Submission on Candidate Priority Transmission Investment – Consultation Paper (Submission) – Gladstone Project

Introduction

This submission is made by the Powerlink PTI Expert Panel. Comprised of members drawn from the Powerlink Customer Panel, this Expert Panel has been established to advise Powerlink on how the consultation engagement aspects of the Priority Transmission Investment (PTI) process may best be implemented. In consideration of Powerlink's role within the PTI framework, we consider Powerlink's role scope and challenge the assumptions Powerlink includes in the recommendations and advice it makes to Responsible Ministers. This is the first submission we make as a newly constituted Panel.

The Powerlink Consultation Paper invites submission on four elements:

1. The identified need Powerlink proposes for the Gladstone PTI project
2. The proposed assessment documents and the reasons for their selection
3. Powerlink's proposed modifications to the Regulatory Investment Test for Transmission (RIT-T) to establish the regulatory framework under which the project will be assessed
4. Potential credible network and non-network options that may address the identified need, in part of in full, and/or replace or defer capital investment

Given the Queensland Energy and Jobs Plan (QEJP) legislation[1] prescribes much of the process Powerlink will follow, the focus of this submission is on the need for process transparency and wide stakeholder engagement. This is intended to ensure consumers have the same information that is available to the Responsible Ministers when they decide on a key issue for consumers – including the level of project costs that will go into the Powerlink Regulated Asset Base (RAB) and hence be recovered from electricity consumers.

General cost of living pressures have heightened consumer concerns about electricity prices. We are seeing large cost increases above CPI and schedule overruns in energy projects that are facing significant labour and materials supply chain pressures. Opinion polls are showing falling support for the transition in the face of these large cost rises[2].

The transition requires the building of considerable network assets and the associated costs will be incurred before consumers see the benefits of lower priced renewable generation. Retaining support for the transition will require decisions by the Government on how much of these network costs are passed on in the electricity bills and how much is borne by the Government budget prior to the full benefits of lower cost renewables being realised. The decision of the Federal Government to expand the Capacity Investment Scheme (where costs fall on the budget) rather than the extend the Renewable Energy Target[3] scheme (where costs fall on consumers) is a clear indication of the direction the Federal Government is taking.

[1] Energy (Renewable Transformation and Jobs) Act 2024
[2] https://www.ipsos.com/en-au/australians-now-more-concerned-about-green-energys-impact-cost-living-and-electricity-bills
[3] https://cer.gov.au/schemes/renewable-energy-target

Under the QEJP, the Responsible Ministers have extensive discretion to, for example:

- Direct Powerlink to include matters outside of the RIT-T framework that reflect wider categories of costs and benefits,
- Determine the level of cost that goes into the Powerlink regulated asset base (RAB) that is recovered from electricity consumers, and
- Direct the engagement process for the candidate PTI assessment.

For consumers to have confidence that this PTI process is working in their long term interests, it is important that it has a high level of transparency and stakeholder engagement at all stages:

- the selection of the inputs, assumptions and scenarios together with the methodology used in the project assessment cost benefit analysis
- the consideration of non-network solutions
- as accurate as possible capex estimate with clear explanations on the level of accuracy of major cost components
- the AER's review of the prudent and efficient capex
- decisions by the Responsible Ministers on the amount of capex to go into the Powerlink RAB.

The 2024 ISP provided an estimated capex of $(2023)1.6b (±50%)[4] for the Gladstone Project which AEMO describes as a 'Class 5b' cost estimate though the use of cost class terminology used in the AACE cost classification can be confusing[5]. The Powerlink Cost Benefit Analysis (CBA) should clearly show the:

- value and level of accuracy of the major capex components and total capex according to a well-established standard such as the AACE cost classification system
- net benefit (whether positive or negative) position in two cases:
    - considering only those classes of costs and benefits permissible within a RIT-T, , and
    - considering all costs and benefits assessed i.e. those permissible within a RIT-T and any additional classes Powerlink includes in the CBA is and as directed by the Minister .
- 'boundary conditions' i.e. if the central case shows positive net benefits, identify the capex level at which the project costs exceed the benefits.

