

Victorian System Strength Requirement

1 August 2025

Regulatory Investment Test for
Transmission

Project Assessment Conclusions
Report





We acknowledge the Traditional Custodians of the land, seas and waters across Australia. We honour the wisdom of Aboriginal and Torres Strait Islander Elders past and present and embrace future generations.

We acknowledge that, wherever we work, we do so on Aboriginal and Torres Strait Islander lands. We pay respect to the world's oldest continuing culture and First Nations peoples' deep and continuing connection to Country; and hope that our work can benefit both people and Country.

'Journey of unity: AEMO's Reconciliation Path' by Lani Balzan

AEMO Group is proud to have launched its first [Reconciliation Action Plan](#) in May 2024. 'Journey of unity: AEMO's Reconciliation Path' was created by Wiradjuri artist Lani Balzan to visually narrate our ongoing journey towards reconciliation - a collaborative endeavour that honours First Nations cultures, fosters mutual understanding, and paves the way for a brighter, more inclusive future.

Important notice

Purpose

AEMO has prepared this Project Assessment Conclusions Report in accordance with clause 5.16 of the National Electricity Rules to, among other things, provide information about certain network limitations and potential options to address these limitations.

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Executive summary

The power system is undergoing a transformational change, with an unprecedented increase in renewable generation, changes in consumption patterns, and the withdrawal of several existing large conventional generation sources. New sources of system strength will be required to maintain power system security.

As the System Strength Service Provider (SSSP) for Victoria, AEMO Victorian Planning (AVP) is responsible for planning and procuring services to meet the system strength requirements to support system security in the future.

Consistent with the Project Assessment Draft Report (PADR) published on 17 April 2025, this Project Assessment Conclusions Report (PACR) confirms that option portfolio 3 is the Regulatory Investment Test for Transmission (RIT-T) preferred option. Option portfolio 3 involves a number of near-term solutions to meet Victoria's system strength requirements from 2 December 2025 to 2029, which are common across all option portfolios, as well as a number of longer-term solutions that are specific to the preferred option.

Given the lead time for the near-term solutions, AVP has commenced tendering for services from existing synchronous machines and is also progressing a market sounding process that will guide any future tendering, including for near-term solution service contracts for:

- two new plant capable of operating as synchronous condensers
- 1,250 MW of grid-forming (GFM) battery energy storage system/s (BESS), regardless of megawatt hour (MWh) capacity, consisting of 900 megawatts (MW) in the Moorabool area and 350 MW in the Hazelwood area, and
- upgrades to some existing units to enable synchronous condenser operation.

Beyond the near-term solutions, AVP intends to pursue the longer-term solutions under option portfolio 3, consistent with the PADR.

Option portfolio 3 remains the preferred option because it delivers the greatest estimated net market benefit while minimising cost to consumers. However, it relies on the further progression of potential GFM BESS solutions. If these conditions are not met before AVP would otherwise need to commit to contracting additional synchronous condenser capable plant, this would be a 'material change in circumstances' (MCC) and AVP would notify the Australian Energy Regulator (AER) of the change and propose pivoting to an alternative path in line with option portfolio 2 or option portfolio 1.

While a shift to option portfolio 2 or option portfolio 1 remains possible if adequate GFM BESS service agreements cannot be secured in time, the cost implications are significant, with approximately \$770 million in capital (equivalent to around \$460 million in present value terms)¹ avoided under option portfolio 3 compared to pursuing option portfolio 1.

Overall, the proposed pathway forward identified in this RIT-T provides the greatest amount of time for low-cost GFM BESS solutions to be developed, but also retains the flexibility to pivot to additional plant able to operate as synchronous condensers in the future to enable AVP to provide sufficient system strength when it is required.

¹ All dollars, including 'present values', in this PACR are in 2023-24 dollars (unless stated otherwise) and align with the 2024 *Integrated System Plan* (ISP) and 2024 ISP Inputs, Assumptions and Scenarios Workbook. Please note that this present value does not take account of terminal values (because it refers to the cost to consumers), whereas other present values in this PACR do take account of terminal values (because they refer to costs/benefits over the assessment period), unless otherwise stated.

System strength is the ability of the power system to maintain a stable voltage waveform at any given location in the power system, both during steady state operation and following a disturbance. System strength has traditionally been provided by synchronous generation such as coal, gas-fired and hydro-electric power generation that is electromagnetically coupled to the power system. Inverter-based resources (IBR) – which include wind, large scale solar, and batteries – do not inherently provide system strength, and most existing IBR which use grid-following (GFL) technology require adequate system strength for the inverters to work reliably.

The transition from a power system with predominantly synchronous generation to a power system with high levels of IBR has introduced a need to replace the system strength provided by synchronous generators to ensure system security can be maintained and allow protection systems and IBR to work reliably.

AVP has prepared this PACR in accordance with the requirements of clause 5.16 of the National Electricity Rules (NER), for a RIT-T. It represents the final step in the formal RIT-T process and follows the PADR published in April 2025.

The 'identified need' is to maintain power system security by meeting the system strength requirements as IBR replace synchronous generation

In October 2021, the Australian Energy Market Commission (AEMC) made its final rule determination on Efficient Management of System Strength on the Power System, which introduced new obligations for SSSPs.

Under NER S5.1.14(b), AVP as the SSSP for Victoria is required to use reasonable endeavours to plan system strength services to:

- maintain the **minimum three-phase fault level** specified by AEMO at each system strength node in Victoria (that is, meet the minimum level of system strength), and
- achieve stable voltage waveforms for the forecast future IBR connections projected by AEMO in steady state conditions and following credible contingencies or protected events (that is, meet the **efficient level** of system strength).

The identified need for this RIT-T is to procure sufficient system strength services to ensure the system strength standard as per NER S5.1.14 is met for both forecast minimum and efficient levels at each of the Victorian system strength nodes from 2 December 2025 onwards.

AVP is undertaking this RIT-T as a 'reliability corrective action', as the considered options are to enable AVP to meet its regulatory obligations under NER S5.1.14.

The assumed amount of system strength required (both the minimum and efficient levels) at different locations, and the supporting assumptions, have not changed since the PADR and align with the most recent AEMO System Strength Report released in December 2024.

This RIT-T has benefited from stakeholder consultation

On 12 May 2025, AVP held a webinar to inform stakeholders of the key elements of the PADR, including the preferred option and the proposed pathway forward. Stakeholders raised questions as part of the webinar, which covered the following key topics:

- the construction and composition of the various option portfolios

- specific questions regarding the preferred option portfolio (option portfolio 3)
- how the different components of the portfolios have been costed
- the market modelling topology, and
- the procurement process.

The webinar slides, presentation recording and a summary of the webinar questions and answers, which have been considered in developing this PACR, are available on AVP's system strength RIT-T webpage². AVP has also incorporated points raised in the webinar in this PACR, where relevant.

AVP subsequently received confidential submissions from three parties in response to the PADR, including proponents proposing system strength services and covering general matters that submitters advised could be considered in the RIT-T on a non-attributable basis. AVP has reviewed and responded to each submitter bilaterally and responded to the general matters able to be considered in the RIT-T on a non-attributable basis, which include:

- option value and the timing of options
- further consideration of Mortlake's minimum fault provision
- provision and availability of land, and
- compensation of foregone opportunity costs.

The analysis presented in this PACR has been strongly informed by the solutions proposed by parties over the course of this RIT-T, including the earlier Project Specification Consultation Report (PSCR) request for information (RFI, and subsequent survey), as well as the general submissions received, which have helped ensure the robustness of the analysis overall. AVP thanks all parties for their valuable input to the consultation process undertaken as part of this RIT-T.

Four credible option portfolios have been developed and assessed

AVP applied a portfolio approach to forming credible options for this RIT-T. This represents a practical way of assessing and grouping the large number of individual solutions proposed in response to the RFI, plus additional network solutions. It also recognises that no one solution can address the requirements in isolation.

The four different option portfolios can be summarised as shown in **Table 1**. These options have not changed since the PADR.

Table 1 Summary of the four credible option portfolios

	Overview	Focus	Estimated capital costs (present value) ^a
Option portfolio 1	10 synchronous condensers ^b (nine new and one existing) + Existing generation ^c , including conversion of some units to be capable of operating in synchronous condenser mode, and committed/anticipated GFM BESS, including one that upgrades from GFL to GFM ^d	Includes existing generation, as well as committed/anticipated GFM BESS (for the efficient level) and nine new synchronous condensers (for the minimum and efficient levels)	\$1,144.7m comprising: <ul style="list-style-type: none"> • \$1,134.5m for nine new synchronous condensers • \$1.5m for upgrading a 'committed' GFL BESS to be GFM • \$8.7m for upgrading an existing generator (to also be capable of operating in synchronous condenser mode)

² At <https://aemo.com.au/initiatives/major-programs/victorian-system-strength-requirement-regulatory-investment-test-for-transmission>.

	Overview	Focus	Estimated capital costs (present value) ^A
Option portfolio 2	Seven synchronous condensers (six new and one existing) + The same other technology types as option portfolio 1 plus upgrading additional committed/anticipated GFL BESS to be GFM, and an additional (small) GFM BESS	Developed to determine, through comparison with option portfolio 1, whether upgrading additional GFL BESS to be GFM is considered optimal compared to investing in synchronous condensers	\$795.6m comprising: <ul style="list-style-type: none"> • \$779.1m for six new synchronous condensers • \$7.8m for upgrading committed/anticipated GFL BESS to be GFM • \$8.7m for upgrading an existing generator (to also be capable of operating in synchronous condenser mode)
Option portfolio 3	Six synchronous condensers (five new and one existing) + The same technology types as option portfolio 2 plus a generic 400 MW GFM BESS from the IBR forecasts	Investigating the cost savings that could be achieved where future modelled GFM BESS become committed/anticipated under the RIT-T	\$689.5m comprising: <ul style="list-style-type: none"> • \$673.1m for five new synchronous condensers • \$7.8m for upgrading committed/anticipated GFL BESS to be GFM • \$8.7m for upgrading an existing generator (to also be capable of operating in synchronous condenser mode)
Option portfolio 4	The same as option portfolio 3 – including the same number of new synchronous condensers in total – but with accelerated procurement of two synchronous condensers	This option has been developed to investigate whether expediting synchronous condensers is expected to be net beneficial	\$714.5m comprising: <ul style="list-style-type: none"> • \$698.4m for five new synchronous condensers • \$7.8m for upgrading committed/anticipated GFL BESS to be GFM • \$8.7m for upgrading an existing generator (to also be capable of operating in synchronous condenser mode)

A. While the costs listed here reflect the present value of the *total* capital cost for each key option portfolio component, the analysis in the PACR uses a terminal value to ensure that the costs of long-lived assets are included on a like-for-like basis with the market benefits (that is, that both the costs and benefits are included over the same assessment period) – this is outlined in Section A6.4. Section 5 of the PACR also presents the total costs shown in this table in undiscounted terms.

B. As outlined in Section A5.1, all new plant able to operate as synchronous condensers have been assumed to be, and costed in the RIT-T assessment as, synchronous condensers for this PACR.

C. While each of the options assumes the use of ‘existing generation’, AVP considers that this includes any additional generation that connects ahead of AVP needing to commit to its procurement following this RIT-T.

D. The BESS that upgrades from GFL to GFM in option portfolio 1 is considered ‘committed’ under the RIT-T and has submitted a proposal in response to the RFI. While the other BESS assumed to upgrade from GFL to GFM in option portfolios 2-4 are also considered ‘committed’ (or ‘anticipated’) under the RIT-T, they have not submitted a proposal at this stage and are for proposals that are further into the future.

The different option portfolios have been created by considering the annualised costs and expected benefits, as well as the expected timing of when solutions are available, across an 11-year assessment period.

All option portfolios have been costed in accordance with the RIT-T framework and include the costs incurred in constructing or providing the option, operating and maintenance costs, and the cost of complying with laws, regulations and applicable administrative requirements in relation to the construction and operation of the credible option (where applicable). The procurement process related to this RIT-T aims to identify the best value for money portfolio solution that meets the system strength requirements, and the ultimate cost to consumers will be determined from these costs. This may be different from the costs estimated in this RIT-T because some costs expected under service agreements are required to be treated as sunk or wealth transfer costs under the RIT-T framework.

Option portfolio 3 is the top-ranked option

Consistent with the earlier PADR, Option portfolio 3 is found to generate substantial estimated net benefits over the assessment period – in the order of at least³ \$3.85 billion of net market benefits in present value terms – and is the top-ranked option overall. It also involves the lowest cost to consumers of all four options assessed.

The RIT-T analysis also found that:

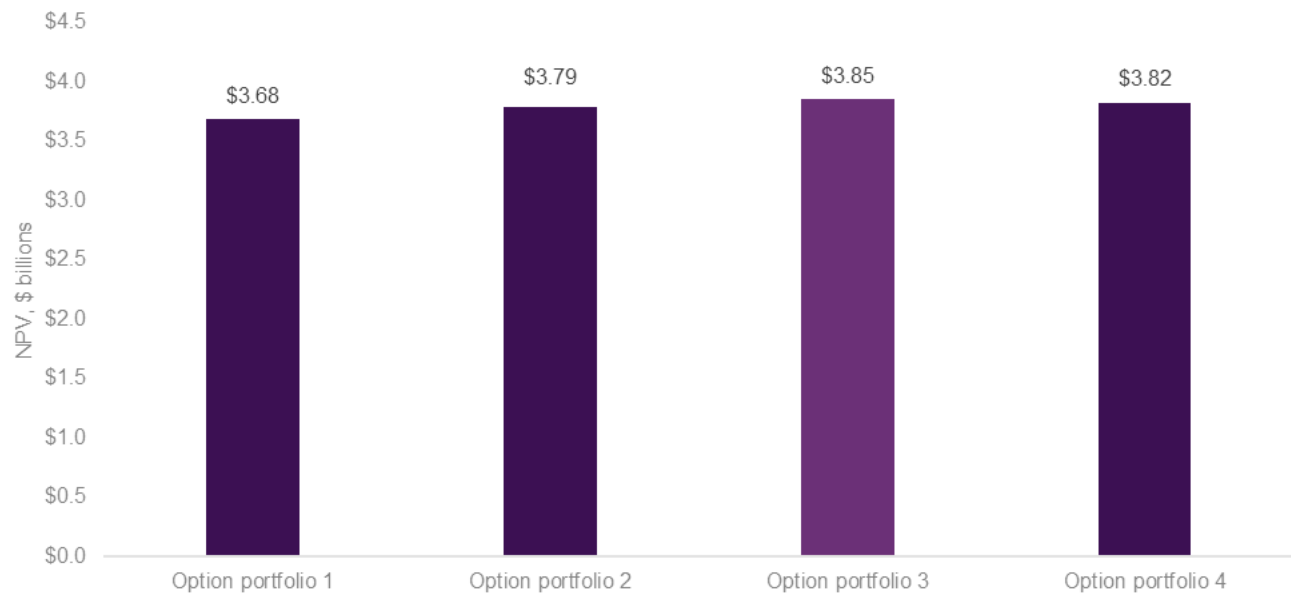
- all options are found to deliver substantial net market benefits (driven both by significant avoided unserved energy and wholesale market benefits relative to the base case)
- accelerating new plant able to operate as synchronous condensers is not found to deliver net benefits (that is, option portfolio 4 is found to have lower estimated net benefits than option portfolio 3)
- upgrading significant additional committed/anticipated GFL BESS to be GFM (option portfolio 2) is found to be the effectively second-ranked⁴ option and sits ahead of only using existing generation, committed/anticipated GFM BESS (including one that upgrades from grid-following to grid-forming) and new synchronous condensers (option portfolio 1), and
- option portfolio 3, being the proposed preferred option, is found to be robust to a range of sensitivity tests.

Figure 1 summarises the headline net present value (NPV) results for each of the option portfolios. The NPV assessment has not been updated since the PADR on account of the options remaining the same, there being no material change to the underlying assumptions, and nothing material being raised in submissions to the PADR.

The specific components included in option portfolio 3, for meeting both the minimum and efficient system strength requirements, are summarised in **Table 2**.

³ 'At least' is used here on account of the avoided unserved energy estimates only being based on the minimum level requirements (as outlined in Section 5.1). If the unserved energy was estimated to take account of the efficient level requirements as well, the expected net benefit of all option portfolios would be significantly greater.

⁴ Throughout the PACR (and PADR), option portfolio 2 is referred to as the 'effectively second-ranked' option, since option portfolio 4 (the technically second-ranked option) is just option portfolio 3 with two accelerated synchronous condensers, that is, as opposed to a distinct standalone option.

Figure 1 Headline net benefits under the *Step Change* scenario

Note: While this figure includes approximately \$930 million, in present value terms, of avoided unserved energy for each option relative to the 'do nothing' base case, AVP has removed this common benefit to all options from the core analysis presented in the body of this PACR to allow for a more meaningful comparison of the true differences in costs and benefits across the options.

