaningful' benefits to those expected to host or neighbour overhead transmission infrastructure. Accounting for the full range of obligations, which include engineering resilience, safeguarding reliability, reducing carbon emissions, maximising economic benefits, facilitating

renewable generation technologies, and avoiding unnecessary impacts on landscape and the environment, will be critical. Having routing and siting decisions guided by community through a more 'consistent', 'fair' and 'just' rationale will provide the greatest benefit to any electricity transmission project. Community guided and supported framework, policy and planning instruments will produce more consistent, defensible, and transparent electricity transmission route decisions. There is much work to do, especially when accounting for socioeconomic and environmental concerns. Recognising the need for public and environmental policy and developing new methods to apply this early in project development will minimise risks to project investors, better serve the environment and public interest.

2 What are your views on the proposed measures to ensure costs to consumers are minimised as outlined above and detailed elsewhere in the consultation paper?

As previously discussed, EGA believe this is a challenging balancing act as one objective (IE lower prices) should not be prioritised above other considerations. Decisions should not always be made based on the cheapest investment or lowest price. Decisions should be made based on what is good – good policy, good foundations, good economics, and good long-term benefits that mitigate risk and create returns to both business, industry, society, environment, and the economy. The proposed measures to ensure that costs are minimised for Victorian electricity customers appear to be reasonable.

The proposed VTIF states *these steps provide a level of certainty that renewable generation development would occur in the selected REZs and that any investment in transmission lines would be cost-effective*. Given that renewable generator development will be delivered by private companies with no statutory authority to access or acquire land, it is crucial that the level of community acceptance first be determined before planning transmission in REZs. To use the WRL as an example, the communities along the proposed corridor has been so adversely impacted over the past two years that the broad sentiment conveyed to EGA is that this will be a 'transmission line to nowhere' as no landholder in this region will be willing to accept renewable generation development. This will present major challenges in this region and is likely to result in transmission investment that has no value. AEMOs ISP signals there is minimal future development in this region. A direct result of poor planning and process.

With Victorian consumers in mind, it is important to recognise that AEMO's role as transmission planner the National Energy Market (NEM) and Victoria may present conflicting interest that do not necessarily benefit Victorian consumers. It is important that the VTIF prioritises the electricity needs of Victoria to ensure costs to consumers are minimised and Victorians are not carrying burdens for the benefit of the NEM. The VTIF analysis should take a holistic view of the Victorian transmission network, and any need for interconnection with the NEM, rather than being focussed on each REZ. It is only through taking a holistic view that Victoria's future grid can be developed. As discussed in EGA's Engineering Victoria's Future Electricity Grid paper, rather than the current piecemeal approach, one possible solution is a meshed network configuration with central nodes within each REZ zone to better facilitate transfer of electricity across multiple zones within the state.

To remove any conflict of interest and unnecessary cost to Victorians, EGA recommends that the Australian Energy Market Operator (AEMO) rescind its function as Victorian transmission planner to focus on its core responsibilities of managing electricity and gas systems and markets across Australia including efficient connection of new generation and assisting new entrants with Generator Performance Standards (GPS) obligations. This will provide the Victorian government with a more direct and essential role in planning and managing Victoria's future grid for the benefit of Victorians.

3 What do you think about the proposed 25-year time horizon? To what extent does the outlook length appropriately balance forecasting capabilities and the need to plan for the long-term?

While recognising the challenges of forecasting in an ever-changing climate, EAG agree that a longer-term planning horizon is a better way of providing more direction and clarity for market participants (investors, communities, and consumers). While AEMOs Electricity Statement of Opportunities (ESOO) supports planning decisions over 10 years and the ISP a 20-year planning horizon, it is important to reflect on ISPs released since 2018. The material changes identified in inputs, and assumptions then reflected in rapidly changing scenarios have ultimately reduced AEMOs forecasting period to a 2-year period. Victoria needs to envision where the state wants to be in 50-years and develop a plan to achieve that.