This provides transparency around the decision by the Ministers on the level and timing of costs going into the Powerlink RAB. In our view, the maximum cost that should go into the RAB is the lesser of the identified benefits or prudent and efficient costs under the RIT-T excluding additional public cost and benefit classes included as directed by the Minister.

Given the required timetable suggests that the Ministers' decision to proceed with the Gladstone project is likely to be made sometime in late 2025 and the works are not forecast to

[4] See p. 61 https://aemo.com.au/-/media/files/major-publications/isp/2024/2024-integrated-system-plan-isp.pdf?la=en

[5] For a summary of the AACE cost class classification see https://web.aacei.org/docs/default-source/toc/toc_96r-18.pdf; the AACE system does not have symmetrical cost estimates eg AACE Class 5 has a range of -50% to +100%l Class 4 has a range of -30% to +50% given the evidence that costs are more likely to increase than decrease.

be completed until 2031, there will be a considerable level of uncertainty on the cost estimate at the time of project approval. This uncertainty, measured by the difference between the estimated cost at the time of the project decision to proceed and the final cost of the project, should be borne by the Government as the project proponent, not by electricity consumers.

1. The identified need Powerlink proposes for the project

Powerlink has proposed the following identified need for the Gladstone Project:

> ***"Provide sufficient power transfer capability to:***
>
> 1. ***reliably supply the forecast electrical load in the Gladstone area in anticipation of the closure of the Gladstone Power Station;***
> 2. ***support the decarbonisation of major industries in the Gladstone area;***
> 3. ***compensate for loss of supply of essential system services, such as inertia, system strength and voltage control capability, following the closure of Gladstone Power Station."***

We submit that this is an appropriate identified need at a high level and underscores the need for reliable, secure and affordable electricity for the Gladstone region as well as across the State. Our comments focus on the project timetable – how it differs from the 2024 ISP, how it accords with the 2022 Blueprint and how it might be modified by the 2025 Blueprint. The Consultation Paper has a construction timetable in three stages:

- Stage 1 commencing in June 2026 with an estimated construction timetable of 2.5 years
- Stage 2 commencing in June 2027 with an estimated construction timetable of 2.5 years
- Stage 3 commencing on the completion of Stages 1 and 2 (~December 2029) with an estimated construction timetable of 1 year three months

resulting in full project completion by March 2031.

We offer the following comments:

- The Ministerial direction (Consultation Paper – Appendix A p. 10) has the anticipated date for completion of the project as an indicative March 2029. This accords with the date published in the 2024 ISP[6]:

Newly actionable projects *(as identified in this ISP)*	Actionable framework	Earliest feasible in service timing	Earliest feasible full capacity timing[A]
Gladstone Grid Reinforcement	QLD[E]	March 2029	March 2029

  The current expected completion date is two years later. Powerlink is staging completion to flexibly meeting decarbonisation objectives.
- It is unclear how the 2031 timetable is consistent with the 2022 Blueprint; yet there have been developments since 2022 that may impact on the timing of projects in the Optimal

[6] See p. 14 https://aemo.com.au/-/media/files/major-publications/isp/2024/2024-integrated-system-plan-isp.pdf?la=en

Infrastructure Pathway (OIP) in the 2025 Blueprint; how is that to be accounted for in the Gladstone project identified need?

- It is confusing about how much Powerlink is to have regard to the Blueprint in general and to the 2022 version in particular. The proposed changes to the assessment documents discussed below show the primacy of the Blueprint, yet the identified need discussion seems to allow flexibility to change given the passage of time since publication of the 2022 Blueprint
- There is no information provided on the detailed planning required to give confidence that this timetable can be met. Key issues include:
    - an outline of the required environmental approvals e.g. the Federal Government's Environment Protection and Biodiversity Conservation Act[7] and State approvals, and
    - how Powerlink plans to manage possible labour and materials supply chain constraints?
- A risk analysis would have been useful to give consumers a better perspective on the project timetable
- The 2024 ISP[8] describes the Gladstone (Grid Reinforcement) Project as being required by 2029 to support the retirement of Gladstone Power Station.