Table 2 Option portfolio 3 – Summary of components

Financial year	Minimum fault levels	Efficient level
2026	Existing generators, including conversion of some units to be capable of operating in synchronous condenser mode 1 x Existing synchronous condenser at the Red Cliffs system strength node (SSN)	Covered by minimum fault level requirements
2027		
2028		900 MW GFM BESS Moorabool SSN
2029	Same as 2028 + 2 x synchronous condensers Hazelwood SSN	Same as 2028 + 350 MW GFL to GFM BESS Hazelwood SSN
2030		
2031	Same as 2030 + 1 x synchronous condenser Hazelwood SSN	Same as 2031 + 500 MW GFL to GFM BESS Hazelwood SSN 350 MW GFL to GFM BESS Moorabool SSN 400 MW ISP forecast GFM BESS Hazelwood SSN
2032		
2033		
2034	Same as 2033 + 1 x synchronous condenser Hazelwood SSN	Same as 2032 + 300 MW GFL to GFM BESS Moorabool SSN
2035		Same as 2034 + 65 MW GFM BESS Red Cliffs SSN + 1 x 500 kilovolts (kV) synchronous condenser Giffard (Gippsland) Offshore Wind Hub
2036		

Notes:

- Option portfolio 3 (as well as all other option portfolios) also assumes two synchronous condensers at Buronga in each of 2026 and 2027 as part of Project EnergyConnect (PEC) Stage 1 and Stage 2, respectively. These four synchronous condensers have not been shown in the table above since, while the portfolio options rely on them as an interstate contribution, AVP is not proposing to contract them and they form part of the assumed interstate contribution (which has been factored into the options portfolio development process).
- 'Same as 2028' (and this language used with reference to other years in this table) refers to the same components as that year but, where the use of existing synchronous generation is included in this, it does not imply the same *operation* of these units between years.

The proposed pathway forward provides low-cost BESS solutions the best chance to develop and be contracted with to meet the requirements

AVP has commenced procurement activities for service contracts:

- to meet the minimum fault level requirements:
 - existing generators,⁵ including upgrading some to be capable of operating in synchronous condenser mode, from 2026, and
 - three new plant able to operate as synchronous condensers – one existing one in the Red Cliffs area from 2026 and two new ones in the Hazelwood area by 2029, and
- to meet the efficient requirements:
 - 900 MW of currently ‘committed’ grid-forming BESS in the Moorabool area, and
 - 350 MW of currently ‘committed’ GFL BESS (upgraded to be GFM) in the Hazelwood area.

Based on the earlier PADR conclusion, AVP commenced procurement activities for these common components to enable AVP to meet its system strength requirements from 2 December 2025 to 2029 (taking account of expected contracting and procurement lead times). AVP considers that there is no risk associated to continuing procurement activities for these elements now and the PACR continues to support the need for these near-term solutions.

Beyond these near-term solutions, AVP intends to pursue the longer-term solutions of option portfolio 3, consistent with the PADR, which is the preferred option recommended in this RIT-T since it has the greatest estimated net market benefit and minimises costs to consumers.

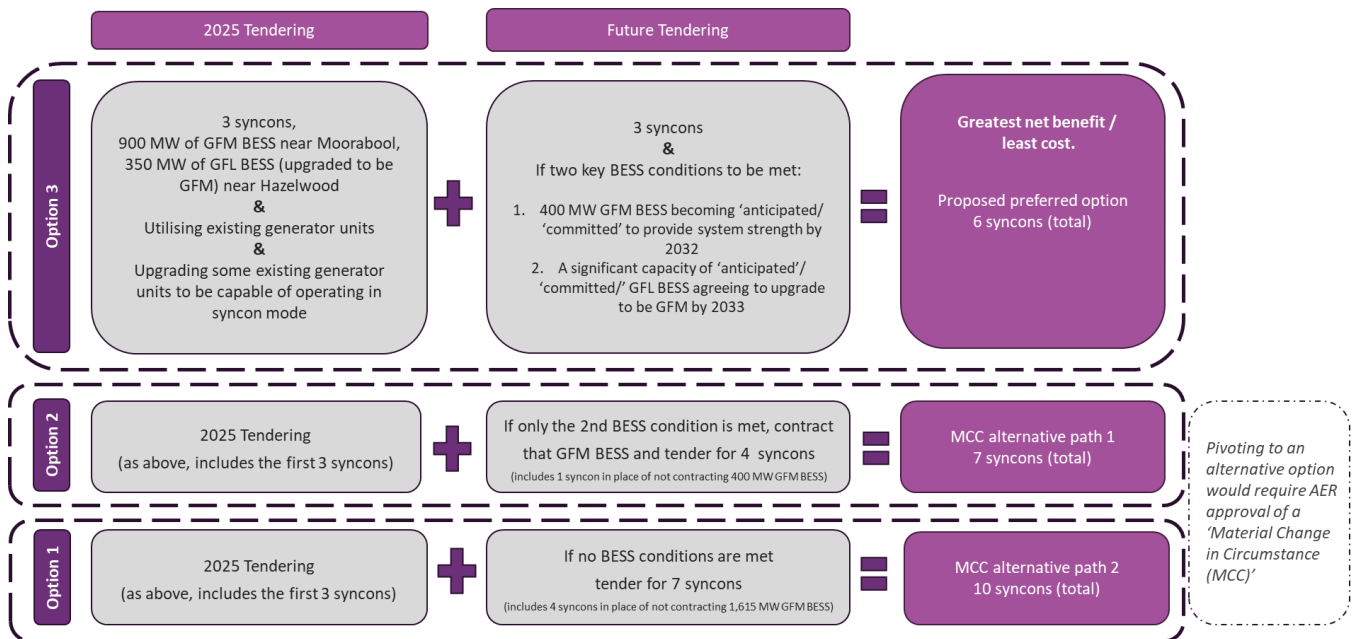
However, it is of the utmost importance that there is sufficient system strength capacity available in the system. Failing to make this available could result in material outages for consumers. AVP therefore considers that there are natural ‘cut-off points’ for BESS being able to avoid future synchronous condenser investment (that is, when AVP would otherwise need to commit to procuring system strength services from additional plant able to operate as synchronous condensers to ensure sufficient system strength).

Should AVP be able to contract system strength services from third-party BESS proponents ahead of these cut-off points, AVP expects that additional synchronous condenser investment can be avoided and, instead, these BESS solutions procured. However, if this does not occur, AVP considers that additional plant able to operate as synchronous condensers will need to be committed to (in line with option portfolio 2 or 1 in this PACR) and this would be a ‘material change in circumstances’ (MCC). If an MCC eventuates, AVP will notify the AER of the change and its proposed alternative path. The AER has 40 days from receipt of an MCC notification to publish the notice and make and publish a determination approving or rejecting the alternative actions proposed by AVP.

The proposed pathway forward is summarised in **Figure 2**, including the alternative options if an MCC eventuates.

⁵ While AVP refers here to the use of ‘existing generators’, AVP considers that this includes any additional generation that connects ahead of AVP needing to commit to its procurement following this RIT-T.

Figure 2 The proposed pathway forward



Syncon: synchronous condenser.

While AVP may ultimately be required to pivot to either option portfolio 2 or option portfolio 1 (if the procurement of sufficient GFM BESS service agreements is not possible ahead of the cut-off points), three or four synchronous condensers can be avoided if option portfolio 3 proceeds. This translates to a significant cost saving to end consumers between 2029 and 2036 – for example, if option portfolio 3 remains preferred, consumers avoid paying the costs associated with approximately \$770 million in capital (equivalent to around \$460 million in present value terms).

The natural cut-off points to contract with future GFM BESS, required to be in service by 2032, or to pivot to procuring services from additional synchronous machine if required, will be informed by the current market sounding process, which will also help determine whether the third new synchronous machine near Hazelwood, required to be in service by 2031, should be included in the 2025 tender, rather than deferred to a future stage.

Overall, the proposed pathway identified in this RIT-T:

- recognises that action needs to be taken now to meet the system strength requirements in the near term
- aims to provide the greatest amount of time for low-cost BESS solutions to develop and be contracted with over the longer term, and
- retains the flexibility to pivot to additional plant able to operate as synchronous condensers, if required.

This will result in the best outcome for electricity consumers. Setting out this pathway now is also likely to avoid AVP needing to undertake a second RIT-T in the near future, which would potentially jeopardise the ability to address system strength requirements in Victoria in a timely fashion. It also supports the development of non-network solutions in being able to provide system strength services.

Importantly, the RIT-T analysis assumes that existing synchronous generators are willing to sign contracts that reasonably reflect the costs of their proposed solution. If this appears to not be the case during the procurement process, AVP

considers that this would likely represent an MCC, consistent with the AER's recent guidance on system strength RIT-Ts⁶, and would result in additional synchronous condensers needing to be procured.

Further information and next steps

This report marks the conclusion of the formal RIT-T consultation process under the NER. Further engagement will be considered after the tender process is complete and once potential sites for new assets are confirmed. AVP anticipates that selected proponents will lead any future engagement, primarily to support planning approvals and ensure the proposed developments are appropriately understood and considered.

⁶ AER, *The Efficient Management of System Strength Framework*, AER Guidance Note, December 2024, p. 25.



Contents

Executive summary	3
1 Introduction	17
1.1 Further information and next steps	17
2 Identified need	20
2.1 Summary of the identified need	20
2.2 Recent changes that may impact the identified need	21
3 Consultation on the PADR	23
4 Options to address the need	25
5 The preferred option portfolio	27
5.1 Summary of the NPV results	27
5.2 Components of the preferred option portfolio	29
5.3 Sensitivity analysis	31
6 PACR conclusion	35
A1. Compliance checklist	39
A2. Additional detail on the assessment of the system strength requirements	42
A2.1 Minimum three phase fault level	43
A2.2 Efficient level	44
A3. Option portfolio formation process	49
A3.1 Step 1 – Screening for the minimum fault level ‘gaps’ and the solutions to fill them	51
A3.2 Step 2 – Repeat for the efficient fault levels	52
A3.3 Step 3 – Filter for least cost portfolios overall	53
A3.4 Step 4 – Validate portfolios against the stable voltage waveform criteria	54
A3.5 The ‘reference case’	54
A3.6 Solution contributions to system strength	55
A3.7 Interstate contributions of system strength	56
A3.8 Consideration of critical planned outages	56
A4. Additional detail on the option portfolios	58
A4.1 Option portfolio 1 – Existing generation plus committed/anticipated GFM BESS and new synchronous condensers	58

A4.2	Option portfolio 2 – The same technology types as option portfolio 1 plus upgrading additional GFL BESS to be GFM	59
A4.3	Option portfolio 3 – The same technology types as option portfolio 2 plus a GFM BESS from the IBR forecasts	61
A4.4	Option portfolio 4 – The same technology types as option portfolio 3, except with accelerated procurement of synchronous condensers	63
A4.5	The base case	64
A4.6	Land, environmental and social considerations	66
A5.	Estimating option costs	68
A5.1	Components included in the four option portfolios	68
A5.2	Other components considered but not ultimately included in the four option portfolios	71
A5.3	Treatment of ‘anticipated’ and ‘committed’ projects	71
A6.	Estimating market benefits	73
A6.1	Expected market benefits from the option portfolios	73
A6.2	Market modelling has been used for the wholesale market benefits	75
A6.3	Market benefits that are not expected to be material	76
A6.4	General cost benefit analysis parameters adopted	77
A7.	Ensuring the robustness of the analysis	79
A7.1	The assessment considered the ISP <i>Step Change</i> scenario	79
A8.	Key assumptions used in the market modelling	80
A9.	Additional detail on the core NPV analysis	82
A9.1	Option portfolio 1 – Existing generation plus committed/anticipated GFM BESS and new synchronous condensers	82
A9.2	Option portfolio 2 – The same technology types as option portfolio 1 plus upgrading additional GFL BESS to be GFM	83
A9.3	Option portfolio 3 – The same technology types as option portfolio 2 plus a GFM BESS from the IBR forecasts	85
A9.4	Option portfolio 4 – The same technology types as option portfolio 3, except with accelerated procurement of synchronous condensers	87
A10.	Additional detail on the NPV sensitivity results	90
A10.1	Higher and lower VER values	90
A10.2	Higher and lower synchronous condenser costs	91
A10.3	Higher and lower grid-forming BESS upgrade costs	92
A10.4	Higher and lower discount rate	93

A11.	Additional detail on non-confidential points raised in PSCR submissions	95
A11.1	Further specification of the identified need	95
A11.2	Option value	97
A11.3	Modelling and sensitivities	97
A11.4	Treatment of inter-regional assets	98
A11.5	Location of new system strength resources	99
A11.6	Consider high benefit network reinforcement solutions	99
A11.7	Real-time data and broader issues in procuring system strength	100
A11.8	Engage with other SSSPs for consistent approach	100
	Abbreviations	101

Tables

Table 1	Summary of the four credible option portfolios	5
Table 2	Option portfolio 3 – Summary of components	8
Table 3	Summary of points raised in PADR submissions	24
Table 4	Summary of the four credible option portfolios	26
Table 5	Option portfolio 3 – Summary of components	29
Table 6	Summary of the boundary assessments undertaken in this PACR	31
Table 7	Option portfolio 3 when offshore wind is assumed to self-remediate – summary of components	33
Table 8	Checklist for compliance with NER requirements	39
Table 9	Checklist for compliance with the Australian Energy Regulator’s RIT-T guidelines	40
Table 10	Victorian minimum three phase fault level requirements (MVA)	43
Table 11	AEMO 2024 <i>System Strength Report</i> – modified forecast IBR (MW)	44
Table 12	AEMO 2024 <i>System Strength Report</i> – changes to the modified forecast IBR since the PSCR (MW)	45
Table 13	AEMO 2024 <i>System Strength report</i> – forecast IBR by type (MW)	46
Table 14	AEMO 2022 <i>System Strength Report</i> – forecast IBR by type (IBR proposed in the PSCR) (MW)	47
Table 15	Comparison of IBR forecast by technology in the PADR/PACR compared to that proposed in the PSCR (MW)	48
Table 16	Option portfolio 1 – Summary of components	58
Table 17	Option portfolio 2 – Summary of components	60
Table 18	Option portfolio 3 – Summary of components	62
Table 19	Option portfolio 4 – Summary of components	63

Table 20	Market benefit categories that are not expected to be material	76
Table 21	PADR modelled scenario key drivers input parameters	80

Figures

Figure 1	Headline net benefits under the <i>Step Change</i> scenario	8
Figure 2	The proposed pathway forward	10
Figure 3	Overview of the RIT-T process	18
Figure 4	Headline net benefits of each option portfolio under the <i>Step Change</i> scenario (including avoided unserved energy)	28
Figure 5	Breakdown of estimated net benefits of each option portfolio under the <i>Step Change</i> scenario (including unserved energy)	28
Figure 6	Victorian synchronous generator operating hours, option portfolio 3 relative to the reference case	30
Figure 7	Key changes in the composition of the estimated net market benefits for option portfolio 3 when offshore wind is assumed to self-remediate (NPV, \$millions)	34
Figure 8	The proposed pathway forward	37
Figure 9	Four-step process applied for forming each option portfolio	50
Figure 10	Victorian synchronous generator operating hours, option portfolio 1 relative to the reference case	59
Figure 11	Victorian synchronous generator operating hours, option portfolio 2 relative to the reference case	61
Figure 12	Victorian synchronous generator operating hours, option portfolio 3 relative to the reference case	63
Figure 13	Victorian synchronous generator operating hours, option portfolio 4 relative to the reference case	64
Figure 14	Victorian synchronous generator operating hours, counterfactual base case relative to the reference case	66
Figure 15	Summary of the wholesale market modelling undertaken by Jacobs	76
Figure 16	Composition of the estimated net market benefits for option portfolio 1 (NPV, \$billions)	83
Figure 17	Composition of the estimated net market benefits for option portfolio 2 (NPV, \$billions)	84
Figure 18	Key changes in the composition of the estimated net market benefits for option portfolio 2, compared to option portfolio 1 (NPV, \$millions)	85
Figure 19	Composition of the estimated net market benefits for option portfolio 3 (NPV, \$billions)	86
Figure 20	Key changes in the composition of the estimated net market benefits for option portfolio 3, compared to option portfolio 2 (NPV, \$millions)	87
Figure 21	Composition of the estimated net market benefits for option portfolio 4 (NPV, \$billions)	88
Figure 22	Key changes in the composition of the estimated net market benefits for option portfolio 4, compared to option portfolio 3 (NPV, \$millions)	89



Figure 23	NPV results for each of the portfolio options with 125% VER	90
Figure 24	NPV results for each of the portfolio options with 75% VER	91
Figure 25	NPV results for each of the portfolio options with 130% synchronous condenser costs	91
Figure 26	NPV results for each of the portfolio options with 70% synchronous condenser costs	92
Figure 27	NPV results for each of the portfolio options with 125% grid-forming BESS upgrade costs	92
Figure 28	NPV results for each of the portfolio options with 75% grid-forming BESS upgrade costs	93
Figure 29	NPV results for each of the portfolio options with 10.5% discount rate	93
Figure 30	NPV results for each of the portfolio options with 3.63% discount rate	94

1 Introduction

The power system is undergoing a transformational change, with an unprecedented increase in renewable generation, changes in consumption patterns, and the withdrawal of several existing large conventional generation sources across the National Electricity Market (NEM), including Victoria.

As the NEM makes this transition, new sources of system strength will be required to maintain power system security. As the SSSP for Victoria, AVP is responsible for procuring services to meet the system strength requirements for Victoria. This has been the focus of this RIT-T.

AVP has prepared this PACR in accordance with the requirements of clause 5.16 of the NER, for a RIT-T. It represents the final step in the formal RIT-T process and follows the PADR published in April 2025.

