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Ms Kami Kaur
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Australian Energy Regulator

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Dear Kami

VNI West – material change in circumstances

We wish to advise that VicGrid and Transgrid – as the joint proponents of the VNI West project – consider that there has been a material change in circumstances in relation to the VNI West project under clause 5.16A of version 202 of the National Electricity Rules (NER). However, we do not consider that the RIT-T needs to be re-applied, because the preferred option for the VNI West project remains Option 5A (the preferred option identified in the May 2023 Project Assessment Conclusions Report (PACR)). We have reached this reasonable opinion with reference to the AEMO final 2026 Integrated System Plan (ISP) and our own analysis, which includes Option 5A on the optimal development path based on updated scope, cost and timing estimates.

We request confirmation that the AER does not have any concerns in relation to this view, and that the RIT-T does not need to be re-applied and that Option 5A remains the preferred option for the project.

In May 2023 we determined Option 5A to be the preferred option

Appendix A2.1 of the PACR set out the technical scope of Option 5A. This description included:

1. **NSW scope**
    a. Construction of the Dinawan to near Wagga Wagga (now known as Gugaa) line as a double-circuit 500 kV line.
    b. Establish Dinawan 500 kV switchyard with two 500/330 kV 1,500 MVA transformers.
2. **Victorian scope**
    a. A new 500 kV double-circuit overhead line from Bulgana to Kerang (Tragowel) including series compensation on the line at Tragowel.
    b. Establish new terminal station at Tragowel with two 500/220 kV 1,000 MVA transformers.
    c. 220 kV connections from the new Tragowel terminal station to the existing 220 kV lines near Kerang.

d. Relocation and modification of WRL terminal station from north of Ballarat to Bulgana. This includes a 500 kV switchyard with two 500/220 kV transformers at the existing Bulgana terminal station.

e. Modular power flow controllers to prevent overloading 220 kV lines between Dederang and Thomastown following certain contingencies.

3. **Shared NSW and Victorian scope – Interconnector and Shared Powerflow Controllers**

a. A new 500 kV double-circuit overhead line from Dinawan to Tragowel.

b. Modular power flow controllers to prevent overloading on 330 kV lines between Upper/Lower Tumut and South Morang following certain contingencies.

The PACR also indicated that:

- Option 5A was expected to cost $3,499m (real $2020-21) or $4,176m (real $2024-25) in total to deliver the works across all states (Table 6); and
- the VNI West project would be fully energised by the 2022 ISP assumed timing of July 2031 (Table 4), noting the 2024 ISP indicated an updated timing of December 2029.

A material change in circumstances applies to the VNI West project

Since the PACR was published, there have been several relevant developments:

- modular power flow controllers have been removed from both the NSW and Victorian segments of the project;
- the total estimated capital cost of the VNI West project has increased significantly from the PACR estimate; and
- the forecast delivery timing for the full project is now November 2031.

We consider that these developments constitute a material change in circumstances that has the potential to change the preferred option, because they directly impact the costs and benefits of Option 5A, however that the preferred option for the project has not changed as outlined below.

The preferred option remains Option 5A

On 25 June 2026, AEMO published the final 2026 ISP. It updated the VNI West project to:

- remove the modular power flow controllers from the project scope, reflecting further detailed design work on the preferred option;
- reflect a more recent estimate of the total estimated capital cost of $7,750m (real $2024-25); and
- reflect updated VNI West delivery timing from July 2031 in 2023 PACR to the latest delivery timing of November 2031.

The VNI West project, with these updates, still delivers $647 million (PV) net market benefits and remains on the optimal development path. We have undertaken further, indicative analysis drawing on previous

modelling, and updated to reflect more recent assumptions where possible, to confirm that the project delivers significant net market benefits despite the following changes:

- Removal of the power flow controllers as part of refined option scope - the NSW power flow controllers had a capital cost of $183m (real $2020-21) or $219m ($2024-25), corresponding to a project cost of approximately $78m (PV). Their removal reduces the overall transfer capacity of the VNI West interconnector impacting gross market benefits. Utilising the 2024 ISP model, which was the last to include the power flow controllers, gross market benefits have reduced by approximately $14m (PV), which after accounting for costs indicates a net cost saving of approximately $64m (PV).

- Increase in forecast capital cost - the estimated project costs remain higher than those used by AEMO in the final 2026 ISP, however, the project still delivers net market benefits of approximately $945m (PV) based on the ISP's gross market modelling for the step change scenario under modelling assumptions that reflect AEMO's 2025 Inputs, Assumptions and Scenario Report.

Given the conclusions from AEMO's final 2026 ISP, and our own assessment, we consider that the preferred option for the project has not changed.

Regulatory pathways

The proponents expect that different parts of the VNI West project will progress through three complementary regulatory frameworks. In line with the AER's letter of 8 May 2026, these different delivery frameworks, and specifically any change to the delivery of part of the NSW scope to be governed by the NSW EII Act, does not in itself constitute a material change in circumstances.

The pathways will together support efficient project delivery, leveraging the benefits of competitive procurement while maintaining regulatory scrutiny and consumer protections:

- The Victorian scope will be delivered under a series of Ministerial Orders under the *National Electricity (Victoria) Act 2005* (NEVA) (dated 20 February 2023, 26 May 2023, and 8 November 2024). The Orders allow VicGrid to progress VNI West, assist in their delivery, enable more community engagement and consider social, environmental and land use factors.

- The NSW network infrastructure component will be delivered under the *Electricity Infrastructure Investment Act* (NSW) framework, which provides a competitive procurement pathway designed to deliver efficient outcomes for consumers and support timely delivery of priority infrastructure.

- The other components of the project are expected to continue to be subject to the NER and progress through the AER's revenue determination and contingent project application processes, which will ensure robust economic oversight and cost recovery arrangements.

Feedback loop

The proponents continue to progress the project on the basis of current government policy and existing regulatory frameworks. Under the NER, we must request written confirmation from AEMO that VNI West satisfies the feedback loop before submitting a contingent project application (CPA) for the NSW portion of

the project to be delivered under the NER. At this stage, the proponents are expecting to submit the feedback loop request to AEMO before July 2027 on the basis of the current scope, cost and timing.

AEMO has advised that:

- It must assess the RIT-T preferred option in the feedback loop. If the scope, cost or timing of the preferred option is updated to address a material change in circumstances, then the feedback loop request should reflect the updated preferred option.
- The timing of the feedback loop request will affect its assessment – in particular, if AEMO receives the request close to the release of the 2027 Inputs Assumptions and Scenarios Report, it may assess the feedback loop request against that updated information.

We are providing AEMO's advice to the AER so that it is aware of the potential feedback loop timing risk in the context of the proponents' approach to progressing the updated preferred option.

If you have any questions, please contact Alex McPherson, General Manager Regulation & Policy at alex.mcpherson@transgrid.com.au or Danny Benjamin, Executive General Manager Delivery & Commercial at danny.d.benjamin@vicgrid.com.au.

Yours sincerely,

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