Table 6 Actionable network projects in the optimal development path

Project	In service timing advised by proponent	Full capacity timing advised by proponent[A]	Brief description Cost estimates in $2023	Actionable framework *Non-network options date[B]* *PADR date[C]*
Gladstone Grid Reinforcement	March 2029	March 2029	Increase network capacity from Central Queensland into the Gladstone area to support the area's industry once Gladstone Power Station retires, and add capacity between Northern and Southern Queensland. $1.3 billion (±50%).	Queensland[G]

Powerlink should explain whether the ~ 2 year mismatch between the expected Gladstone Power Station (GPS) closure date in 2029 and construction completion in 2031, should be reflected in the identified need.

Rio Tinto's 2023 Sustainability Report notes[9]:

> "Our Pacific Aluminium Operations portfolio includes BSL and Gladstone Power Station in Queensland, and the Tomago Aluminium smelter in New South Wales. Both smelters

[7] https://www.dcceew.gov.au/environment/epbc
[8] See p. 61 https://aemo.com.au/-/media/files/major-publications/isp/2024/2024-integrated-system-plan-isp.pdf?la=en
[9] See p. 15 Climate Change Report 2023 https://www.riotinto.com/en/sustainability/climate-change

are energy-intensive facilities sourcing third-party power from fossil fuel-based grids. These three facilities account for 26% of our electricity-related Scope 1 and 2 emissions and the smelters are dependent on renewable repowering solutions to maintain their long-term viability.

Decarbonising these assets is essential to meeting our 2030 carbon reduction targets...

Contracts for the current supply of electricity to our Boyne Smelter expire in 2029 ... Significant progress has been made to secure long-term electricity arrangements to Boyne. We have signed a PPA to buy 1.1GW of renewable energy from the Upper Calliope Solar Farm project and are continuing to assess other proposals, solutions and partnerships to competitively meet the needs of our production assets in the Gladstone region."

In addition to the Calliope PPA there was the recent signing of another renewable Power Purchase Agreement with Windlab's planned 1.4GW Bungaban wind energy project[10].

We do not have the technical expertise to comment on whether the candidate PTI components described on p.5 of the Consultation Paper will address the identified need components in a technical sense. Nevertheless, it would be good to understand how the identified need is going to be met given the apparent difference between Powerlink's timetable (and how that might change in the 2025 Blueprint) and Rio Tinto's timetable.

2. <u>The proposed documents to be used and the reasons for their selection</u>

We agree with Powerlink's proposed use of the RIT-T Instrument and the RIT-T Application Guidelines given the starting point is the Blueprint and not the Integrated System Plan.

3. <u>Powerlink's proposed modifications to the RIT-T to establish the regulatory framework under which the project will be assessed</u>

These proposed modifications are a combination of ensuring alignment with:

- proposed changes in the national rules e.g. including a value for carbon emissions, update AER CBA Guidelines due in November 2024, and
- the Blueprint e.g. scenarios and sensitivity analysis.

All modifications are based on an interpretation of what the Act requires and how the Act differs from the recommended assessment documents. This suggests we are being asked to express an opinion on whether Powerlink's proposed modifications have met the requirements of the Queensland legislation. Given we are not qualified to give legal advice, our focus is on the implications of the proposed changes for the Assessment consultation process.

[10] See https://www.riotinto.com/en/news/releases/2024/rio-tinto-signs-australias-biggest-renewable-power-deal-as-it-works-to-repower-its-gladstone-operations and https://www.riotinto.com/en/news/releases/2024/rio-tinto-to-drive-development-of-australias-largest-solar-farm-at-gladstone

In developing the modified RIT-T document we recommend that Powerlink produce a single assessment version that is then applied to each project. Powerlink would then describe what the modifications mean for each project – some modifications may not apply to some projects.