In line with the NER requirements, this PACR describes:

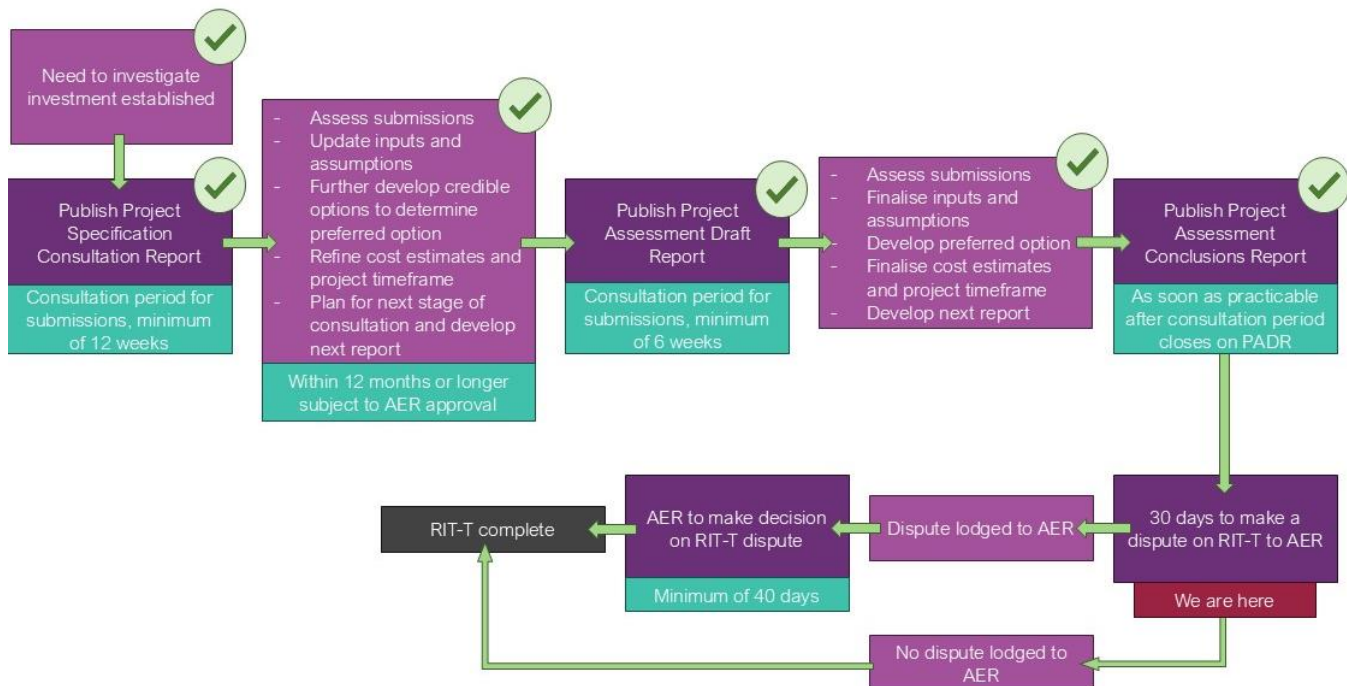
- the identified need for this RIT-T
- points raised in submissions to the PADR and how these have been addressed in the RIT-T analysis
- the options assessed under this RIT-T (which remain unchanged from the PADR), including the non-network solutions put forward in response to AVP's earlier RFI and how these have been combined (together with potential network investment components) into credible 'option portfolios'
- the basis on which the costs for the option portfolios have been estimated
- the market benefits expected from meeting the system strength requirements (including discussion of how benefits from changes in Australia's greenhouse gas emissions have been quantified)
- the results of the NPV analysis for each of the option portfolios assessed
- the key drivers of the NPV results, as well as the assessment that has been undertaken to ensure the robustness of the conclusion (including detailed sensitivity and boundary value testing), and
- details of the overall proposed preferred option from the RIT-T process to meet the identified need.

The NPV assessment has not changed since the PADR on account of the options remaining the same, there being no material change to the underlying assumptions, and nothing material being raised in submissions to the PADR.

1.1 Further information and next steps

This report marks the conclusion of the formal RIT-T consultation process under the NER, as summarised in **Figure 3**. Further engagement will be considered after the tender process is complete and once potential sites for new assets are confirmed. AVP anticipates that selected proponents will lead any future engagement, primarily to support planning approvals and ensure the proposed developments are appropriately understood and considered.

Figure 3 Overview of the RIT-T process



AVP has commenced tendering for services from existing synchronous machines, on a closed tender basis, and is also progressing a market sounding process that will guide any future tendering, including for near-term solutions, for:

- two new plant capable of operating as synchronous condensers
- 1,250 MW of GFM BESS, regardless of MWh capacity, consisting of 900 MW in the Moorabool area and 350 MW in the Hazelwood area, and
- upgrades to some existing units to enable synchronous condenser operation.

The purpose of the market sounding process is to communicate key technical and commercial aspects of the system strength procurement process to the market. This process provides an opportunity for participants to provide feedback to inform the ongoing development and planning of the project. The objectives of the market sounding process are to:

- build on market engagements under this RIT-T and AEMO's 2025 Thermal Audit⁷, to close information gaps
- inform market and raise awareness that AVP is ready and willing to procure
- evaluate the market of potential suppliers for delivering system strength services, and
- obtain feedback on the proposed contract model and procurement process and survey alternative approaches to system strength.

These procurement activities align with the conclusions from the PADR, which are reaffirmed in this PACR, and will support AVP's ability to meet system strength requirements from 2 December 2025 through to FY2029.

⁷ AEMO, 2025 General Power System Risk Review Report – Draft – Consultation Draft, June 2025, p. 41. At, https://aemo.com.au/-/media/files/stakeholder_consultation/consultations/nem-consultations/2024/2025-general-power-system-risk-review/2025-draft-gpsrr-report.pdf?la=en.

Beyond these near-term solutions, AVP intends to pursue the longer-term specific solutions under option portfolio 3, consistent with the PADR, and the market sounding process will help inform the timing of any future tendering.

Within 30 days of the date of publication of this PACR, any party wishing to dispute the conclusions made in this PACR must give written notice to the AER, setting out the grounds for the dispute, and at the same time give a copy of the dispute notice to AVP. **The closing date for this to occur for this PACR is 31 August 2025.** While AVP has commenced the procurement process in parallel to preparing the PACR, it has not finalised contracts yet and does not intend to do so until the PACR dispute period is complete.

2 Identified need

As the SSSP for Victoria, AVP is required to undertake this RIT-T to make sufficient system strength available, as specified by AEMO, under NER S5.1.14. AVP is undertaking this RIT-T as a 'reliability corrective action'.

The assumed amount of system strength required (both the minimum and efficient levels) at different locations, and the supporting assumptions, have not changed since the PADR and align with the most recent AEMO *System Strength Report* released in December 2024.

While AVP acknowledges that the delayed construction of Western Renewables Link (WRL) and Victoria – New South Wales Interconnector West (VNI West) may ultimately impact Victoria's system strength requirements, AVP has not quantified any associated impact in this PACR and will instead consider these and any other material changes following any revision of the system strength requirements, expected through publication of the *2025 System Strength Report* or otherwise pursuant with the NER.

2.1 Summary of the identified need

System strength is the ability of the power system to maintain a stable voltage waveform at any given location in the power system, both during steady state operation and following a disturbance. System strength has traditionally been provided by synchronous generation such as coal, gas-fired and hydro-electric power generation that is electromagnetically coupled to the power system. IBR – which include wind, large-scale solar, and batteries – do not inherently provide system strength, and most existing IBR which use GFL technology require adequate system strength for the inverters to work reliably.

The transition from a power system with predominantly synchronous generation to a power system with high levels of IBR has introduced a need to replace the system strength provided by synchronous generators to ensure system security can be maintained and to allow protection systems and IBR to work reliably.

In October 2021, the AEMC made its final rule determination on Efficient Management of System Strength on the Power System. This new system strength framework introduces obligations for SSSPs. Under NER S5.1.14(b), AVP as the SSSP for Victoria is required to use reasonable endeavours to plan system strength services to:

- maintain the **minimum three-phase fault level** specified by AEMO at each system strength node in Victoria (that is, meet the minimum level of system strength), and
- achieve stable voltage waveforms for the forecast future IBR projected by AEMO in steady state conditions and following credible contingencies or protected events (that is, meet the **efficient level** of system strength).

The identified need for this RIT-T is to procure sufficient system strength services to ensure the system strength standard as per NER S5.1.14 is met for both forecast minimum and efficient levels at each of the Victorian system strength nodes from 2 December 2025 onwards.

AVP is undertaking this RIT-T as a 'reliability corrective action' as the considered options are to enable AVP to meet the regulatory obligations under NER S5.1.14.

The amount of system strength expected to be required, and the supporting assumptions, have not changed from the PADR. Appendix A2 of this PACR and Section 2.2 of the PADR outline these specific assumptions and how the assessment of system strength requirements is consistent with AEMO's 2024 *System Strength Report* (for both the minimum three phase fault levels and the efficient level). No submissions were received on this approach.

2.2 Recent changes that may impact the identified need

2.2.1 2025 Inputs, Assumptions and Scenarios Report

AVP notes that the recently released final 2025 *Inputs, Assumptions and Scenarios Report* (IASR) for the Draft 2026 *Integrated System Plan* (ISP) has not been considered in the modelling for this PACR, because the PACR assumptions needed to be finalised significantly ahead of when the 2025 IASR was released. Changes arising out of the updated IASR are not expected to be reflected in the IBR forecast or the system strength requirements before publication of 2025 *System Strength Report*, due to be published by 1 December 2025.

2.2.2 Major transmission project delays

Since publication of the PADR, Transmission Company Victoria (TCV), a subsidiary of AEMO, announced that VNI West construction completion has been delayed to November 2030, with full capacity release expected by November 2031, and AusNet announced that WRL construction completion has been delayed to November 2029.

While the delayed construction of these major network projects may ultimately impact AVP's system strength requirements, AVP has qualitatively considered below, but not quantified, the timing delay impacts as part of this RIT-T. Any delay impact has not been quantified in this PACR for a range of reasons, including:

- the minimum fault level requirements set by AEMO in its 2024 *System Strength Report* are not projected to change over the 10-year forecast period and these network project delays do not alter the immediate need to procure system strength services from synchronous machines capable of providing sufficient protection-quality fault current at the Victorian system strength nodes
- as the SSSP for Victoria, AVP is required to meet the system strength requirements published by AEMO under NER 5.20C(c), or as revised pursuant with the NER, and the most recent system strength requirements are currently those set out in AEMO's 2024 *System Strength Report*
- at this stage, neither AEMO or AVP have had sufficient time to undertake the detailed modelling required to quantify the project delay impacts on the provision of system strength, the IBR forecast or on the system strength requirements, and delaying conclusion of this RIT-T to undertake and consider that detailed modelling would jeopardise AVP's ability to meet its system strength obligations by 2 December 2025, and
- AVP considers that, given its staged procurement approach, there is sufficient time and flexibility after publication of the 2025 *System Strength Report*, either through an MCC of subsequent RIT-T, to alter its path and pursue a more optimal portfolio of solutions if subsequently determined appropriate.

Given the above considerations, for this RIT-T PACR AVP has continued to rely on the system strength requirements set out in the 2024 *System Strength Report* and will consider the longer-term impact of any change in system strength requirements published by AEMO in its 2025 *System Strength Report*, expected by 1 December 2025, or otherwise pursuant with the NER.

3 Consultation on the PADR

AVP published the PADR for this RIT-T on 17 April 2025 and sought written submissions from interested parties. Submissions were requested by 30 May 2025.

On 12 May 2025, AVP held a webinar attended by more than 50 participants to inform stakeholders of the key elements and findings of the PADR.

AVP received three confidential submissions to the PADR, covering some matters that submitters advised could be considered in the RIT-T on a non-attributable basis, and including proponents proposing system strength services.

On 12 May 2025, AVP held a webinar to inform stakeholders of the key elements of the PADR, including the preferred option and the proposed way forward. Stakeholders raised a number of questions as part of the webinar, which covered the following key topics:

- the construction and composition of the various option portfolios
- specific questions regarding the preferred option portfolio (option portfolio 3)
- how the different components of the portfolios have been costed
- the market modelling topology, and
- the procurement process.

The webinar slides, presentation recording and a summary of the webinar questions and answers, which have been considered in developing this PACR, are available on AVP's system strength RIT-T webpage⁸.

AVP subsequently received confidential submissions from three parties in response to the PADR, including proponents proposing system strength services and covering general matters that submitters advised could be considered in the RIT-T on a non-attributable basis. The general matter topics able to be considered in the RIT-T on a non-attributable basis included:

- option value and the timing of options
- further consideration of Mortlake's minimum fault provision
- provision and availability of land, and
- compensation of foregone opportunity costs.

AVP has reviewed and responded to each submitter bilaterally, and the general matters raised and able to be considered in the RIT-T on a non-attributable basis are summarised below in **Table 3**.

⁸ At <https://aemo.com.au/initiatives/major-programs/victorian-system-strength-requirement-regulatory-investment-test-for-transmission>.

Table 3 Summary of points raised in PADR submissions

Point(s) raised	AVP response
While AVP stated that ‘option value’ is not considered material for this RIT-T, AVP has in effect used an option value approach by noting that if some of the assumptions do not materialise in the preferred option portfolio 3 world, it will move to one of the alternative options presented.	AVP agrees that this is an additional source of benefit for the preferred pathway forward (compared to if AVP committed to an option portfolio in full now and did not provide any flexibility to change in the future). However, it has not been estimated in the assessment as it is not proportionate to do so and would not change the ranking of the options, nor the preferred pathway forward.
In its PADR webinar, AVP advised it was open to considering options to accelerate the delivery of services. Some stakeholders have welcomed the opportunity to explore how they could continue to progress early works under a specific arrangement, while reiterating that synchronous condenser slots remain available and estimates timeframes of 20-30 months from contract execution to delivery of service.	AVP will consider proposed delivery timeframes in its procurement processes, and acknowledges that its assumed synchronous condenser procurement timeframes have been confirmed as achievable, with industry stating synchronous condenser slots remain available with 20-30 month delivery timeframes.
AVP recently indicated that the fault level around the Moorabool system strength node has improved, which may inform its shift toward favouring a GFM BESS over a synchronous condenser. While welcome, these network enhancements alone do not negate the requirement for “protection-quality” fault current that synchronous condensers can provide.	In addition to the network improvements that have increased the protection-quality fault current at and proximal to the Moorabool Terminal Station, the proposed contracting and additional dispatch of existing synchronous machines, as identified as economically optimal RIT-T preferred option, option portfolio 3, further increases the protection-quality fault current projected at Moorabool Terminal Station. Combined, these network and synchronous machine dispatch changes have replaced the need for alternative synchronous services at or proximal to the Moorabool system strength node.
The procurement of land suitable for a synchronous condenser within or adjacent to some existing terminal stations has proven challenging for some potential service providers, particularly given the Victorian Essential Services Commission’s recent repeal of Guideline No. 18 Augmentation and Land Access Guidelines. As a result, to ensure a level playing field for the tendering process, AVP should assist with the process of procuring suitable land.	Despite repeal of Guideline No. 18, land access for augmentations to the Victorian declared network are considered under Part 5 Division 4 of the National Electricity (Victoria) Act 2005 (NEVA) ^A . Through its procurement processes, AVP will endeavour to work with potential service providers to make land available and achieve the best outcomes for consumers.
AVP has assumed a zero capital and operating and maintenance cost for a GFM BESS providing system strength services. However, GFM BESS providers would ideally want to be compensated for the opportunity cost of foregoing energy and frequency control ancillary services (FCAS) revenues in exchange for providing their services to AVP to maintain system strength.	As outlined in Section 4.6.3 of the PADR, AVP has assumed that a GFM BESS can provide its system strength capability irrespective of its MWh energy capacity or its instantaneous state of charge and MW dispatch. Whilst this is likely dependant on the specific GFM BESS design, AVP still considers this assumption is appropriate for the RIT-T assessment as the level of support is not known and any revenue compensation would be considered a wealth transfer as it is assumed to reduce costs to consumers from the GFM BESS in the market. Any need to reserve capacity to deliver the service – and any associated costs – will be addressed through the procurement process, which aims to identify the value for money portfolio solution that meets the system strength requirements, and the ultimate cost to consumers will be determined from these costs.

A. Victorian Government, National Electricity (Victoria) Act 2005, Authorised Version No. 036, pp. 106-108, at <https://content.legislation.vic.gov.au/sites/default/files/2025-03/05-8aa036-authorised.pdf>

The analysis presented in this PACR has been strongly informed by the solutions proposed by parties over the course of this RIT-T, including the earlier PSCR RFI (and subsequent survey), as well as the general submissions received, which have helped ensure the robustness of the analysis overall. AVP thanks all parties for their valuable input to the consultation process undertaken as part of this RIT-T.

4 Options to address the need

This PACR has assessed the same four credible option portfolios that were developed and assessed in the PADR to meet the system strength requirements. There has been no material change to the underlying assumptions, or circumstances, that led to the development of each of these different options, and nothing material in submissions to the PADR.

This section outlines each of the four credible option portfolios that have been developed and assessed as part of this PACR, and their associated costs. Appendix A4 provides more detail on each portfolio, as well as the base case for the assessment of these options (the 'do nothing' case that all option portfolios are assessed against under the RIT-T).

0 provides a summary of the four different option portfolios developed and assessed in this PACR.

Appendix A3 provides additional detail on the option portfolio formation process. A portfolio approach to forming credible options for this RIT-T is consistent with other system strength RIT-Ts and represents a practical way of assessing and grouping the large number of individual solutions proposed in response to the RFI, plus additional network solutions. It also recognises that no one solution can address the requirements in isolation.

Appendix A4 provides additional detail on how the various option components have been costed for the purposes of the RIT-T assessment.

Wherever a system strength node (SSN) location is mentioned in this PACR, this should be interpreted as being 'in the vicinity of' this location (with the exact location of services to be determined via the procurement process), and not necessarily at that specific location.

All option portfolios also assumed two synchronous condensers at Buronga in each of 2026 and 2027 as part of Project EnergyConnect (PEC) Stage 1 and Stage 2, respectively. These four synchronous condensers have not been shown in the option component tables below since, while the option portfolios rely on them as an interstate contribution, AVP is not considering contracting them and they form part of the assumed interstate contribution (which has been factored into the option portfolio development process, as discussed in Section A3.7).