4 What do you think about the proposed core inputs for the system scenarios? What other inputs should be considered?

Scenario inputs: EGA agree with the proposed scenario inputs, noting as previously discussed, a holistic state-level plan need to be engineered to determine need (supply, reliability, security, and resilience) and capacity before understanding if any need for interconnection to the NEM. The challenge with the current framework is that is starts with the ISP, a national plan that provides a roadmap for the efficient development of the National Electricity Market (NEM). The ISP contains limited detail on jurisdictional REZ development and while there is some mention of social licence within the 2022 ISP, the inputs, assumptions, and methodology used to determine optimal development paths and actionable projects does not reflect these critical considerations. More can be done to reflect matters affecting social licence in the development of the ISP. Without consideration of these issues in the ISP, a narrower set of candidate development pathways can emerge that do not align with key environmental and land planning requirements or with the project merits and challenges to the communities that would host them. This can be difficult to unpick at a later stage by project proponents through subsequent consultation, as seen through the WRL.

Scenario diversity: EGA agree that system scenarios would need to be appropriately diverse, to reflect the range of possible futures for Victoria (a state-wide holistic view), while also being plausible and an appropriate basis for planning. As previously discussed, system scenarios could better reflect emission as the drivers. It is commendable that the VTIF proposes to consider *future emissions reduction ambitions*. If the VTIF does not also consider impacts of transmission development to the environment or GHG emissions, how can there be any certainty that transmission projects or REZ developments will meet

legislated climate change objectives? And how can renewable advocates say with any justification, that transmission will reduce emissions?

5 How could this process for producing candidate transmission pathways best support cost-efficient transmission investment?

As discussed in EGAs response to question 2, given that renewable generation development will be delivered by private companies with no statutory authority to access or acquire land, it is crucial that the level of community acceptance first be determined before planning transmission in REZs. This is referred to briefly in table 1, section 2.3 (Community and Traditional Owner development preferences) yet does not explore 'acceptance'. More can be done to determine if and where communities will be prepared to host renewable energy generators and transmission before proposing candidate pathways.

EGA are encouraged to understand the process to identify the optimal REZ pathway *includes new planning tools, such as a Strategic Land Use Assessment (SLUA) and a Multi-Criteria Analysis (MCA). These help to incorporate early stakeholder input and economic, social, and environmental considerations for transmission development.* These critical early-analysis tools are missing from the current regulatory framework and should help facilitate a more orderly, fair, and just transition.

A fundamental concern with the current regulatory framework applied to the RIT-T and ISP process is that the Triple Bottom Line (TBL) is not considered. Measuring social, economic, and environmental (climate) disbenefits - rather than solely focusing on net benefits to all those who produce, consume and transport electricity - will mitigate risk and create returns to the climate, business, industry, society environment and the economy.

6 What considerations should be assessed as part of the strategic land use assessment? What might be the most appropriate methodology for the tool and how would the information be gathered and measured?

EGA recognise that any large-scale linear infrastructure project will come with a range of conflicting policies, some of which cannot be avoided. In addition to state-level policies, municipal planning instruments provide important tools for determining current and future land use conflicts. The current statutory process allows a licenced transmission proponent to strip away existing planning mechanisms and redevelop their own instrument.

The priority when planning land use and development is avoiding land use conflict in the first place. This involves understanding where existing industry and other uses with potential off-site impacts are and ensuring current zoning appropriately protects operators and surrounding communities. EGA considers the following should be considered under strategic land use assessment, as discussed in EGAs High-Voltage Transmission Line Setback Policy paper:

- Climate change policies (commitments to do no further harm to the natural environment)

- Environmental protection policies (public parks, reserves, fauna, and flora)
- Strategic agricultural land and associated government policies
- Township settlement boundaries and urban growth corridors
- Consideration of appropriate setback distances (Residential Zones, Habitable Dwellings, Public Use Zones (education, parks, sporting), Road Zones, Conservation Zones, High-risk Bushfire Prone Regions, National and State Parks, Wedge-tailed Eagle nesting sites)

7 What do you think about the draft criteria to apply in the Multi-Criteria Analysis? What sources of data could help inform the criteria assessment?