Paragraphs 22(a)(b) and (c) (pp.9-10)

The added words refer to electricity demand and ensures additional scenarios developed are consistent with those in the Blueprint. There is also reference to the inputs assumptions and scenarios 'relied on by the Queensland Energy System Advisory Board (QESAB) in the development of the OIP.

While scenario development for the Assessment reflects assumptions from the Blueprint instead of the ISP, we would recommend that Powerlink updates those assumptions using later data e.g. from the 2024 ISP, without having to wait for the 2025 Blueprint

Further, we recommend that Powerlink follow AEMO's lead[11] in the ISP and consult on inputs, assumptions and scenarios in the draft assessment report Powerlink publish, for stakeholder consultation,

Paragraphs 24-29 (pp10-12)

- This ensures the sensitivity analysis in the Assessment CBA is consistent with the OIP in the Blueprint. Again we recommend that Powerlink following the AEMO ISP example[12] and consult on the proposed sensitivities and the parameters of each sensitivity as part of the draft assessment consultation process.

Section 3.3 (page 22)

Appendix A of the Consultation Paper sets out the indicative base case assumptions that Powerlink is required to consider. One of the indicative base case assumptions to be included in the Gladstone Project is first power from Borumba Pumped Hydro Energy Storage project in 2030. While we understand this is the Government's objective, developments since 2022 suggest that this might be difficult to achieve. It remains to be seen if this date is retained in the 2025 Blueprint.

We recommend that Powerlink make clear how it intends to model this uncertainty e.g. through another scenario or sensitivity and this be part of the draft assessment engagement.

Section 3.4 (page 25)

As we noted above, we recommend that Powerlink consult on the inputs, assumptions and scenarios as part of the assessment report.

Part 4 (Stakeholder engagement process in applying the RIT-T) (page 64)

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[11] https://aemo.com.au/consultations/current-and-closed-consultations/2023-inputs-assumptions-and-scenarios-consultation

[12] See pp 24-5 https://aemo.com.au/-/media/files/stakeholder_consultation/consultations/nem-consultations/2022/2023-inputs-assumptions-and-scenarios-consultation/draft-2023-inputs-assumptions-and-scenarios-report.pdf?la=en

This allows Powerlink to propose the stakeholder engagement process to fit the accelerated pathway to deliver the OIP. There is always a balance between the scope and timing of engagement and the need to meet legislated objectives.

The Consultation Paper says (p.8) that:

- "the engagement process for the candidate PTI assessment reflects the direction from the Responsible Ministers."

It is unclear how much direction there will be and how much discretion will be left to Powerlink. In the case of this particular consultation, the urgency of the project timing means it is understandable that the Ministers required a short consultation period.

We recommend that Powerlink provide a comprehensive document setting out the degree of flexibility it has to set the scope and timetable for engagement:

- In the lead-up to issuing the Assessment Consultation document, and
- subsequent to the publication of that document which results in the Final Assessment document.

It would cover the issues above (inputs, assumptions, scenarios, sensitivities) giving stakeholders a clear understanding of what they can influence and what they cannot. For the issues they can influence, where that influence sits on the IAP2 spectrum[13]. For the latter where they cannot influence, what level of transparency is going to be provided so stakeholders can be clear about the decisions the Responsible Minsters are making. It would also cover the ability of stakeholders to engage with the AER as they are fulfilling their 'suitably qualified person' role.

4. Potential credible network and non-network options that may address the identified need, in part of in full, and/or replace or defer capital investment

We do not have the technical expertise to provide detailed comments on this matter. Our response is to highlight the importance of transparency around how Powerlink assesses all options.

Powerlink PTI Expert Panel

Mark Grenning – EUAA

Chris Hazzard – St Vincent de Paul

Warren Males – CANEGROWERS Consultant

[13] See https://iap2.org.au/resources/spectrum/