Table 4 Summary of the four credible option portfolios

	Overview	Focus	Capital costs (present value)
Option portfolio 1	10 synchronous condensers ^A (nine new and 1 existing) + 1,250 of GFM BESS + Existing generation ^B , including conversion of some units to be capable of operating in synchronous condenser mode	Includes existing generation, as well as committed/anticipated GFM BESS (for the efficient level) and nine new synchronous condensers (for the minimum and efficient levels)	\$1,144.7m comprising of: <ul style="list-style-type: none"> \$1,134.5m for nine new synchronous condensers \$1.5m for upgrading a 'committed' GFL BESS to be GFM \$8.7m for upgrading an existing generator (to also be capable of operating in synchronous condenser mode)
Option portfolio 2	Seven synchronous condensers (six new and one existing) + 2,465 MW of GFM BESS (i.e., the same as option portfolio 1 plus upgrading additional committed/anticipated GFL BESS to be GFM, and an additional (small) GFM BESS) + The same other technology types as option portfolio 1	Developed to determine, through comparison with option portfolio 1, whether upgrading additional GFL BESS to be GFM is considered optimal compared to investing in synchronous condensers	\$795.6m comprising of: <ul style="list-style-type: none"> \$779.1m for six new synchronous condensers \$7.8m for upgrading committed/anticipated GFL BESS to be GFM \$8.7m for upgrading an existing generator (to also be capable of operating in synchronous condenser mode)
Option portfolio 3	Six synchronous condensers (five new and one existing) + 2,800 MW of GFM BESS (i.e., the same as option portfolio 2 plus a generic 400 MW grid-forming BESS from the IBR forecasts) + The same technology types as option portfolio 2	Investigating the cost savings that could be achieved where future modelled GFM BESS become committed/anticipated under the RIT-T	\$689.5m comprising of: <ul style="list-style-type: none"> \$673.1m for five new synchronous condensers \$7.8m for upgrading committed/anticipated GFL BESS to be GFM \$8.7m for upgrading an existing generator (to also be capable of operating in synchronous condenser mode)
Option portfolio 4	The same as option portfolio 3 – including the same number of new synchronous condensers in total – but with accelerated procurement of two synchronous condensers	This option has been developed to investigate whether expediting synchronous condensers is expected to be net beneficial	\$714.5m comprising of: <ul style="list-style-type: none"> \$698.4m for five new synchronous condensers \$7.8m for upgrading committed/anticipated GFL BESS to be GFM \$8.7m for upgrading an existing generator (to also be capable of operating in synchronous condenser mode)

A. As outlined in Section A5.1, all new plant able to operate as synchronous condensers have been assumed to be, and costed in the RIT-T assessment as, synchronous condensers for this PACR.

B. While each of the options assumes the use of 'existing generation', AVP considers that this includes any additional generation that connects ahead of AVP needing to commit to its procurement following this RIT-T.

One submitter to the PADR stated that GFM BESS providers would want to be compensated for the opportunity cost of foregoing energy and frequency control ancillary services (FCAS) revenues in exchange for providing their services to AVP to maintain system strength. As outlined in Section 4.6.3 of the PADR, AVP has assumed that a GFM BESS can provide its system strength capability irrespective of its MWh energy capacity or its instantaneous state of charge and MW dispatch. While this is likely dependant on the specific GFM BESS design, AVP still considers this assumption is appropriate for the RIT-T assessment. Any reservation of capacity required to provide the service, and any associated compensation, will be considered on an individual solution basis as part of the procurement process, which aims to identify the specific lowest cost solutions. Any need to reserve capacity to deliver the service – and any associated costs – will be addressed through the procurement process, which aims to identify the value for money portfolio solution that meets the system strength requirements, and the ultimate cost to consumers will be determined from these costs.

5 The preferred option portfolio

Option portfolio 3 – which includes a ‘generic’ 400 MW GFM BESS from the IBR forecasts – is found to be the top-ranked option in this RIT-T, delivering at least \$3.85 billion in net benefits over the assessment period, in present value terms.

The top-ranking attributed to option portfolio 3 is driven primarily by significant avoided generator fuel costs and lower emissions with option portfolio 3 in place. These two sources of benefit are derived from a reduced need for existing synchronous machines in Victoria to provide system strength due to the introduction of dedicated system strength assets such as GFM BESS and plant able to operate as synchronous condensers. Option portfolio 3 also avoids substantial unserved energy relative to the base case.

The NPV assessment has not been updated since the PADR on account of the options remaining the same, there being no material change to the underlying assumptions, and nothing material being raised in submissions to the PADR.

5.1 Summary of the NPV results

Option portfolio 3 (where a generic GFM BESS from the IBR forecasts is included) is found to generate substantial estimated net benefits over the assessment period – at least⁹ \$3.85 billion in present value terms – and is the top-ranked option overall.

The analysis also found that:

- all options are found to deliver substantial net market benefits (driven both by significant avoided unserved energy and wholesale market benefits relative to the base case)
- accelerating synchronous condensers is not found to deliver net benefits; that is, option portfolio 4 is found to have lower estimated net benefits than option portfolio 3), and
- upgrading significant additional committed/anticipated GFL BESS to be GFM (option portfolio 2) is found to be the effectively second-ranked¹⁰ option, and sits ahead of only using existing generation, committed/anticipated GFM BESS (including one that upgrades from GFL to GFM) and new synchronous condensers (option portfolio 1).

Figure 4 summarises the headline NPV results for each of the option portfolios.

⁹ ‘At least’ is used here on account of the avoided unserved energy estimates only being based on the minimum level requirements (as outlined in Section 5.1). If the unserved energy was estimated to take account of the efficient level requirements as well, the expected net benefit of all option portfolios would be significantly greater.

¹⁰ Throughout the PACR (and PADR), option portfolio 2 is referred to as the ‘effectively second-ranked’ option since option portfolio 4 (the technically second-ranked option) is just option portfolio 3 with two accelerated synchronous condensers, as opposed to a distinct standalone option.

Figure 4 Headline net benefits of each option portfolio under the *Step Change* scenario (including avoided unserved energy)

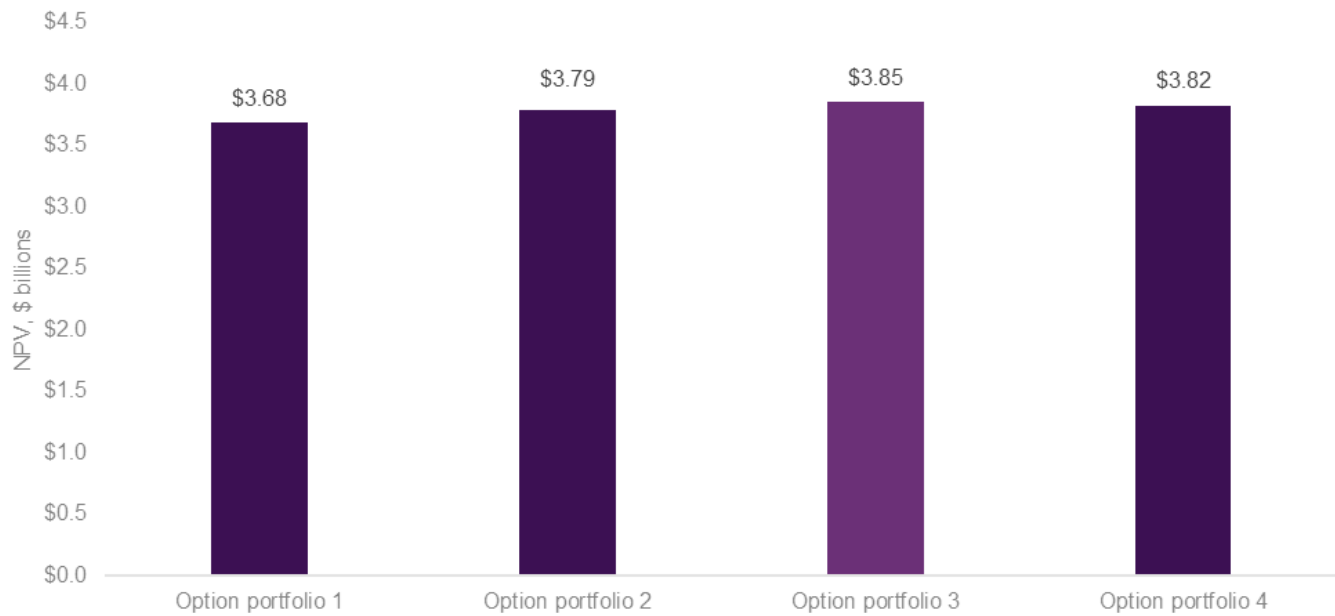
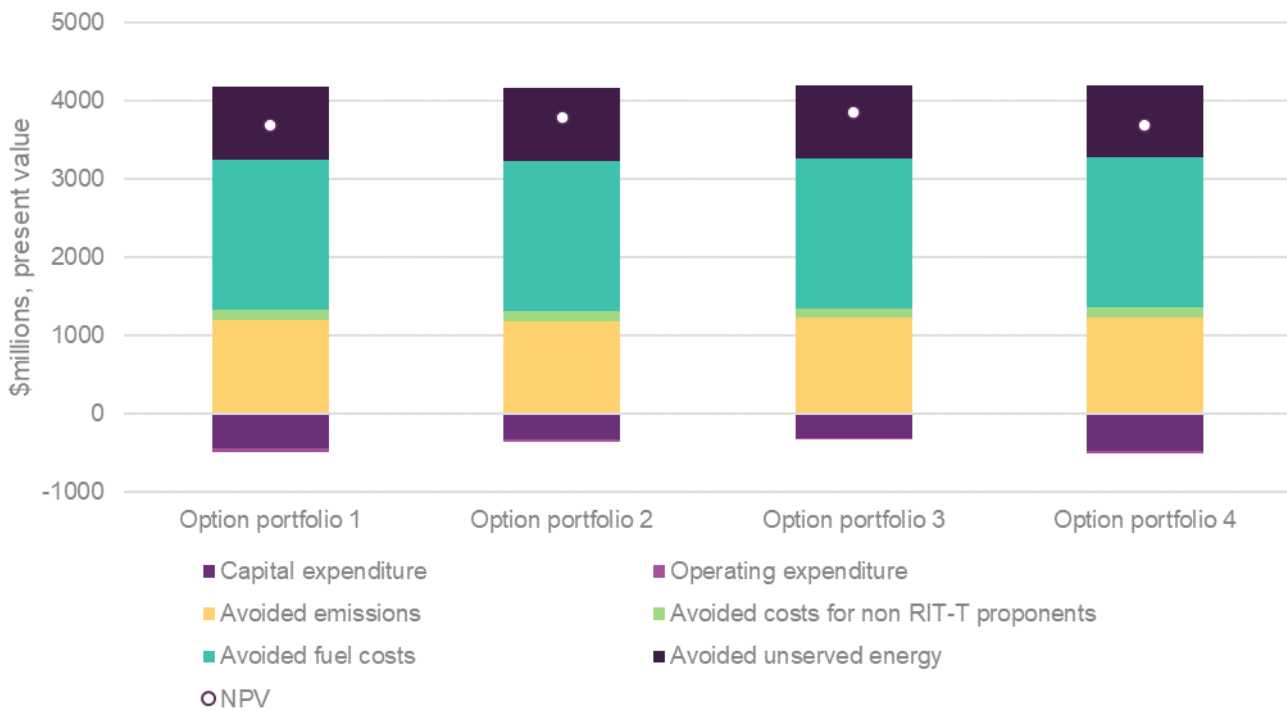


Figure 5 shows the composition of the estimated net market benefits for each option portfolio.

Figure 5 Breakdown of estimated net benefits of each option portfolio under the *Step Change* scenario (including unserved energy)



Since all option portfolios have been designed to avoid the catastrophic outcomes of having insufficient system strength under the base case, they all avoid the same (substantial) level of unserved energy under the base case. As outlined in the PADR, this unserved energy is expected to occur under the base case from 2031, and all option portfolios avoid approximately \$930 million of unserved energy (in present value terms) in aggregate across the assessment period (as shown in Figure 5 above).

For the remainder of this PACR, AVP has removed this common avoided unserved energy from the NPV assessment, given it does not help identify the top-ranked option, and removing it shows the real differences in other costs and benefits across the option portfolios more clearly. This approach was also taken in the PADR and was not commented on in submissions.

Appendix A9 discusses the results for each option portfolio in turn and uses the results excluding the common avoided unserved energy.

5.2 Components of the preferred option portfolio

Option portfolio 3 uses existing synchronous generation to assist with providing system strength, as well as committed and anticipated GFM BESS (for the efficient level), including some that upgrade from GFL to GFM, and new plant able to operate as synchronous condensers (for the minimum and efficient levels). It also includes a generic GFM BESS from the IBR forecasts to help meet the efficient level requirements.

In total, option portfolio 3 involves five new plant able to operate as synchronous condensers over the assessment period (four fewer than under option portfolio 1).

The specific components included are in **Table 5**.

Table 5 Option portfolio 3 – Summary of components

Financial year	Minimum fault levels	Efficient level
2026	Existing generators, including conversion of some units to be capable of operating in synchronous condenser mode 1 x Existing synchronous condenser Red Cliffs SSN	Covered by minimum fault level requirements
2027		
2028		900 MW GFM BESS Moorabool SSN
2029	Same as 2028 + 2 x synchronous condensers Hazelwood SSN	Same as 2028 + 350 MW GFL to GFM BESS Hazelwood SSN
2030		
2031	Same as 2030 + 1 x synchronous condenser Hazelwood SSN	Same as 2031 + 500 MW GFL to GFM BESS Hazelwood SSN 350 MW GFL to GFM BESS Moorabool SSN 400 MW ISP forecast GFM BESS Hazelwood SSN
2032		
2033		
2034	Same as 2033 + 1 x synchronous condenser Hazelwood SSN	Same as 2032 + 300 MW GFL to GFM BESS Moorabool SSN
2035		Same as 2034 + 65 MW GFM BESS Red Cliffs SSN + 1 x 500 kV synchronous condenser Giffard (Gippsland) Offshore Wind Hub
2036		

In present value terms, the total estimated capital cost of this option, over the life of the assets, is approximately \$689.6 million, which can be broken down as follows:

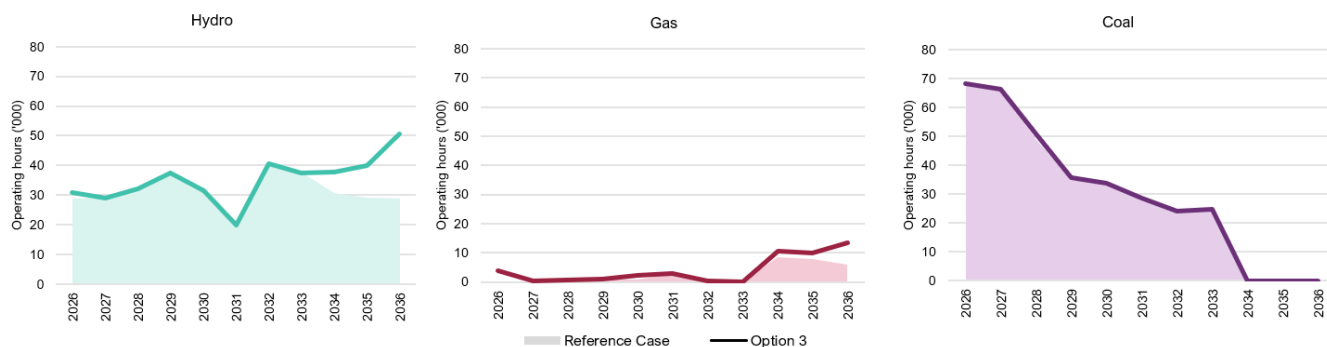
- \$673.1 million for synchronous condensers
- \$7.8 million for GFL BESS to be GFM, and
- \$8.7 million for upgrading an existing generator (to also be capable of operating in synchronous condenser mode).

Over the 11-year assessment period, and considering the terminal value (as outlined in Appendix A6.4), this equates to approximately \$311.2 million and \$28.9 million in total capital and operating costs, respectively.

As outlined in Section A5.1, and as with existing and committed/anticipated GFM BESS, AVP has not included a capital cost for the 'generic' GFM BESS from the IBR forecast, because the costs were assumed to be in the base case. In addition, AVP has not assumed any upgrade cost, but has treated all new BESS as being GFM based on recent connection enquiries and applications being processed by AEMO's Victorian Connections team (see Appendix A3).

Figure 6 shows the redispatch of existing generators in the Victorian system under option portfolio 3, relative to the energy-only dispatch of the reference case. This demonstrates the possible level of additional synchronous generator dispatch, and therefore potential unit contracting over time, required to meet the system strength requirements with the other option portfolio 3 solutions in place.

Figure 6 Victorian synchronous generator operating hours, option portfolio 3 relative to the reference case



During the PADR webinar, one party raised the question of how dispatch in the reference case compares to AEMO's 2024 *System Strength Report* (and, specifically, Figure 31 in that report). As set out in AVP's published questions and answers document from the webinar,¹¹ Figure 31 of AEMO's 2024 *System Strength Report* presents duration curves of the number of synchronous units projected to be online under the *Step Change* scenario in Victoria. AVP has compared these curves with the synchronous unit dispatch modelling results for modelled years 2026, 2027 and 2028 and the synchronous unit duration curves of the two modelling pieces look very similar, with the RIT-T modelling showing marginally (typically zero to one unit) less synchronous unit dispatch overall. These marginal differences are driven by the differences in modelling assumptions where the 2024 *System Strength Report* used the bidding behaviour model for realistic bidding, but did not enforce operational unit commitment requirements, whereas the PADR, and this PACR, applied synchronous unit commitment in line with the 2023 IASR, but did not otherwise apply realistic bidding or utilise the bidding behaviour model.