EGA agree that REZ development should produce the best outcomes for Victorians. Currently this is not the narrative of many actors in the energy industry who state that regional communities will need to carry the burden of the transition for the greater good of all Victorians. This is not fair, just, or reasonable. EGA believe all Victorians need to work together to shoulder the burden and if this means electricity prices will increase in order to save the planet, then this is a cost we must all pay.

The VTIF provides an example of multi-criteria analysis, indicating generator interest could be assessed through an Expression of Interest (EoI) process. Regional development could be evaluated through an economic impact statement that investigates local growth opportunities across the REZ. While this is a great initiative, **community interest** in generator and transmission development should first be assessed through an EoI process. Failing to understand the level of acceptance and leaving this up to a project proponent to navigate places the enti9re REZ plan at risk.

Implementing a community-first approach to determine where renewable energy can be hosted is important to build trusting relationships with people. This is something AEMO and its ISP does not do and is the reason AEMO have no social licence in regional communities. As the climate emergency worsens, there is too much at stake to adopt the current 'decide, announce, defend' method of infrastructure roll-out.

8 Are the appropriate costs and benefits included in the CBA used in the Optimisation Analysis?

EGA note the proposed cost-benefit analysis (CBA) proposed for candidate REZ pathways focusses heavily on curtailment, capacity, system security, system strength, resilience, and carbon emissions reduction. The CBA is limited to benefits and costs directly related to transmission.

EGA further note local community and environmental costs and benefits are considered earlier in the development of candidate pathways. This would ensure that each pathway that is analysed through the CBA has been selected based on an assessment of the expected community and environmental impacts.

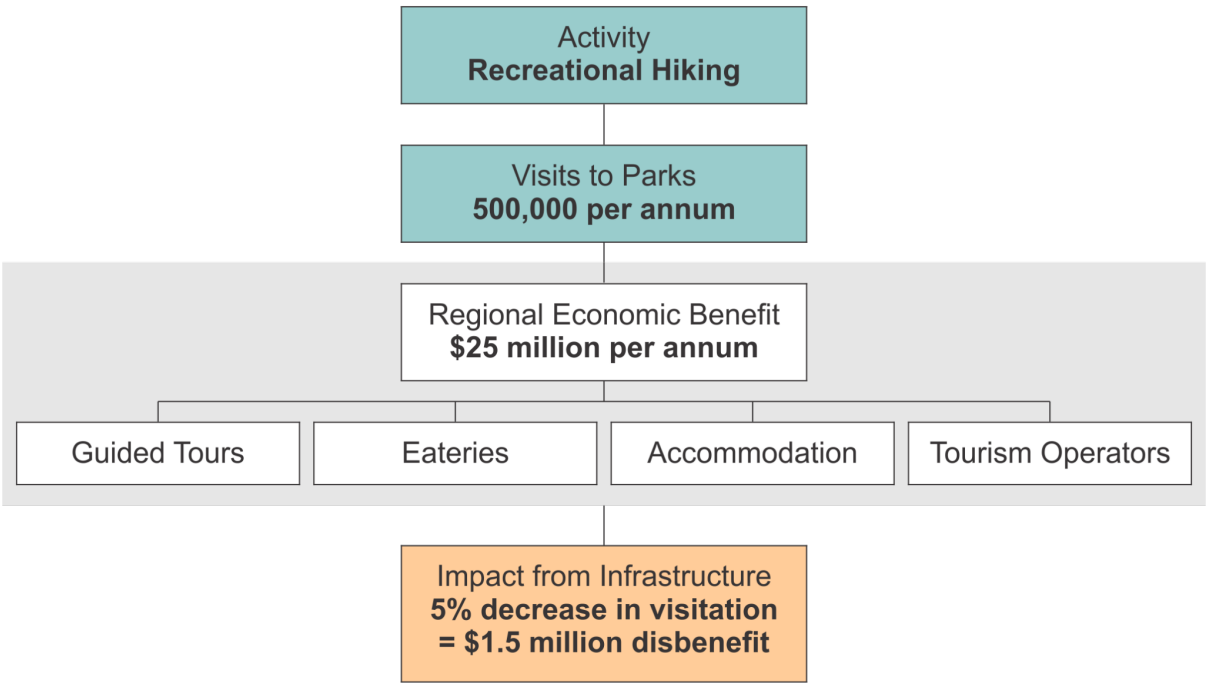
While this is encouraging to understand, EGA would like to understand more about the considerations that fall under the 'community cost' equation. Economic Impact Assessment (EIA) framework could be developed that considers costs (disbenefits) to communities from overhead transmission development, such as:

- Agriculture
- Regional Appeal
- Landscape and neighbourhood amenity
- Biodiversity - Protecting our Natural Capital
- Valuation of benefits from Victoria's parks
- Tourism
- Recreation and well-being
- Visual Amenity
- Property Values
- Aviation Safety Impacts
- Force Majeure (Catastrophic weather or bushfire events impacting infrastructure)
- Flow through impacts

When considering economic impacts, it is important that flow through effects are also considered. For example:

- A decline in visits to regional parks results in economic impact to a range of stakeholders not directly associated or located within the park
- A decline in wedding photography bookings at a wildflower farm through loss of visual amenity directly impacts catering businesses, photographers, and nearby accommodation providers
- Decline in agricultural production impacts workers, logistics companies, wholesale operations, food processing operations and retailers

Figure 1: Flow through impacts example (figures are indicative)



9 What are your views of the Optimisation Analysis as a mechanism to identify the right transmission pathway for Victoria? What could improve the analysis?

EGA believe the Optimisation Analysis (OA) is an important step in confirming the optimal pathway is the most robust pathway under all scenarios; that is, it minimises regrets under all scenarios. This allows system planning to best manage an uncertain future.

10 Should the system scenarios be weighted equally or not when undertaking the optimal REZ pathway analysis? Why, or why not? Do you have a view on an appropriate process for determining any weightings?

EGA agree it is challenging to assign explicit probabilities to future scenarios and sensitivities. Given the rapidly changing market it is difficult to comment at this time whether these should be weighted equally or not. Evidence of this has been demonstrated in AEMO's 2022 ISP where scenarios and weightings have materially changed since conclusion of the Western Renewables Link PACR which concluded the RIT-T process in 2019.

11 What are your views about the Victorian Network Investment Test assessment being limited to the least net cost of the solution rather than reassessing the 'need' for the solution? Does this contribute to greater certainty around transmission development?

EGA believe it is important Victoria consider a whole-of-system plan and work to deliver that plan, this includes certainty around the need. EGA is confident that adopting a least net-cost approach would ensure the integrity of the optimal REZ pathway as in effect it would remove the RIT-T from the equation.

Observations of the current investment framework suggest there may be errors or omissions in the current regulatory cost-benefit analysis process that need to be independently reviewed.

The purpose of the RIT–T, as set out at clause 5.16 of the national electricity Rules, is to identify the credible option that maximises the present value of net economic benefit to all those who produce, consume and transport electricity in the market.

In the RIT–T, costs are the present value of a credible option's direct costs. These must include the following classes of costs:

- costs incurred in constructing or providing the credible option;
- operating and maintenance costs over the credible option's operating life; and
- costs of complying with relevant laws, regulations, and administrative requirements (section 3.5.1).

The RIT–T is a cost-benefit analysis which is defined in welfare economics. The principal of which is to measure how costs change as a consequence of the investment you are assessing. Benefits are just costs

that are avoided as a result of the investment you are assessing. As such, the RIT–T must consider the operating costs of all existing assets, and the capital and operating costs of all future costs in the assessment. The net benefit of the investment you are trying to measure is then counted as the difference between:

- the cost of the investment you are assessing plus all other operating costs (of existing assets), plus all capital costs of new assets that are built as a result of the investment you are assessing; and
- the operating cost of all existing assets plus the operating and capital costs of all the new assets that would occur if you did not build the investment you are assessing.

Considering Integrated System Plan (ISP) projects such as HumeLink, VNI West, and Marinus Link, the calculation that should have occurred is the transmission investment cost, plus all other future generation and transmission costs that will arise as a result of that investment, set against the cost of all the other investments that would occur if the transmission was not built was not built.