¹¹ At <https://aemo.com.au/-/media/files/initiatives/victorian-system-strength-requirement-rit/victorian-system-strength-padr-ga.pdf?la=en>.

5.3 Sensitivity analysis

AVP tested the robustness of the above core NPV assessment by changing a number of key variables. These tests investigated whether the ranking of the options changes (and whether the preferred option portfolio changes) under these alternate key assumptions.

Specifically, AVP tested the impact on the portfolio rankings of:

- 25% higher and lower value of emissions reduction (VER) values – consistent with the guidance of Australia’s Energy Ministers¹²
- 30% higher and lower assumed synchronous condenser costs (both capital and operating costs) – consistent with the class of costs included in the transmission cost database
- 25% higher and lower GFM BESS upgrade costs
- lower and higher commercial discount rates (as discussed in Section A6.4), and
- where the Gippsland and Portland offshore wind IBR are assumed to self-remediate (to reflect the current uncertainty around whether this will occur).

AVP has not investigated a sensitivity on the assumed Value of Customer Reliability (VCR), because the avoided involuntary load shedding is the same across all four options (and thus not considered a material market benefit for this RIT-T).

Similarly, AVP has not investigated a sensitivity on the assumed cost of upgrading an existing generator to also be capable of operating in synchronous condenser mode, since this component is included in all option portfolios equally (and thus its costs do not affect the ranking of the options).

The results of the sensitivity testing are discussed in the two sections below. Section 5.3.1 discusses the first four sensitivities listed above (undertaken on the NPV assessment alone), while Section 5.3.2 discusses the offshore wind self-remediating sensitivity (which required a re-optimisation of the preferred option portfolio). No points on the sensitivity analysis were raised in submissions.

5.3.1 General sensitivity analysis on the RIT-T NPV assessment

None of these sensitivities have been found to change the key findings of the core assessment, and AVP does not find any realistic boundary values that would change the key findings of the core assessment. Appendix A10 presents the results of all general sensitivity tests investigated.

The boundary values, where they exist, are summarised in **Table 6**. For clarity, each boundary test has been set as when/whether option portfolio 3 is no longer the preferred option, and all percentages show the percentage of the core assumption (for example, the assumed VER would need to nearly triple to change the conclusion).

Table 6 Summary of the boundary assessments undertaken in this PACR

	VER	Synchronous condenser capex	GFL to GFM BESS upgrade capex	Discount rate
Boundary value	291%	-84%	5,020%	N/A

¹² See <https://www.aemc.gov.au/sites/default/files/2024-04/MCE%20statement%20on%20interim%20VER.pdf>.

System strength can often contribute to the provision of inertia, and vice versa, and with the addition of a relatively low-cost flywheel, a synchronous condenser can provide substantially more inertia while still providing system strength. The AER noted in its December 2024 guidance that it expects that including flywheels, where synchronous condensers have been found to be part of the preferred option for meeting the system strength requirements, would ultimately be considered to be prudent and efficient expenditure¹³.

As part of this RIT-T assessment, AVP has estimated that the addition of a flywheel would add approximately 1.9% to the estimated capital cost of the synchronous condensers included in the option portfolios. Given this is well within the synchronous condenser capital cost boundary assessment, shown above, AVP considers that this additional cost would not change the ranking of the option portfolios. No submissions commented on this finding in the PADR.

5.3.2 Gippsland and Portland offshore wind self-remediating

The 2024 *System Strength Report* includes significant Victorian offshore wind in the:

- Gippsland region (in the order of 3.42 gigawatts [GW] by 2035), which is assumed to connect at the Hazelwood node, and
- Portland region (in the order of 0.58 GW by 2035), which is assumed to connect at the Moorabool node.

This reflects the legislated offshore wind energy generation target of 2 GW by 2032¹⁴, coupled with the formal declaration of the Gippsland (Victoria) declared offshore wind area in December 2022¹⁵.

This offshore wind was not included in the 2022 *System Strength Report*, and represents a substantial change in forecast IBR from what was contemplated at the time of preparing the PSCR.

AVP therefore investigated a sensitivity where the Gippsland and Portland offshore wind IBR are self-remediated (to reflect current uncertainty around whether this self-remediation will occur). This sensitivity differs to the other general ones above (which hold the option portfolio components and wholesale market modelling constant), as it required both a re-optimising of the option portfolio and thus subsequent re-running of the wholesale market modelling for these new components.

In this sensitivity, AVP modelled:

- option portfolio 3 only, given the extent of the modelling required, and
- the self-remediation of the offshore wind so it has no net negative effect on system strength in the wider power system.

If the offshore wind assumed to connect at the Hazelwood and Moorabool nodes self-remediates, AVP found that the following changes to option portfolio 3 are required for the efficient level requirements (and no changes for the minimum level requirements):

- one Giffard (Gippsland) Offshore Wind Hub 500 kilovolts (kV) synchronous condenser from 2035 can be avoided
- 500 MW of GFL to GFM BESS upgrades at Hazelwood and 350 MW of GFL to GFM BESS upgrades at Moorabool are deferred from 2032 to 2034

¹³ AER, *The Efficient Management of System Strength Framework*, AER Guidance Note, December 2024, p. 31.

¹⁴ *Renewable Energy (Jobs and Investment) Act 2017*, s 7B.

¹⁵ *Offshore Electricity Infrastructure (Declared Area OEI-01-2022) Declaration 2022*, 17 December 2022.

- 400 MW of generic IBR BESS at Hazelwood is deferred from 2032 to 2033, and
- 500 MW of generic IBR BESS at Thomastown is added in 2033.

The specific components included in this portfolio, for meeting both the minimum and efficient system strength requirements, are summarised in **Table 7**.

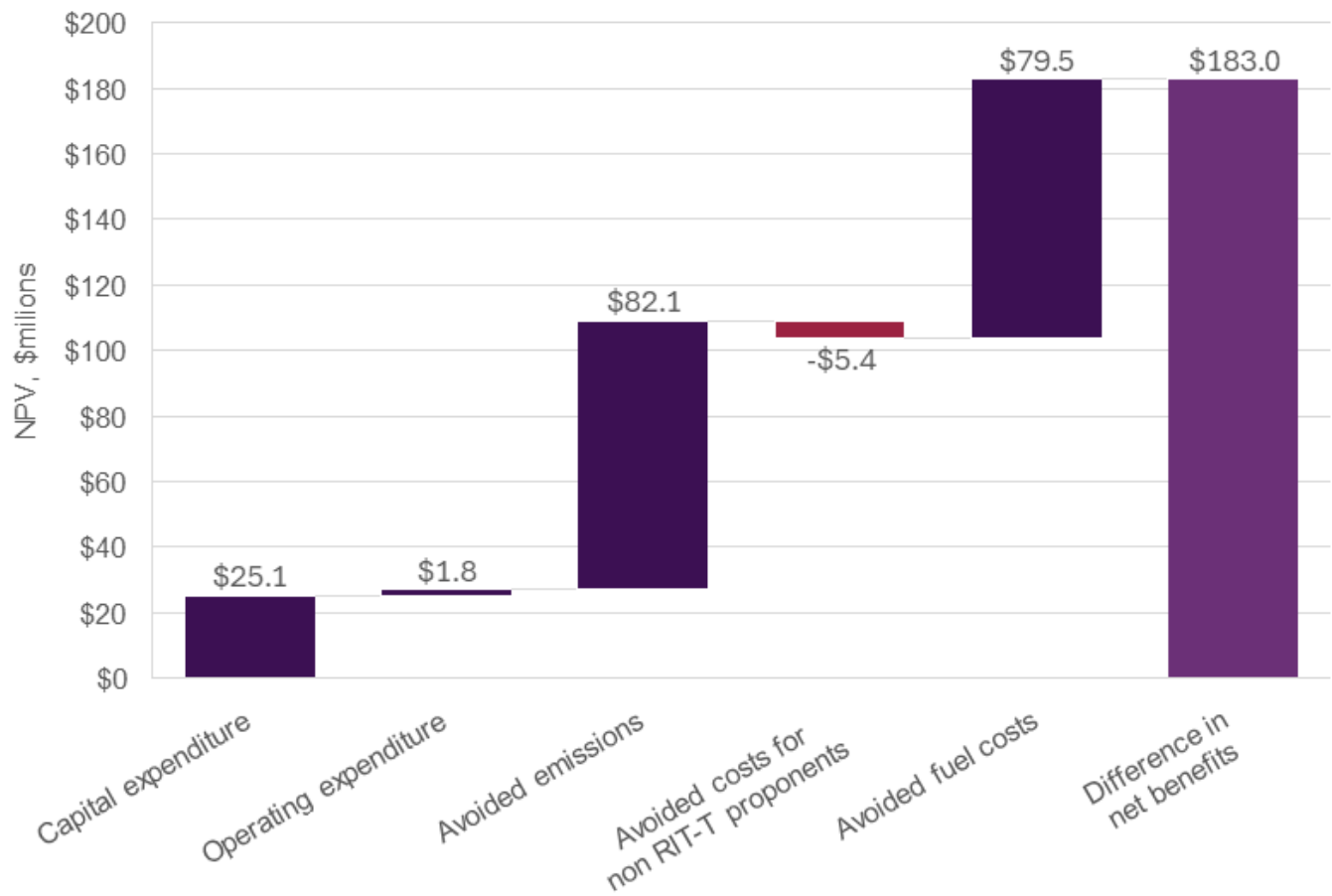
Table 7 Option portfolio 3 when offshore wind is assumed to self-remediate – summary of components

Financial year	Minimum fault levels	Efficient level
2026	Existing generators, including conversion of some units to be capable of operating in synchronous mode Existing synchronous condenser Red Cliffs SSN 1	Covered by minimum fault level requirements
2027		
2028		GFM BESS 900 MW SSN Moorabool
2029	Same as 2028 + 2 x Hazelwood SSN synchronous condensers	Same as 2028 + GFL to GFM BESS 350 MW SSN Hazelwood
2030		
2031		
2032	Same as 2030 + 1 x Hazelwood SSN synchronous condenser	Same as 2032 + ISP forecast GFM BESS 400 MW SSN Hazelwood GFL to GFM BESS 300 MW SSN Moorabool ISP forecast GFM BESS 500 MW SSN Thomastown
2033		
2034	Same as 2033 + 1 x Hazelwood SSN synchronous condenser	Same as 2033 + GFL to GFM BESS 500 MW SSN Hazelwood GFL to GFM BESS 350 MW SSN Moorabool
2035		Same as 2034 + GFM BESS 65 MW Red Cliffs SSN
2036		

While this sensitivity has only been run on the preferred option, AVP does not consider that expanding it to include all four options would affect their relative rankings. Specifically, AVP considers that the options would be affected in the same/very similar ways (that is, a reduction in the services required at Giffard). AVP also notes that the services found to be affected (above) are beyond what AVP is seeking to procure in the immediate term, so AVP will naturally review the need for them going forward and ahead of committing to any procurement.

Under this sensitivity, the expected net market benefits of option portfolio 3 increase by approximately \$183.0 million (in present value terms), compared to under the core option portfolio 3. This increase in benefits is driven primarily by additional emissions and fuel costs being able to be avoided (due to conventional generation needing to run less if offshore wind self-remediates) and the avoided/deferred capital expenditure (as shown below in **Figure 7**).

Figure 7 Key changes in the composition of the estimated net market benefits for option portfolio 3 when offshore wind is assumed to self-remediate (NPV, \$millions)



6 PACR conclusion

Option portfolio 3 is the preferred option identified in this RIT-T. It involves a number of near-term solutions to meet Victoria's system strength requirements from 2 December 2025 to 2029, which are common across all option portfolios, as well as a number of longer-term solutions that are specific to the preferred option.

Given the lead time for the near-term solutions, AVP has commenced tendering for services from existing synchronous machines and is also progressing a market sounding process that will guide any future tendering, including for near-term solution service contracts for:

- two new plant capable of operating as synchronous condensers
- 1,250 MW of GFM BESS, regardless of MWh capacity, consisting of 900 MW in the Moorabool area and 350 MW in the Hazelwood area, and
- upgrades to some existing units to enable synchronous condenser operation.

The minimum level of services from synchronous plant – existing, upgraded or new – included in option portfolio 3 are required to meet the minimum fault level requirements and provide sufficient protection-quality fault current, since GFM technology has not yet been demonstrated to satisfy protection-quality fault current at scale in Australia.

Beyond these near-term solutions, AVP intends to pursue the longer-term specific solutions of option portfolio 3 consistent with the PADR. This option has the greatest estimated net market benefit and imposes the least cost on customers. However, it relies on the further progression of potential BESS solutions. If these conditions are not met before AVP would need to otherwise commit to contracting additional plant able to operate as synchronous condensers to provide sufficient system strength, this would be a 'material change in circumstances' (MCC) and AVP would notify the AER of the change, giving the AER 40 days to make a determination approving or rejecting AVP's proposed alternative path to pivot to either option portfolio 2 or option portfolio 1.

While AVP may ultimately be required to pivot to either option portfolio 2 or option portfolio 1, compared to option portfolio 1 the equivalent of four synchronous condensers can be avoided if option portfolio 3 continues to be the preferred option, or the equivalent of three synchronous condensers can be avoided if AVP pivots to option portfolio 2. This would avoid a significant cost to consumers.

Overall, the proposed pathway involves contracting for services from new plant able to provide the equivalent of four 250 megavolt amperes (MVA) synchronous condensers, to provide sufficient fault level for protection system operation, while providing the greatest amount of time for low-cost BESS solutions to develop and be contracted with, but also retains the flexibility to pivot to additional plant able to operate as synchronous condensers in the future, if required, to ensure sufficient system strength provision to meet the system strength requirements.

The RIT-T analysis has found that the near-term solutions to meet Victoria's system strength requirements from 2 December 2025 to 2029 are common across all option portfolios. AVP has procurement activities for service agreements:

- to meet the minimum fault level requirements:

- existing generators,¹⁶ including upgrading some to be capable of operating in synchronous condenser mode, from 2026, and
- three plant able to operate as synchronous condensers – one existing one in the Red Cliffs area from 2026 and two new ones in the Hazelwood area by 2029, and
- to meet the efficient requirements:
 - 900 MW of currently ‘committed’ GFM BESS in the Moorabool area, and
 - 350 MW of currently ‘committed’ GFL BESS (upgraded to be GFM) in the Hazelwood area.

In line with the earlier PADR conclusion, AVP commenced procurement activities, including tendering for services from existing synchronous machines and a market sounding process for services from new synchronous and new or existing grid-forming resources, for these common components to enable AVP to meet its system strength requirements from 2 December 2025 to 2029 (taking account of expected contracting and procurement lead times).

Beyond these near-term solutions, AVP intends to pursue option portfolio 3, which is the preferred option identified in this PACR, since it has the greatest estimated net market benefit and imposes the least cost on customers.

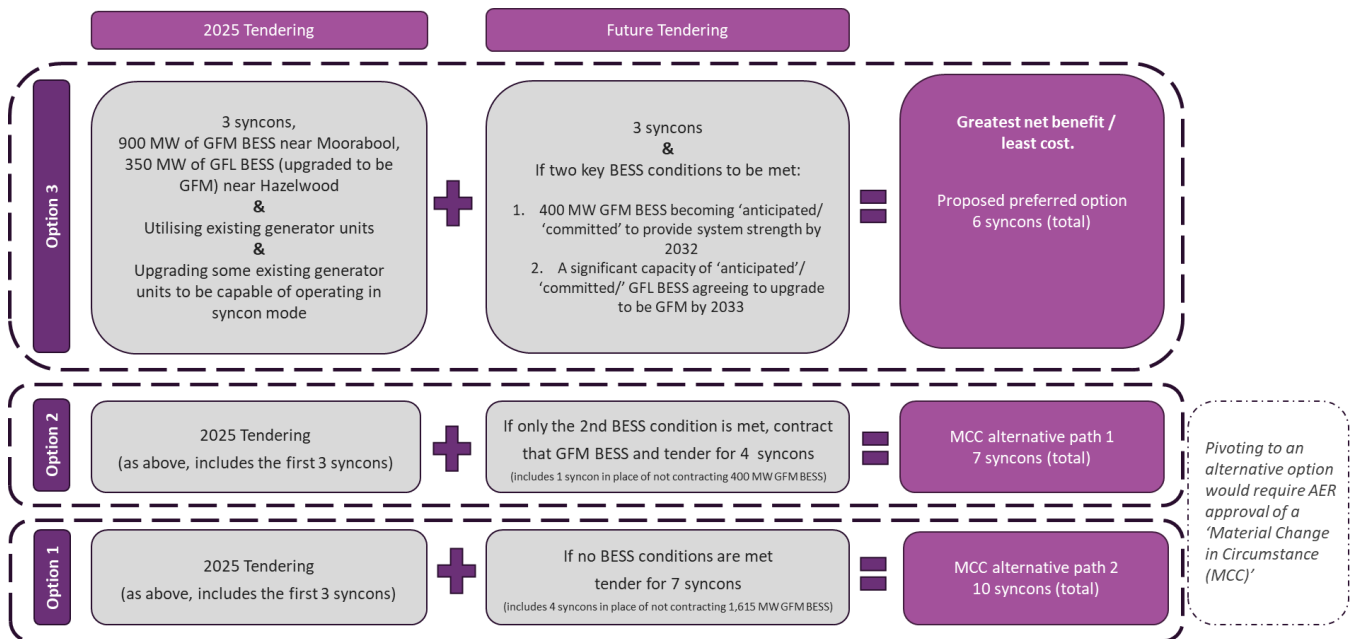
However, it is of the utmost importance that there is sufficient system strength capacity available in the system. Failing to make this available could result in material outages for consumers. AVP therefore considers that there is natural ‘cut-off points’ for BESS contracting being able to avoid future investment in plant able to operate as a synchronous condenser (that is, when AVP would otherwise need to commit to procuring system strength services from additional plant able to operate as synchronous condensers to ensure sufficient system strength). The natural cut-off points to contract with future GFM BESS, required to be in service by 1 July 2031 (FY2032), or to pivot to procuring services from additional synchronous machine if required, will be informed by the current market sounding process, which will also help determine whether the third new synchronous machine near Hazelwood, required to be in service by 1 July 2030 (FY2031), should be included in the 2025 tender, rather than deferred to a future stage.