A matter that also needs to be considered is the outcome of the cost-benefit analysis when proposed projects share the same transfer capacity flow path. For example, when two projects such as VNI West and the Western Renewables Link (WRL) share the same path, is it plausible for RIT–T's to conclude that the WRL will deliver approximately 900 MW of transfer capacity from western Victoria to the Melbourne load centre and then claim the same fuel cost savings and capital expenditure (CapEx) benefits for the same transfer capacity to New South Wales via VNI West? Given the integration of Project EnergyConnect (PEC), HumeLink, VNI West and WRL, certainty should be provided that benefits are not being duplicated while costs of integrated projects being ignored.

A further example is the Western Renewables Link in Victoria, a proposed project where the RIT–T has only considered the cost of transmission. Assume the project proposes to unlock 900MW of NEW renewable transfer capacity that provides a gross market benefit of $670 million. The cost of the transmission build has been estimated at $370 million, providing a $300 million net benefit. Now assume that all future generation and transmission costs that will arise to unlock 900MW of NEW transfer capacity as a result of that investment costs around $2 billion. The cost-benefit analysis would then show:

- $670M (gross market benefit)
- $370M (cost of transmission investment)
- $2B (cost of new renewable assets)
- Gross benefit minus investment cost results in a $1.7 billion negative benefit to consumers.

Any investment test cannot assume wind and solar are free (as they are only free to the generator) then provide a fuel cost saving by eliminating fossil fuel from the equation. Additionally, the investment test cannot assume that the infrastructure required to facilitate the identified need of the transmission investment are also free.

These economic errors or oversights highlight either a fundamental flaw in the RIT–T and ISP process or significant errors by RIT–T proponents. Either way, these observations suggest that current cost-benefit analysis is only concerned with net market benefits to those who produce and transport electricity and not

net economic benefits to consumers. Failure to recognise the true economics of transmission investments will come at great cost to consumers and at great cost to the industry in terms of social licence.

It is encouraging to see the Victorian Government (via VicGrid) is considering a whole-of-system, least net cost criterion which should provide greater accountability and greater certainty around the cost of transmission and REZ development.

On the basis of these observations, Energy Grid Alliance recommended a referral of the matter of appropriate calculation of costs and benefits of integrated-projects and of the appropriate regulatory arrangements for RIT–T and Actionable ISP Projects, to the Productivity Commission for advice.

12 Do you consider the threshold for contestable procurement should be changed? What is the preferred model?

EGA recognise that a competitive tendering can drive lower prices for transmission projects and reduced end electricity costs for consumers. EGA believe this is a challenging balancing act the objective of lower prices should not be prioritised above other considerations. Decisions should not always be made based on the cheapest investment or lowest price. Decisions should be made based on what is good – good policy, good foundations, good economics, and good long-term benefits that mitigate risk and create returns to both business, industry, society, environment and the economy.

EGA does not necessarily believe competitive tendering helps drive timely delivery, better value in contract terms and conditions and market innovation if lower prices remain the primary driver. Based on these views, EGA believe that increasing the contestability threshold may not improve outcomes for all stakeholders.

13 Should a bespoke access regime be adopted in Victoria's REZs? Which option is best suited to Victoria?

EGA believe that Victorians are best positioned to determine the future of Victoria and believe a fit-for-purpose bespoke access regime be adopted in Victoria's REZs. This will provide a more coordinated approach to transmission and REZ development. The current planning and access regime is disorderly and presents more challenges than benefits. This is adversely impacting Victoria by driving investor confidence down.

EGA are unable to comment currently on the access option/s best suited to Victoria due to limited understanding of the current open access regime.

EGA refer to a statement on page 11 of the Options Paper (Victorian REZ context). *AEMO indicates that much of the required network headroom will be made available through committed and planned network build-out and augmentations, including the Western Victoria Transmission Upgrade, VNI West interconnector, and Marinuslink*. EGA would like to note that while AEMO classify these projects as

'committed', they are not committed projects and should not be relied upon in Victoria's transmission planning. Preliminary and ongoing analysis of these projects suggest they will be uneconomical, unviable, will not address the needs of Victoria and are not likely to proceed without great social, economic, and environmental cost, especially to consumers.