Should AVP be able to contract system strength services from third-party BESS proponents ahead of these cut-off points, AVP expects that investing in additional plant able to operate as a synchronous condenser can be avoided and, instead, these BESS solutions procured. However, if this does not occur, AVP considers that additional synchronous condenser capable plant investment will need to be committed to, in line with option portfolio 2 or 1 in this PACR, and this would be an MCC. If an MCC eventuates, AVP will notify the AER of the change and its proposed alternative path to pursue either option portfolio 2 or 1. The AER has 40 days from receipt of an MCC notification to make and publish a determination approving or rejecting the alternative actions proposed by AVP.

The proposed pathway forward is summarised in **Figure 8**, including the alternative options if an MCC eventuates.

¹⁶ While AVP refers here to the use of ‘existing generators’, it considers that this includes any additional generation that connects ahead of AVP needing to commit to its procurement following this RIT-T.

Figure 8 The proposed pathway forward



While AVP may ultimately be required to pivot to either option portfolio 2 or option portfolio 1 (if the procurement of sufficient GFM BESS service agreements is not possible ahead of the cut-off points), three or four plant able to operate as synchronous condensers can be avoided if option portfolio 3 continues to be the preferred option. Specifically, compared to option portfolio 1, contracting with GFM BESS in option portfolio 3 avoids plant capable of operating as synchronous condensers being needed at the¹⁷:

- Giffard (Gippsland) Offshore Wind Hub 500 kV in 2032
- Bulgana Terminal Station 500 kV in 2033
- Giffard (Gippsland) Offshore Wind Hub 500 kV in 2034, and
- Kerang 500 kV in 2035.

This translates to a significant cost saving to end consumers between 2029 and 2036 – for example, if option portfolio 3 remains preferred, consumers avoid paying the costs associated with approximately \$770 million in capital (equivalent to around \$460 million in present value terms)¹⁸.

Overall, the proposed pathway:

- recognises that action needs to be taken now to meet the system strength requirements in the near term
- aims to provide the greatest amount of time for low-cost GFM BESS solutions to develop and be contracted with over the longer term, and

¹⁷ While option portfolio 3 also avoids one synchronous condenser at the Giffard (Gippsland) Offshore Wind Hub 500 kV in 2031, this synchronous condenser is replaced with one at the Hazelwood SSN in the same year (so effectively a zero-sum game). It also brings forward one synchronous condenser from 2036 to 2035, compared to option portfolio 1, at the Giffard (Gippsland) Offshore Wind Hub 500 kV.

¹⁸ This present value does not take account of terminal values (as it is referring to the cost to consumers), whereas all other present values in this PACR do take account of terminal values (as they are referring to the costs/benefits over the assessment period).

- retains the flexibility to pivot to investing in additional plant able to operate synchronous condensers in the future, if required.

This will result in the best outcome for electricity consumers. Setting out this longer-term pathway now is also likely to avoid AVP needing to undertake a second RIT-T in the near future, which would potentially jeopardise its ability to address system strength requirements in Victoria in a timely fashion. It also supports the development of non-network solutions in being able to provide system strength services.

Importantly, AVP notes that the RIT-T analysis was based on contracting with existing Victorian synchronous generators that reasonably reflect the costs of their proposed solution. If this appears to not be the case during the procurement process, AVP considers that this will likely represent an MCC, consistent with the AER's recent guidance on system strength RIT-Ts,¹⁹ and would result in additional plant able to operate as synchronous condensers needing to be contracted with.

AVP considers that the detailed analysis set out, and the preferred option identified, in this PACR satisfies the RIT-T.

¹⁹ AER, *The Efficient Management of System Strength Framework*, AER Guidance Note, December 2024, p. 25.

A1. Compliance checklist

This appendix sets out a checklist which demonstrates the compliance of this PACR with the requirements of the NER version 230.

Table 8 Checklist for compliance with NER requirements

Rules clause	Summary of requirements	Relevant section(s) in the PACR
5.16.4(v)	The PACR must set out:	
	(1) the matters detailed in the PADR as required under paragraph (k); and	See below
	(2) a summary of, and the RIT-T proponent's response to, submissions received, if any, from interested parties sought in response to the PADR.	3
5.16.4(k)	A RIT-T proponent must prepare a report (the assessment draft report), which must include:	-
	(1) a description of each credible option assessed;	4 & Appendix A4
	(2) a summary of, and commentary on, the submissions to the PSCR;	Appendix A11
	(3) a quantification of the costs, including a breakdown of operating and capital expenditure, and classes of material market benefit for each credible option;	4 & Appendices A4, A5 & A6
	(4) a detailed description of the methodologies used in quantifying each class of material market benefit and cost;	Appendices A4 & A7
	(5) reasons why the RIT-T proponent has determined that a class or classes of market benefit are not material;	Appendix A6
	(6) the identification of any class of market benefit estimated to arise outside the region of the Transmission Network Service Provider affected by the RIT-T project, and quantification of the value of such market benefits (in aggregate across all regions);	5
	(7) the results of a net present value analysis of each credible option and accompanying explanatory statements regarding the results;	5
	(8) the identification of the proposed preferred option;	5 and 6
	(9) for the proposed preferred option identified under subparagraph (8), the RIT-T proponent must provide:	A4.3 – (9)(i) A4.3– (9)(ii) NA – (9)(iii) 6 – (9)(iv)
	i. details of the technical characteristics;	
	ii. the estimated construction timetable and commissioning date;	
	iii. if the proposed preferred option is likely to have a material inter-network impact and if the Transmission Network Service Provider affected by the RIT-T project has received an augmentation technical report, that report; and	
	iv. a statement and the accompanying detailed analysis that the preferred option satisfies the regulatory investment test for transmission.	
	(10) if each of the following apply to the RIT-T project:	N/A
	– the estimated capital cost of the proposed preferred option is greater than \$100 million (as varied in accordance with a cost threshold determination); and	
	– AEMO is not the sole RIT-T proponent,	
	the RIT reopening triggers applying to the RIT-T project.	

In addition, the table below outlines a separate compliance checklist demonstrating compliance with the binding guidance in the latest AER RIT-T guidelines.

Table 9 Checklist for compliance with the Australian Energy Regulator's RIT-T guidelines

Section	Summary of the requirements	Section in the PACR
3.2.5	A RIT-T proponent must consider social licence issues in the identification of credible options. A RIT proponent should include information in its RIT reports about when and how social licence considerations have affected the identification and selection of credible options.	N/A ^A – however, AVP has considered social licence issues in forming the credible options (see Appendix A4.6)
3.4.3	The value of emissions reduction (VER), reported in dollars per tonne of emissions (CO2 equivalent), is used to value emissions within a state of the world. A RIT-T proponent is required to use the then prevailing VER under relevant legislation or, otherwise, in any administrative guidance.	N/A ^A – however, AVP considers it complies with this requirement (see Sections A3.1 and A6.1)
3.5A.1	Where the estimated capital costs of the preferred option exceeds \$103 million (as varied in accordance with a cost threshold determination), a RIT-T proponent must, in a RIT-T application: <ul style="list-style-type: none"> outline the process it has applied, or intends to apply, to ensure that the estimated costs are accurate to the extent practicable having regard to the purpose of that stage of the RIT-T for all credible options (including the preferred option), either: <ul style="list-style-type: none"> – apply the cost estimate classification system published by the AACE, or – if it does not apply the AACE cost estimate classification system, identify the alternative cost estimation system or cost estimation arrangements it intends to apply, and provide reasons to explain why applying that alternative system or arrangements is more appropriate or suitable than applying the AACE cost estimate classification system in producing an accurate cost estimate. 	Appendix A5
3.5A.2	For each credible option, a RIT-T proponent must specify, to the extent practicable and in a manner which is fit for purpose for that stage of the RIT-T: <ul style="list-style-type: none"> all key inputs and assumptions adopted in deriving the cost estimate a breakdown of the main components of the cost estimate the methodologies and processes applied in deriving the cost estimate (e.g. market testing, unit costs from recent projects, and engineering-based cost estimates) the reasons in support of the key inputs and assumptions adopted and methodologies and processes applied the level of any contingency allowance that have been included in the cost estimate, and the reasons for that level of contingency allowance 	4 and Appendices A4 and A5
3.5	In the RIT-T, costs must include the following classes: <ul style="list-style-type: none"> Costs incurred in constructing or providing the credible option Operating and maintenance costs over the credible option's operating life Costs of complying with relevant laws, regulations and administrative requirements For, asset replacement projects or programs, there are costs resulting from removing and disposing of existing assets, which a RIT-T assessment should recognise. RIT-T proponents should include these costs in the costs of all credible options that require removing and disposing of retired assets. For completeness, the RIT-T proponent would exclude these costs from the 'BAU' base case. 	
3.5.3	The RIT-T proponent is required to provide the basis for any social licence costs in its RIT-T reports and may choose to refer to best practice from a reputable, independent and verifiable source.	N/A ^A – however, AVP has considered social licence issues in forming the credible options (see Appendix A4.6), and has applied the classes of market benefits consistently across all credible options (see Appendix A5)
3.6	RIT-T proponents are required to apply classes of market benefits consistently across all credible options.	AVP has also estimated the annual benefit from changes in Australia's greenhouse gas emission consistently with the AER RIT-T Guidelines (see Appendices A3.1 and A6.1)
3.7.3	When calculating the benefit from changes in Australia's greenhouse gas emissions, a RIT-T proponent is required to: <ul style="list-style-type: none"> include the following emissions scopes, unless the change relative to the base case can be demonstrated to be immaterial to the RIT outcome: <ul style="list-style-type: none"> – direct emissions from generation – direct emissions other than from generation estimate the change in annual emissions (once identified in accordance with this Guideline) between the base case and the credible option, and multiplying this change by the annual VER to arrive at the annual benefit from changes in Australia's greenhouse gas emissions 	

Section	Summary of the requirements	Section in the PACR
		(AVP considers including direct emissions other than from generation would not material to the RIT-T outcome)
3.8.2	Where the estimated capital cost of the preferred option exceeds \$103 million (as varied in accordance with an applicable cost threshold determination), a RIT-T proponent must undertake sensitivity analysis on all credible options, by varying one or more inputs and/or assumptions.	5.3 and Appendix A7
3.9.4	If a contingency allowance is included in a cost estimate for a credible option, the RIT-T proponent must explain: the reasons and basis for the contingency allowance, including the particular costs that the contingency allowance may relate to, and how the level or quantum of the contingency allowance was determined.	Sections A4.1 to A4.4 and A5
3.11.2	Where a concessional finance agreement is included, the RIT-T proponent is required to provide sufficient detail about the concessional finance agreement to justify an agreement's inclusion and such that it can articulate how the value of the concession is to or would be shared with consumers. If a proponent seeks to include an unexecuted concessional finance agreement in the RIT-T, they must undertake sensitivity testing for the scenario the agreement doesn't eventuate.	N/A ^A
4.1	RIT-T proponents are required to describe in each RIT-T report: <ul style="list-style-type: none"> • how they have engaged with local landowners, local council, local community members, local environmental groups or traditional owners and sought to address any relevant concerns identified through this engagement • how they plan to engage with these stakeholder groups, or • why this project does not require community engagement. 	

A. These are new requirements stipulated in the latest RIT-T guidelines released by the AER, which came into effect on 21 November 2024. For compliance purposes, the AER only has regard to the guidance that was in effect when AVP initiated the RIT-T in question. In this context, initiated means from the publication of a PSCR so, since the PSCR was published prior to 21 November 2024 for this RIT-T, these new requirements are not applicable.

A2. Additional detail on the assessment of the system strength requirements

The material presented in this appendix is the same as that included as Section 2 of the PADR.

While the characterisation of the identified need for the PADR and PACR has not changed since the PSCR, the amount of system strength required, and the supporting assumptions, have been refined.

The discussion of the system strength need in the PSCR was based on the minimum three phase fault current requirements and the IBR forecasts in AEMO's 2022 *System Strength Report*.

Since publication of the PSCR, AEMO has updated its analysis of system strength requirements in Victoria. The system strength nodes identified in Victoria remain the same, but the IBR forecasts at those nodes have been updated, reflecting NEM developments.

The analysis in this PACR uses the latest minimum three phase fault current requirements (which have not changed since the PSCR, other than the consideration of post-contingent requirements) and the latest IBR forecasts (which drive AVP's obligation to procure the efficient level of system strength) set out in AEMO's 2024 *System Strength Report*. If AEMO's latest IBR forecasts are not taken into account, AVP would not be planning for the right amount of system strength for areas where the IBR forecasts have changed materially (which would, in a more extreme case, raise the risk of unserved energy for end consumers and/or result in an inability to allow for the dispatch of low-cost renewable energy in the future)²⁰.

Given AVP believes there is sufficient time to contract with non-network solutions to meet the revised 2025-26 and 2026-27 IBR forecasts, AVP is planning the system strength remediation based on AEMO's IBR forecasts from the 2024 *System Strength Report* for all years. This will ensure that AVP's provision of system strength is prudent and efficient, and in the best interests of consumers.

In line with AEMO's most recent (2024) *System Strength Report*, this section outlines:

- the key refinements to AVP's approach to planning for the minimum three phase fault level requirement since the PSCR, and
- key developments since the PSCR that have changed the assumptions underpinning the amount of system strength AVP is seeking to procure to meet the efficient level requirement.

²⁰ AVP also considers this approach consistent with the recently provided system strength guidance provided by the AER (see Section 3.2.3 of AER, *The Efficient Management of System Strength Framework*, Guidance Note, December 2024, pp. 15-16), as well as the intent of the AEMC's final determination on the efficient management of system strength rule change (see AEMC, *National Electricity Amendment (Efficient Management of System Strength on the Power System) Rule 2021*, 21 October 2021, footnote 155, p. 102). While the AEMC final determination footnote refers directly to the inclusion of new system strength nodes, AVP considers that it supports investing based on the most up-to-date information available where it can be reasonably incorporated.

A2.1 Minimum three phase fault level

The pre-contingency and post-contingency minimum three-phase fault level requirements have not changed between AEMO's 2022 and 2024 *System Strength Reports*, although the post-contingent values are no longer considered a strict requirement, since the pre-contingent values are designed to ensure the system is in a secure operating state²¹.

The 2024 *System Strength Report* specified the pre-contingent and post-contingent minimum three phase fault level at each system strength node that has to be met at all times of the year, starting 2 December 2025. This minimum level is shown in **Table 10**. These requirements are unchanged across AEMO's 10-year forecast²².

Table 10 Victorian minimum three phase fault level requirements (MVA)

System strength node and voltage	Pre-contingency fault level requirement	Post-contingency fault level requirement
Dederang 220 kV	3,500	3,300
Hazelwood 500 kV	7,700	7,150
Moorabool 220 kV	4,600	4,050
Red Cliffs 220 kV	1,786	1,036
Thomastown 220 kV	4,700	4,500

Since AEMO's 2022 *System Strength Report*, the timing of full commissioning of PEC Stage 2 has been delayed from June 2026 to June 2027 (which is reflected in AEMO's 2024 *System Strength Report*). In the PSCR, AVP identified that a temporary system strength solution was required at Red Cliffs from 2 December 2025 until the full commissioning of PEC Stage 2. Consistent with the PSCR, the delay to PEC Stage 2 has changed the timing of the temporary system strength solution AVP must plan for to meet the minimum three phase fault level, but has not affected the minimum requirements themselves. To meet this requirement in the short term, AVP has exercised its option to extend existing services agreements that were already in place to meet the existing Red Cliffs system strength shortfall, as envisioned in the 2024 *Network Support and Control Ancillary Services Report*²³. These existing services agreements have now been extended until 31 July 2026, as further described in Section A4.5.

While the timing of PEC Stage 2 has been delayed from June 2026 to June 2027, the synchronous condenser included as part of Stage 1 of PEC was commissioned in late 2024, along with the Red Cliffs – Buronga duplication.

In the PSCR, AVP assessed the system strength requirement for both the minimum and efficient level of system strength on a post-contingent and pre-contingent basis and, at the time the PSCR was published, had proposed to do the same in the PADR. In developing the PADR, and in consultation with AEMO, the decision was made to consider the system strength service capability on a pre-contingency basis only, acknowledging that the pre-contingent requirements were designed to ensure that the system is in a secure operating state. This approach has been applied to the minimum level, and is understood to be consistent with the Improving Security Frameworks (ISF) dispatch implementation, while the efficient level has been tested against all contingencies.

²¹ AEMO, 2024 *System Strength Report*, December 2024, p. 62.

²² It is expected that minimum fault level requirements at Red Cliffs may be impacted by network impedance changes following commissioning of PEC and Victoria – New South Wales Interconnector West (VNI West), and following retirement of synchronous generation in the Latrobe Valley.

²³ At https://aemo.com.au/-/media/files/electricity/nem/security_and_reliability/system_security_planning/2024-nscas-report.pdf?la=en.

A2.2 Efficient level

The 2024 *System Strength Report* forecast IBR by technology and year, which forms the basis of the efficient level requirement. This forecast was subject to the assumed delivery and timing of committed, anticipated and actionable ISP transmission network augmentations set out in Appendix A2.3 of the 2024 *System Strength Report*.

AEMO's 2024 *System Strength Report* reflected several key developments since its 2022 *System Strength Report* that resulted in a material increase to the amount of system strength AVP must plan for to meet the efficient level requirements, including:

- an additional legislated offshore wind energy generation target of 2 GW by 2032²⁴
- the formal declaration of the Gippsland and Southern Ocean offshore wind areas^{25,26}
- an update to Victoria's legislated renewable energy targets from 50% to 65% by 2030²⁷
- the inclusion of the latest Federal Government policies, in particular targeting 82% renewable energy in Australia's electricity grids by 2030
- changes to coal generator retirement dates in the 2024 ISP, and
- significant uptake in BESS.

Table 11 summarises, at each system strength node, the IBR forecast used in this PACR. The amount of generation commitments that are self-remediating under the old system strength rules at each system strength node have been subtracted from the total requirements. Although included in the Table 11 values, as described in Appendix A4.3, AVP has assumed that all modelled batteries in AEMO's IBR forecast connect as GFM and therefore have no system strength demand.

Table 11 AEMO 2024 System Strength Report – modified forecast IBR (MW)

System strength node	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Moorabool	-	-	332	1,685	1,960	1,960	1,960	1,960	2,468	2,650	3,383
Hazelwood	-	-	500	900	1,750	2,400	3,400	4,400	5,067	5,733	5,820
Dederang	-	-	-	-	-	-	-	-	-	-	-
Red Cliffs	-	-	-	-	-	-	357	357	357	357	1,338
Thomastown	-	-	-	500	500	500	500	500	500	500	500

Table 12 shows how the modified forecast IBR at each system strength node has changed since the PSCR.

²⁴ Renewable Energy (Jobs and Investment) Act 2017, s 7B.

²⁵ Offshore Electricity Infrastructure (Declared Area OEI-01-2022) Declaration 2022, 17 December 2022.

²⁶ See <https://www.dcceew.gov.au/energy/renewable/offshore-wind/areas/southern-ocean-region>.

²⁷ Renewable Energy (Jobs and Investment) Act 2017, s 7.

Table 12 AEMO 2024 System Strength Report – changes to the modified forecast IBR since the PSCR (MW)

System strength node	2025	2026	2027	2028	2029	2030	2031	2032	2033
Moorabool	-	-	+240	+1,593	+1,868	+1,807	+1,016	+504	+912
Hazelwood	-374	-394	+106	+506	+917	+918	+1,399	+2,399	+3,066
Dederang	-	-	-	-	-	-	-	-264	-264
Red Cliffs	-	-	-	-	-	-	+357	+3	-1,080
Thomastown	-	-	-	+500	+500	+500	+500	+500	+500

In summary, there has been:

- a broad increase in IBR forecasts across most system strength nodes, driven by large increases in offshore and onshore wind as well as BESS, and
- an acceleration of system strength requirements in earlier years (2027 to 2029) for Moorabool, Hazelwood and Thomastown.

In addition, since the 2022 *System Strength Report*:

- Full capacity release of PEC is now expected to be completed in July 2027, however for the purpose of this report the timing of the synchronous condensers and the Buronga – Red Cliffs duplication remains unchanged. The synchronous condensers and the Buronga – Red Cliffs duplication will have the largest impact on system strength in Victoria.
- The advised timing of WRL has been delayed from July 2026 to July 2027. When completed, WRL will improve access to renewables in North-West Victoria and form a 500 kV backbone when connected with VNI West. This has contributed to the changed timing of forecast IBR planting around the Moorabool system strength node, as reflected in the 2024 *System Strength Report*.
- The targeted full capacity timing of VNI West has accelerated from 2032 to December 2029²⁸. When completed, VNI West will improve network capacity for renewables in North-West Victoria.

While the 2024 *System Strength Report* IBR forecasts project out to 2035, AVP has used the latest ISP forecasts to extend these forecasts by a year to match the 11-year assessment period used for this PACR (as discussed in Section A6.4).

The tables below (which also featured in Appendix A2 of the PADR) includes a further breakdown of the IBR forecasts by technology type.

0 presents a breakdown of forecast IBR by technology used in the PADR/PACR assessment.

²⁸ AEMO, 2024 ISP, June 2024, p 62.

Table 13 AEMO 2024 System Strength report – forecast IBR by type (MW)

System strength node	Technology	Forecast IBR (MW)										
		Financial year ending										
		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Moorabool	Solar	0	0	300	300	300	300	300	300	300	300	300
	Wind	0	0	32	1,385	1,660	1,660	1,660	1,660	2,168	2,350	3,083
	Battery	0	0	0	0	0	0	0	0	0	0	0
	Total IBR	0	0	332	1,685	1,960	1,960	1,960	1,960	2,468	2,650	3,383
Hazelwood	Solar	0	0	0	0	0	0	0	0	0	0	0
	Wind	0	0	500	500	1,350	2,000	3,000	4,000	4,667	5,333	5,420
	Battery	0	0	0	400	400	400	400	400	400	400	400
	Total IBR	0	0	500	900	1,750	2,400	3,400	4,400	5,067	5,733	5,820
Dederang	Solar	0	0	0	0	0	0	0	0	0	0	0
	Wind	0	0	0	0	0	0	0	0	0	0	0
	Battery	0	0	0	0	0	0	0	0	0	0	0
	Total IBR	0	0	0	0	0	0	0	0	0	0	0
Red Cliffs	Solar	0	0	0	0	0	0	357	357	357	357	1,338
	Wind	0	0	0	0	0	0	0	0	0	0	0
	Battery	0	0	0	0	0	0	0	0	0	0	0
	Total IBR	0	0	0	0	0	0	357	357	357	357	1,338
Thomastown	Solar	0	0	0	0	0	0	0	0	0	0	0
	Wind	0	0	0	0	0	0	0	0	0	0	0
	Battery	0	0	0	500	500	500	500	500	500	500	500
	Total IBR	0	0	0	500	500	500	500	500	500	500	500

Table 14 presents a breakdown of forecast IBR by technology used in the PSCR assessment.

Table 14 AEMO 2022 System Strength Report – forecast IBR by type (IBR proposed in the PSCR) (MW)

System strength node	Technology	Forecast IBR (MW)										
		Financial year ending										
		2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Moorabool	Solar	0	0	0	0	0	0	0	0	0	0	0
	Wind	0	0	0	0	92	92	92	153	358	870	970
	Battery	0	0	0	0	0	0	0	0	586	586	586
	Total IBR	0	0	0	0	92	92	92	153	944	1,456	1,556
Hazelwood	Solar	0	0	0	0	0	0	0	0	0	0	0
	Wind	0	0	374	394	394	394	833	1482	2001	2001	2001
	Battery	0	0	0	0	0	0	0	0	0	0	0
	Total IBR	0	0	374	394	394	394	833	1,482	2,001	2,001	2,001
Dederang	Solar	0	0	0	0	0	0	0	0	0	0	0
	Wind	0	0	0	0	0	0	0	0	0	264	264
	Battery	0	0	0	0	0	0	0	0	0	0	0
	Total IBR	0	0	0	0	0	0	0	0	0	264	264
Red Cliffs	Solar	0	0	0	0	0	0	0	0	0	354	1437
	Wind	0	0	0	0	0	0	0	0	0	0	0
	Battery	0	0	0	0	0	0	0	0	0	0	0
	Total IBR	0	0	0	0	0	0	0	0	0	354	1,437
Thomastown	Solar	0	0	0	0	0	0	0	0	0	0	0
	Wind	0	0	0	0	0	0	0	0	0	0	0
	Battery	0	0	0	0	0	0	0	0	0	0	0
	Total IBR	0	0	0	0	0	0	0	0	0	0	0

Table 15 compares the forecast IBR by technology used in the PADR/PACR assessment against that used in the PSCR assessment for overlapping years.

Table 15 Comparison of IBR forecast by technology in the PADR/PACR compared to that proposed in the PSCR (MW)

System strength node	Technology	Forecast IBR (MW)								
		Financial year ending								
		2025	2026	2027	2028	2029	2030	2031	2032	2033
Moorabool	Solar	0	0	300	300	300	300	300	300	300
	Wind	0	0	-60	1,293	1,568	1,507	1,302	790	1,198
	Battery	0	0	0	0	0	0	-586	-586	-586
	Total IBR	0	0	240	1,593	1,868	1,807	1,016	504	912
Hazelwood	Solar	0	0	0	0	0	0	0	0	0
	Wind	-374	-394	106	106	517	518	999	1,999	2,666
	Battery	0	0	0	400	400	400	400	400	400
	Total IBR	-374	-394	106	506	917	918	1,399	2,399	3,066
Dederang	Solar	0	0	0	0	0	0	0	0	0
	Wind	0	0	0	0	0	0	0	-264	-264
	Battery	0	0	0	0	0	0	0	0	0
	Total IBR	0	0	0	0	0	0	0	-264	-264
Red Cliffs	Solar	0	0	0	0	0	0	357	3	-1,080
	Wind	0	0	0	0	0	0	0	0	0
	Battery	0	0	0	0	0	0	0	0	0
	Total IBR	0	0	0	0	0	0	357	3	-1,080
Thomastown	Solar	0	0	0	0	0	0	0	0	0
	Wind	0	0	0	0	0	0	0	0	0
	Battery	0	0	0	500	500	500	500	500	500
	Total IBR	0	0	0	500	500	500	500	500	500

A3. Option portfolio formation process

The material presented in this appendix is the same as that included as Section 4 of the PADR.

As noted in the PSCR, AVP has developed ‘option portfolios’ that are designed to meet its system strength obligations and maximise the present value of net economic benefit to the NEM. This approach, as opposed to having options comprised of a single solution (or a smaller set of solutions), is considered necessary for system strength RIT-Ts in light of the scale and complexity associated with meeting the expected system strength requirements going forward²⁹.

The different option portfolios have been created by considering the annualised costs and expected benefits of different portfolio elements for addressing both the minimum and efficient level of system strength, as well as the expected timing of when they are available, across the assessment period.

The four different option portfolios can be summarised as follows:

- Option portfolio 1 – existing generation plus committed/anticipated GFM BESS, including one that upgrades from GFL to GFM, and new synchronous condensers.
 - Option portfolio 1 assumed contracting with existing synchronous generation generators for the purposes of the cost benefits analysis, including conversion of some units to be capable of operating in synchronous mode, as well as the use of committed/anticipated GFM BESS (for the efficient level) and new plant able to operate as synchronous condensers (for the minimum and efficient levels)³⁰.
- Option portfolio 2 – the same technology types as option portfolio 1, plus upgrading additional committed/anticipated GFL BESS to be GFM.
 - This option portfolio has been developed to determine, through comparison with option portfolio 1, whether upgrading additional GFL BESS to be GFM is considered optimal compared to investing in plant able to operate as synchronous condensers. This option therefore involves fewer plants able to operate as synchronous condensers than option portfolio 1 (as outlined below).
 - This portfolio (as well as option portfolios 3 and 4) also assumed contracting a small amount (65 MW) of GFM BESS to efficiently provide sufficient system strength.
- Option portfolio 3 – the same technology types as option portfolio 2, plus inclusion of a generic 400 MW GFM BESS from the IBR forecasts.
 - This option portfolio has been included to investigate the cost savings that could be achieved where future modelled GFM BESS become committed/anticipated under the RIT-T.
- Option portfolio 4 – the same as option portfolio 3, except it includes accelerated procurement of some plant able to operate as synchronous condensers.

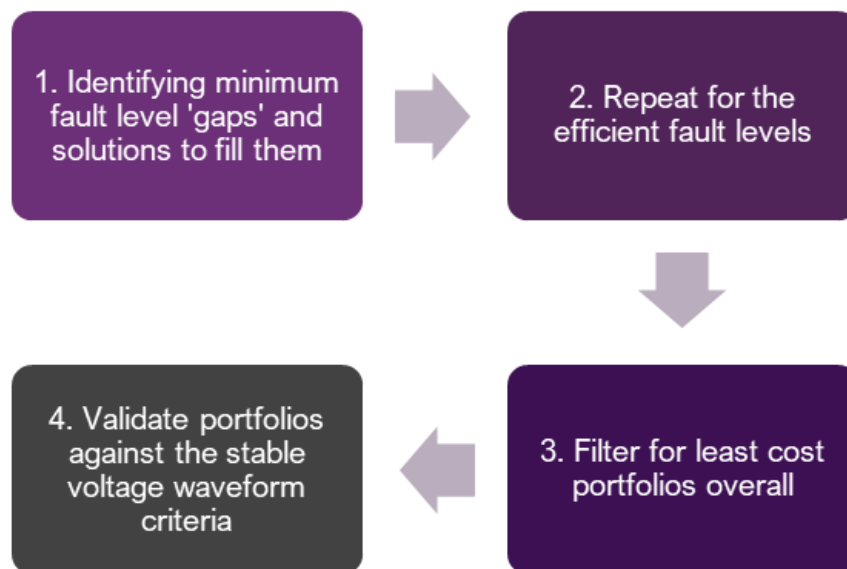
²⁹ This portfolio option approach is consistent with the PADRs released by Transgrid (in June 2024) and Powerlink (November 2024).

³⁰ As outlined in Section A5.1, all new plant able to operate as synchronous condensers have been assumed to be, and costed in the RIT-T assessment as, synchronous condensers for this PACR. However, the procurement process related to this RIT-T aims to identify the specific lowest cost solutions and the ultimate cost to consumers will be determined from these costs.

- This option has been developed to investigate whether expediting plant operating as synchronous condensers is expected to be net beneficial.

In forming each option portfolio, AVP applied the following four-stage modelling process. All solutions proposed in response to the RFI, as updated following the 2024 survey, have been considered as part of this process for each option portfolio.

Figure 9 Four-step process applied for forming each option portfolio



AVP applied a number of key technological constraints throughout this process:

- The earliest new plant able to operate as synchronous condensers can be commissioned is 2028-29 – this reflects the current lead times associated with procuring and commissioning these assets.
 - This assumption has been relaxed for option portfolio 4 where an earlier timing proposed in RFI submissions has been assumed (as outlined in Section A4.4).
- GFM BESS:
 - are not considered to have reached a level of maturity that they can be relied on to support minimum fault level requirements over the assessment period (consistent with the 2024 ESOO³¹), and
 - are sufficiently mature to support the stable voltage waveform of the efficient level over the entire assessment period³².
- For 'generic' BESS included in the AEMO IBR forecasts, AVP has assumed that all of the 'modelled' batteries in AEMO's IBR forecast connect as GFM.

³¹ At <https://www.aemo.com.au/energy-systems/electricity/national-electricity-market-nem/nem-forecasting-and-planning/forecasting-and-reliability/nem-electricity-statement-of-opportunities-esoo>.

³² While not a forced in requirement, AVP notes that, throughout the assessment period, less than 50% of the total efficient level is supplied from GFM BESS, consistent with the Aurecon report into the maturity of grid-forming inverters. See Aurecon, *Advice on the maturity of grid forming inverter solutions for system strength*, April 2024, pp 11-12, at https://www.transgrid.com.au/media/diyb5fng/2403-aurecon_maturity-of-grid-forming-inverter-solutions-for-system-strength.pdf.

- This assumption was informed by discussions with the AEMO Victorian Connections team, which advised that at present over 90% of the BESS projects at enquiry and application stage are proposing to utilise GFM inverter technology.

The four key steps applied for forming each of the option portfolios are summarised in more detail in the sections below. The outcome of this process was then used to inform the different option portfolios.

No RFI submissions proposed maintaining existing generators beyond the end of their expected retirement dates, and AVP has assumed the ISP *Step Change* unit withdrawal dates in this PACR assessment.

The end of this section describes the ‘reference case’, which is a key input to the portfolio formation process and is distinct to the ‘base case’ used to subsequently model the market benefits of the portfolios, as well as providing a summary of how interstate contributions and critical planned outages have been considered.

A3.1 Step 1 – Screening for the minimum fault level ‘gaps’ and the solutions to fill them

The first step in forming each option portfolio is to model how much of the minimum fault level is expected to be provided naturally – through the energy only market – from existing synchronous generation. This step effectively checks whether the minimum fault levels will be met each period of each year of the assessment period, to identify the ‘gaps’ in system strength that need to be filled. The identified gaps start off low in periods where there are multiple synchronous generators online but grow significantly as new IBR comes online, causing existing synchronous generators to operate less, and as existing synchronous generators in Victoria exit the market.

AVP undertook the modelling for this step on a half-hourly basis, using the energy only dispatch output (with no system strength constraints present) from the PADR reference case. These half-hour intervals were then grouped into unique dispatch combinations where the same synchronous machines are online, noting that for system strength the contribution is driven predominately by machine status as opposed to its MW output.

For each unique dispatch combination, AVP identified the lowest cost additional services available to meet the system strength requirements using the \$/MVA of fault level contribution cost assigned to that service. For the purposes of the RIT-T and its cost benefit analysis, additional services can come from either existing generators, additional services proposed in RFI responses, or network solutions where they can be developed within the required timeframe.

The additional services required from existing generators were identified using the power system model in PSS®E, with services brought in based on their \$/MVA cost of providing the system strength (that is, they are dispatched in ascending order of their \$/MVA cost, where the MVA value is their fault level contribution to the system strength node). Given AVP is required to make available system strength for all periods (not just the ‘gap’ periods), this modelling also identified the generators required to ensure there are sufficient services available at all times should the actual dispatch not match the modelled dispatch. Both the generators dispatched to fill the gap, and the generators required to provide sufficient system strength services, form part of the option portfolio.