14 In the context of access to Victorian REZs, how should storage be treated to benefit the REZ and wider market, while not creating risk and uncertainty for wind generation?

EGA have not responded to this question

15 How should transitional arrangements apply to existing generation and storage projects if a new access scheme is adopted? At what point in the development stage of the project should make it qualify for a transitional arrangement?

EGA have not responded to this question

16 Who should be engaged during the development of REZs and at what points in the planning and investment process under the proposed VTIF?

As discussed in question 2, given that renewable generation development within REZ zones will be delivered by private companies with no statutory authority to access or acquire land, it is crucial that the level of community acceptance first be determined before planning transmission in REZs.

Adopting a community-first framework, followed by state-level REZ and grid planning will allow each state to determine its planning priorities and quantify the true generation and firming capacity. The current ISP-first framework does little to actively consider issues beyond power system and economic modelling in planning decisions. The Community-first framework does more to actively consider this and will lead to more robust, reliable, and acceptable solutions. As the climate emergency worsens, there is too much at stake to adopt the current 'decide, announce, defend' method of infrastructure roll-out. When you consider the 'business as usual' alternative, the cost of not putting communities first will lead to increased opposition to overhead transmission projects across the state and the market will dispense with any opportunity to acquire social licence. The resulting material project delays will adversely impact the industry, economy, consumers, investors and above all, our legislated climate change objectives.

Energy Grid Alliance recommend a restructure of the planning process. See figures 1 and 2 below.

Figure 1: Current Planning Process (ISP-first approach)

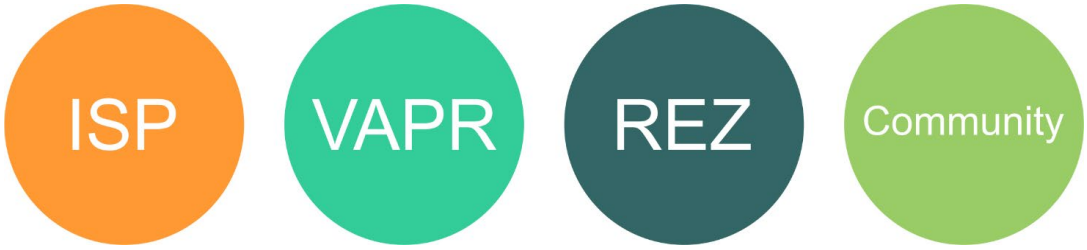


Figure 2: Proposed Planning Process (Community-first approach)

17 What representative bodies would be appropriate for enabling coordinated engagement across our REZs? How should those bodies be included in the decision-making process to meet the objectives of the proposed VTIF?

EGA believe representative bodies need to be ones that truly represent active community views. It is not enough to simply include groups such Local government or organisations with a focus on regional economic development as their views and priorities are often geared towards economic growth, benefits, and development. If the VTIF framework is truly wanting to consider communities, understand disbenefits and develop optimal transmission paths that seek to avoid or minimise adverse impacts, then representative bodies need to be those who view the community interests as priorities. Independent community consultation groups, without an economic focus, could be established within each potential REZ to improve community engagement practices and work collaboratively with community members to ensure that the social licence for electricity transmission projects is acquired and maintained. This is something EGA is well positioned to encourage and facilitate.

18 How should VicGrid partner with Traditional Owners and engage local communities and stakeholders during the SLUA and MCA processes to achieve the proposed outcomes? Please discuss specific methods or approaches as relevant.

Community engagement is new for Transmission Network Service Providers (TNSP's), because relatively little new transmission has been built since the 1990s. Communities are now both more knowledgeable, connected, and active and have higher expectations based on past experiences with renewable generator developers.

The common thread emerging in recent commentary regarding social licence for transmission is that the industry needs to develop a balanced approach to **early engagement**, **community benefit** and **compensation** issues.

EGA believe the energy sector needs to understand that community benefits and compensation are not the answers they hoped they would be. In fact, pushing this agenda is very likely to further dilute trust and increase opposition. Without empathy in the social licence and public policy equation, it will be near to impossible to develop trust for transmission. Developing constructive relationships, empathy and trust will be most effective when discussions with community start early during a project's inception. Having routing and siting decisions guided by community through a more 'consistent', 'fair' and 'just' rationale will provide the greatest benefit to any electricity transmission project. Community guided and supported framework, policy, and planning instruments, such as the VTIF, will produce more consistent, defensible, and transparent electricity transmission route decisions.

EGA are unable to comment on current or potential Traditional Owner engagement principles given this stakeholder group has its own established terms of reference for engagement.

19 What benefit sharing arrangements (or options) under the proposed VTIF would best deliver meaningful benefit sharing outcomes for host communities while balancing costs to electricity consumers?

As discussed in response to question 1, cumulative environmental impacts of large-scale linear infrastructure projects are broad, the volume of people impacted is material and the range of impacted communities is diverse.

Given most benefits in terms of economic growth, employment and regional development often occur at the end of the linear infrastructure, it is difficult to quantify ‘fair and meaningful’ benefits to those expected to host or neighbour overhead transmission infrastructure. As discussed in response to question 18, community benefits and compensation are not the answers the industry hoped they will be. Community benefits and compensation are solutions that have evolved from experiences in the wind industry where development impacts are often felt by a smaller region and smaller number of people. Recommendations for small-scale private renewable generator developments cannot easily be applied to large-scale linear infrastructure projects. EGA have the following recommendations for discussion and consideration:

1. That **annual host landholder compensation models** be explored.

2. That **neighbour compensation models** be explored, much like the wind industry, where neighbours to overhead transmission infrastructure are compensated annually with the compensation amount relative to their proximity to the line. Transmission network service providers (TNSPs) may argue this will unreasonably increase projects costs and ultimately, costs to consumers. EGA believe it would lead to better routing decisions in order to avoid impacts and associated compensation in the first place. For example, if the TNSP had to compensate 2,000 residents annually for routing a line within 1km of a materially populated town, it may choose an alternate alignment where compensation is only paid to 10 landowners.
3. That **community owned transmission** be explored. Community owned transmission could provide opportunities for landholders, neighbours and regional communities to benefit financially, rather than carry the burden. For example, consider a REZ or renewable energy park (REP) is being developed that will host a range of privately owned renewable generation and storage facilities. A single high voltage transmission line will connect the REP to existing transmission infrastructure in the States grid. The REP is likely to provide significant benefit to the local region, including opportunities for local training and employment. However, landowners hosting the transmission asset and those who neighbour the line will not benefit as impacts from overhead transmission extend well beyond the easement. While the preference may be for the transmission line to be built elsewhere, this may not always be feasible. Inviting those impacted to invest in transmission assets represents an opportunity for impacted landholders, neighbours and communities to receive tangible benefits. This has potential to create social, political, environmental, economic and technological benefits by:
    - strengthening local economies
    - building community participation, resilience & empowerment
    - creating investment opportunities
    - involving the public in creating a sustainable future

    Through cost-sharing, a community ownership model enables participants to co-own key energy assets and contribute to broader energy development to scale up renewables. Community owned transmission could help expedite the transition, can reduce opposition, and will more fairly share the economic benefits of transmission projects. With opposition to large scale transmission gaining momentum in Australia, and no foreseeable benefits (beyond compensation) to landholders, neighbours or communities along the length of the line, community ownership of transmission is an idea regulators and TNSP's could consider.

If appropriately negotiated and administered in good faith, these models have the potential to build long-term, effective partnerships between TNSP's and communities, as well as broader acceptance of a transmission project by the community.

20 How should benefit sharing arrangements be designed to meet the proposed benefit sharing principles? How should communities and stakeholders be involved?

The VTIF recommends broader community benefits, such as training and employment opportunities, indicating that consideration is needed to ensure benefits are spread equitably among the community based on the impact of the project and the diverse needs and preferences of the community. EGA is concerned that these recommendations demonstrate a lack of understanding of who is impacted by transmission line development, how they are impacted and who should benefit.

EGA do not believe that the proposed benefit sharing principles are adequate or fair with respect to transmission. These principles appear to have evolved from experiences in the wind industry where development impacts are often felt by a smaller region and smaller number of people. Recommendations for small-scale private renewable generator developments cannot easily be, nor should they be, applied to large-scale linear infrastructure projects.

EGA believe these principles require further consideration. Please refer to responses to questions 18-19 for prosed alternate arrangements. EGA can speak from its experience with regional communities, the approach and principles recommended in the VTIF will struggle to receive any level of acceptance.

21 Are the proposed principles appropriate to guide the proposed allocation of functions between the different bodies?

EGA believe it appropriate that a single entity be responsible for all Victorian transmission planning and investment functions to ensure a holistic, end-to-end process of delivering transmission planning and developing Victoria's REZs. EGA recommend the VTIF should replace the current regulatory framework for planning and investment decisions in Victoria. Further to this, as discussed in response to question 2, EGA recommends that AEMO rescind its function as Victorian transmission planner.

The Victorian government's role, via VicGrid, should contain the following functions, some of which are currently the responsibility of AEMO, Victoria's current transmission planning body:

- Developing the system scenarios
- Identifying the candidate REZ pathways, including undertaking the SLUA and MCA
- Identifying the optimal REZ pathway
- Administering access rights in REZs
- Applying the efficiency test
- Identification of specific transmission projects
- Procurement of the related projects

22 What challenges exist if VicGrid takes responsibility for functions introduced by the VTIF?

EGA sees the greatest challenge will be changing the ISP-first framework (being progressed by AEMO) to a community-first framework that does more to actively consider issues beyond power system and economic modelling in planning decisions. While AEMO discuss the importance of social licence, the instruments supporting the ISP framework have no consideration of socioeconomic or environmental policies and AEMO itself does little to support early community involvement.

Adopting a community-first framework, followed by state-level REZ and grid planning to be able to better determine if the need for interconnection exists will challenge AEMOs ISP and federally committed projects, all of which have received much scrutiny.

It is EGAs view that the actionable ISP regime is not working for Victoria due to lack of accountability. More can be done to reflect matters affecting social licence in the development of the ISP, similar to what is being considered in the VTIF. As discussed in response to question 4, without consideration of these issues in the ISP, a narrower set of candidate development pathways can emerge that do not align with state-level plans, key environmental and land planning requirements or with the project merits and challenges to the communities that would host them.

The actionable ISP regime has made AEMO responsible for undertaking cost-benefit analyses to decide whether major transmission augmentations should proceed, and that the existing RIT-T regulatory test is now little more than a self-assessment. In this context any analysis that AEMO has done to approve actionable transmission projects does not appear be adequate and does not appear to best serve the interest of Victorians. There is a huge public and electricity consumer interest in ensuring that transmission investment decisions do not increase the burden to electricity consumers in Victoria.

23 What should the final entity form of VicGrid be, should the VTIF be implemented? What governance arrangements would be appropriate for VicGrid?

EGA believe VicGrid should be established as an independent body (rather than a division of DEWLP) that has statutory authority and technical expertise to provide the detailed, independent planning, forecasting, and modelling information and advice that drives effective and strategic decision-making, regulatory changes, and investment in Victoria.

With respect to governance arrangements, this requires further consideration and discussion. It is EGAs current view that VicGrid should be responsible for state-wide planning, REZ planning, and all decision-making in relation to AEMOs national plans when they impact on the Victorian electricity system. Consideration could be given to a governance structure composed of a Board of Management, led by a Chief Executive, reporting to a Council appointed by the Minister for Energy, Environment and Climate Change and the Treasurer. Council members might include stakeholder representatives and subject matter

experts. Independent regulation of VicGrid appears to be unnecessary given AEMO is not independently regulated (although observations suggest it should be).

As discussion in response to question 1, EGA recommends that the Australian Energy Market Operator (AEMO) rescind its function as Victorian transmission planner to focus on its core responsibilities of managing electricity and gas systems and markets across Australia including efficient connection of new generation and assisting new entrants with Generator Performance Standards (GPS) obligations. This will provide VicGrid with a more direct and essential role in planning and managing Victoria's future grid for the benefit of Victorians.

Energy Grid Alliance support development and implementation of the VTIF and welcome opportunities for further consultation. It is critical that all Victorians play a central role in the delivery of the states future electricity system.