The \$/MVA cost for each existing generating unit to provide system strength reflects the following costs (where they are relevant³³):

- Additional fuel costs – valued at the service’s short run marginal cost which is built from the 2024 ISP Inputs and Assumptions Workbook and the RFI responses (for some minimum stable levels)³⁴. While additional fuel costs are captured, any fuel cost reductions, from other units reducing their megawatt output to make way for system strength services to operate at their minimum stable level, are not captured at this screening stage because the screening study assessment does not attempt to maintain an energy supply-demand balance.
- Emissions – calculated using emissions intensity values from the 2024 ISP Inputs and Assumptions Workbook and valued at the VER published by the AER in July 2024^{35,36}.
- Activation costs – from RFI responses (or estimates from independent sources where not covered in an RFI submission).
- Annualised capital and operating costs for new services – from AEMO’s Transmission Cost Database (TCD).
- Additional capital costs and additional fixed costs – from RFI responses (and AVP estimates where not covered in the RFI responses)³⁷.

Similarly, the same range of costs was considered, as relevant, for each of the solutions proposed in RFI responses and expected to be available from generic BESS included in the AEMO IBR forecasts (which are assumed to connect as GFM). As noted above, before 2028-29, only existing generators and some RFI proposals are able to assist due to expected lead times with plant able to operate as synchronous condensers and expected commissioning dates for some RFI proposed solutions.

The outcome of step 1 was a preliminary view regarding the portfolio of solutions required to meet the minimum fault level requirements over the assessment period. This was then used as the starting point for a similar assessment of the solutions that can meet the efficient level requirements (as outlined in step 2 below).

The assessment undertaken for this step assumed an 11-year modelling horizon (as discussed in Section A6.4).

A3.2 Step 2 – Repeat for the efficient fault levels

Using the output of step 1 as a starting point (that is, the portfolio of solutions for ensuring the minimum fault level requirements are met), AVP effectively repeated the same process to ensure the efficient level requirements are met, but applied the available fault level approach outlined in Appendix A of AEMO’s System Strength Impact Assessment Guidelines (SSIAG)³⁸ to determine efficient level requirements. This enabled AVP to identify full portfolios of solutions that are expected to meet both the minimum fault levels and the efficient levels over the assessment period.

³³ For example, the generators required to provide sufficient system strength services, but that are already operating in the reference case, do not have a dispatch cost as they are not dispatched differently in the model (instead, they are contracted to be made available to dispatch if the ‘gap’ in real time is larger than the ‘gap’ seen in this modelling).

³⁴ RFI responses were used for the minimum stable levels as the default, but, if they were not provided, estimates from the 2024 ISP Inputs and Assumptions Workbook were used.

³⁵ AER, *Valuing emissions reduction*, AER Amended Final Guidance, July 2024.

³⁶ While the VER was applied once the overall option portfolio was identified, it has not fed into determining the dispatch order of units, since emissions costs do not affect market dispatch decisions.

³⁷ Additional costs not covered by the TCD include any costs to convert BESS from GFL to GFM, and site-specific or bespoke solutions such as conversion of existing synchronous generators to be capable of operating in synchronous condenser mode.

³⁸ AEMO, System Strength Impact Assessment Guidelines V2.2, p 48, July 2024, at https://aemo.com.au/-/media/files/stakeholder_consultation/consultations/nem-consultations/2024/ssiag/system-strength-impact-assessment-guidelines-v22.pdf?la=en.

AVP undertook this modelling assuming a short circuit ratio (SCR) – being the level at which a GFL renewable generator is assumed to remain stable – of 3.0, and alpha factor – being the stability coefficient reflecting assumed limitations in the network the IBR connection – of 1.2, which results in an effective SCR of 1.8 at the GFL IBR’s point of connection. Any additional system strength requirements arising from the reticulation design of large solar and (onshore or offshore) wind farms are outside the scope of AVP’s obligations and this assessment.

A key difference in the assumptions for this assessment, compared to those under step 1 for the minimum level, is that GFM BESS that form part of the option portfolio were assumed to be able to assist with meeting the efficient level.

For this RIT-T, AVP determined the efficient level solutions assuming a static available fault level requirement at each system strength node, and also considering key future IBR connection locations. While these requirements are static throughout the year, they change annually in line with the IBR forecast, rather than on an interval level IBR dispatch basis.

Although AEMO is required to only enable contracts reasonably necessary to maintain stable voltage waveforms and host the projected level of IBR, but not enable contracts that would result in a significant adverse effect on power system emissions or efficiency³⁹, AVP considers its simplified static requirement approach taken in the PADR market modelling is appropriate because:

- the additional modelling effort required to optimise the efficient level requirement and dispatch at the interval level is considered disproportionate to any market benefit likely to be realised
- this approach is consistent with how other SSSPs have treated the efficient level requirements⁴⁰
- as stated in AEMO’s SSIAG⁴¹, the stable operation of a generating system is determined by whether it can meet its performance standards at any level of MW output, and
- the level of IBR that can be hosted based on system strength levels in the operational timeframe is typically based on the nameplate capacity of IBR and whether their inverters are online or offline, rather than on their real-time dispatch levels.

A3.3 Step 3 – Filter for least cost portfolios overall

The output of steps 1 and 2 allow AVP to construct least cost portfolios overall for each key option portfolio.

This step was undertaken over the assessment period, taking account of the time value of money via the commercial discount rate, and ensures that each option portfolio is the least cost combination of solutions, given the technologies that are assumed able to assist with providing system strength.

While step 3 necessarily involves a basic assessment of the unit commitment and start-up costs associated with each potential solution (and, specifically, while this step assesses if a unit was running or not in the previous time-sequence, it does not attempt to account for ramp rate limitations or minimum run times), AVP does not consider this material to the overall construction of the portfolios, since these factors are expected to have a marginal impact relative to the entire

³⁹ AEMC, Improving Securities Framework – Final Rule Determination, p 90, March 2024, at <https://www.aemc.gov.au/sites/default/files/2024-03/ERC0290%20-%20ISF%20final%20determination.pdf>.

⁴⁰ Baringa, Meeting system strength requirements in NSW, p 59, June 2024, at https://www.transgrid.com.au/media/wphjea0f/2406-baringa_meeting-system-strength-requirements-in-nsw-padr-modelling-report.pdf.

⁴¹ AEMO, System Strength Impact Assessment Guidelines V2.2, p 15, July 2024, at https://aemo.com.au/-/media/files/stakeholder_consultation/consultations/nem-consultations/2024/ssiag/system-strength-impact-assessment-guidelines-v2.2.pdf?la=en.

modelling period considered, and the four option portfolios were tested through PLEXOS® market modelling, which does include these detailed assumptions, to determine the overall proposed preferred option portfolio.

A3.4 Step 4 – Validate portfolios against the stable voltage waveform criteria

Once the option portfolios have been developed, these must be validated against the stable voltage waveform criteria. The approach for validation differs depending on the timeframe. Detailed electromagnetic transient (EMT) modelling is the preferred method for this validation. EMT simulations require detailed models of connected plant – including the tuning of that plant to reflect its location in the network – and is computationally intensive. This is reflected in AEMO's System Strength Requirements Methodology (SSRM), which states that EMT simulations are not fit-for-purpose beyond the time horizons where network and generator models are well understood.

AVP captured this through two different sets of studies to assess the selected option portfolios against the stable voltage waveform requirements.

In the near term, AVP used EMT assessments in PSCAD™ to assess the ability of the option portfolio to meet the requirements. Given the study horizon for the PSCAD™ work, these option portfolios are made up of existing, committed and anticipated generation, synchronous condensers, and GFM BESS.

Beyond the PSCAD™ study horizon, AVP used steady state root-mean-square (RMS) models and undertook switching studies in PSS®E. While the PSCAD™ studies are able to show distortion or oscillations of the voltage waveform (Criterion 3 and 4 of the SSRM), the PSS®E studies provide insight into the ability of the option portfolios to meet the change in voltage magnitude and voltage angle (Criterion 1 and 2 of the SSRM).

The portfolios were assessed in PSS®E and in PSCAD™ to understand their level of voltage waveform stability. Where deemed necessary, additional services were added in the order that they would be added in the portfolio development, on a least cost \$/MVA basis accounting for where the solution is required.

Once developed, each option portfolio was modelled in PLEXOS® using short-term dispatch modelling (as discussed in Section A4). Constraints were developed using the contribution of each of the solutions to each system strength node (which were informed by the outcome of the portfolio development studies). Unlike the portfolio development, the PLEXOS® modelling included redispatch of energy where it is economic to do so to meet the system strength constraints, and therefore is considered to provide a more detailed assessment of each short-listed option portfolio's benefits.

Section A3.6 outlines how AVP derived equivalent available fault level contributions for GFM BESS in meeting the efficient level.

A3.5 The 'reference case'

AVP undertook the above four-step process assuming a 'reference case' set of market modelling outputs.

The reference case has been constructed in the same manner as the 'base case' for the assessment of market benefits (as outlined in Section A4.5), except that it does not involve system strength constraints in any regions of the NEM. For the avoidance of doubt, the reference case still includes the same unit commitment requirements as the base case, which were

included as a proxy for more realistic bidding while still maintaining a short-run marginal cost bidding approach. The reference case was constructed in this ‘unconstrained’ manner to determine what is likely to be on-line ‘naturally’ – through the energy only market – and to thus form a view of the amount of additional system strength that is needed from the portfolios to meet the requirements.

For example, and as outlined in Section A3.1, the first step in forming each option portfolio was to model how much of the minimum fault levels are expected to be provided naturally from existing synchronous machines. This step effectively checked whether the minimum fault levels will be met each interval of each year of the assessment period to identify the ‘gaps’ in system strength that need to be filled. The reference case assessment enables these gaps to be determined.

While the approach to forming option portfolios for this RIT-T implicitly assumed that contracting with on-line synchronous generators is the lowest cost solution on a resource cost basis, AVP considers this an appropriate assumption given the build and operational costs of these generators is sunk so there are no, or very little, additional economic costs associated with providing system strength for these units. It also implicitly assumed that generators are willing to sign contracts that reasonably reflect the costs of the credible option (failing to do so is expected to represent an MCC, consistent with the AER’s recent guidance on system strength RIT-Ts)⁴².

A3.6 Solution contributions to system strength

In developing option portfolios, and their ability to meet the system strength requirements, assumptions must be made about the level of system strength contribution solutions are capable of providing. This section outlines the assumed system strength contribution of the three key option portfolio solution technologies, being existing synchronous generators, new plant able to operate as synchronous condensers, and GFM BESS.

Existing synchronous generators

Existing synchronous generators were assumed available to provide system strength services and to contribute to system strength when operating for the energy market. The level of system strength contribution of existing synchronous generators was based on the specific machine parameters which dictate their fault level contribution at their point of connection. Existing generators were modelled in line with their releasable user guide data, provided through the network connections process, or RFI responses where relevant.

New plant able to operate as synchronous condensers

New plant able to operate as synchronous condensers were assumed to provide a fault level 4.4 times their nameplate capacity at their point of connection – that is, a 250 MVA synchronous condenser or other new plant (such as gas turbines) was assumed to contribute 1,100 MVA of fault level at its point of connection. This is based on a review of existing synchronous condensers in the NEM, and their typical machine parameters, along with RFI responses.

Grid-forming (GFM) BESS

Contracted GFM BESS solutions were assumed to provide sufficient stable voltage waveform system strength benefit to support twice their rated installed capacity in GFL IBR, at their point of connection – that is, a GFM BESS with an installed

⁴² AER, *The Efficient Management of System Strength Framework*, AER Guidance Note, December 2024, p. 25.

capacity of 250 MVA was assumed capable of supporting 500 MW of GFL IBR. As a contribution to stable voltage waveform, this equates to a change in available fault level (AFL) equivalent to 900 MVA. This is based on a conservative review of existing research comparing synchronous condenser and GFM BESS contribution to a stable voltage waveform, with change in AFL being treated as a proxy for that benefit.

As further detailed in Section 4, GFM technology has not yet been demonstrated to satisfy protection-quality fault current requirements at scale in Australia, and AVP has therefore assumed no contribution from GFM BESS to the minimum fault level requirements. The 900 MVA contribution to stable voltage waveform from a 250 MVA installed capacity GFM BESS is not its 'real fault level' contribution; it is instead a measure of a GFM BESS's system strength contribution to a stable voltage waveform. That is, a GFM BESS can provide stability benefits beyond its real fault level contribution, and this has been represented by an available (equivalent) fault level proxy to allow this benefit to be modelled via constraint equations in market modelling. If GFM BESS was considered capable of contributing to the minimum fault level requirement, the contribution of GFM BESS would be significantly reduced to approximately 1.2 times its installed capacity, meaning a GFM BESS with an installed capacity of 250 MVA would only contribute 300 MVA of real fault level to the minimum fault level requirements.

For the RIT-T assessment, AVP assumed that a GFM BESS can provide its system strength capability irrespective of its MWh energy capacity or its instantaneous state of charge and MW dispatch level. This assumption is considered appropriate based on recent discussions with BESS proponents, and noting that BESS typically have a minimum state of charge considered suitable to respond to the short-term disturbances commonly associated with system strength related instabilities.

A3.7 Interstate contributions of system strength

AVP considered contributions to system strength in Victoria from interstate generators based on the minimum fault levels being maintained at each of the nodes in the respective states.

The two synchronous condensers at Buronga in each of 2026 and 2027 as part of PEC Stage 1 and Stage 2, respectively, and the two synchronous condensers at Dinawan in 2027 as part of PEC Stage 2, increase the amount of system strength assumed to be provided from New South Wales in the development of each option portfolio. These four synchronous condensers were implicitly assumed in the base case and all option portfolios, and are not considered to affect the relative rankings of the options at all.

While the contribution of interstate synchronous generation was considered in the minimum and efficient level, no adjustment has been made to efficient level to account for any additional requirements for system strength to support IBR generation in other states.

A3.8 Consideration of critical planned outages

AVP assessed each option portfolio's ability to meet the pre-contingent minimum fault level system strength requirements during the critical planned outages included in the 2024 *System Strength Report*⁴³. This assessment confirmed that the solutions already forming part of each option portfolio are sufficient to also cover the critical planned outage periods

⁴³ At https://aemo.com.au/-/media/files/electricity/nem/security_and_reliability/system_security_planning/2024-system-strength-report.pdf?la=en.

expected across the 11-year system strength planning horizon, and additional procurement of services is therefore not required for critical planned outage management.

In undertaking this assessment, AVP reviewed historical high impact outages in the Victorian transmission system and developed a forward-looking outage schedule of each critical planned outage considering the typical frequency, duration and time of year for these planned outages. For each critical planned outage included in the 2024 *System Strength Report*, this forward-looking outage schedule included a three-year rolling outage plan consisting of one continuous 80-hour outage block and two continuous eight-hour outage blocks (that is, one outage per year total 96 hours every three-year period). Each outage was scheduled between either April and June or September and November, to align with lower demand periods when network outages are more typically scheduled, and outages were scheduled to not occur concurrently.

This approach is considered consistent with the AEMC's final determination⁴⁴ that proposed system strength solutions to cover outages should be evaluated on a case-by-case basis, rather than necessarily being an addition to the baseline redundancy already considered under the minimum fault level requirement set by AEMO.

⁴⁴ AEMC, 2021, Page 98, Efficient Management of System Strength on the Power System, at <https://www.aemc.gov.au/rule-changes/efficientmanagement-system-strength-power-system>.

A4. Additional detail on the option portfolios

The material presented in this appendix is the same as that included as sections 5.1 to 5.6 of the PADR.

A4.1 Option portfolio 1 – Existing generation plus committed/anticipated GFM BESS and new synchronous condensers

Option portfolio 1 assumes that existing synchronous generation can assist with providing system strength, as well as committed and anticipated GFM BESS (for the efficient level), including one that upgrades from GFL to GFM, and new plant able to operate as synchronous condensers (for the minimum and efficient levels).

In total, option portfolio 1 involves nine new plant able to operate as synchronous condensers over the assessment period. It also assumes the use of one existing synchronous condenser (however, this is assumed in all four option portfolios).

The specific components included in this portfolio, for meeting both the minimum and efficient system strength requirements, are summarised in **Table 16**.

Table 16 Option portfolio 1 – Summary of components

Financial year	Minimum fault levels	Efficient level
2026	Existing generators, including conversion of some units to be capable of operating in synchronous condenser mode 1 x Existing synchronous condenser Red Cliffs SSN	Covered by minimum fault level requirements
2027		
2028		900 MW GFM BESS Moorabool SSN
2029	Same as 2028 ^A + 2 x synchronous condensers Hazelwood SSN	Same as 2028 + 350 MW GFL to GFM BESS Hazelwood SSN
2030		
2031	Same as 2030 + 1 x 500 kV synchronous condenser Giffard (Gippsland) Offshore Wind Hub ^B	Same as 2031 + 1 x 500 kV synchronous condenser Giffard (Gippsland) Offshore Wind Hub
2032		
2033		Same as 2032 + 1 x 500 kV synchronous condenser Bulgana Terminal Station
2034	Same as 2033 + 1 x synchronous condenser Hazelwood SSN	Same as 2033 + 1 x 500 kV synchronous condenser Giffard (Gippsland) Offshore Wind Hub
2035		Same as 2034 + 1 x 500 kV synchronous condenser Kerang
2036		Same as 2035 + 1 x 500 kV synchronous condenser Giffard (Gippsland) Offshore Wind Hub

A. 'Same as 2028' (and this language where used with reference to other years in this table and all other tables of this type in the PACR) refers to the same components as that year but, where the use of existing synchronous generation is included in this, it does not imply the same *operation* of these units between years.

B. While this synchronous condenser is installed mainly for minimum fault level for this particular year, in future years it also helps for efficient level and hence has been located closer to the IBR, that is, in the Giffard area.

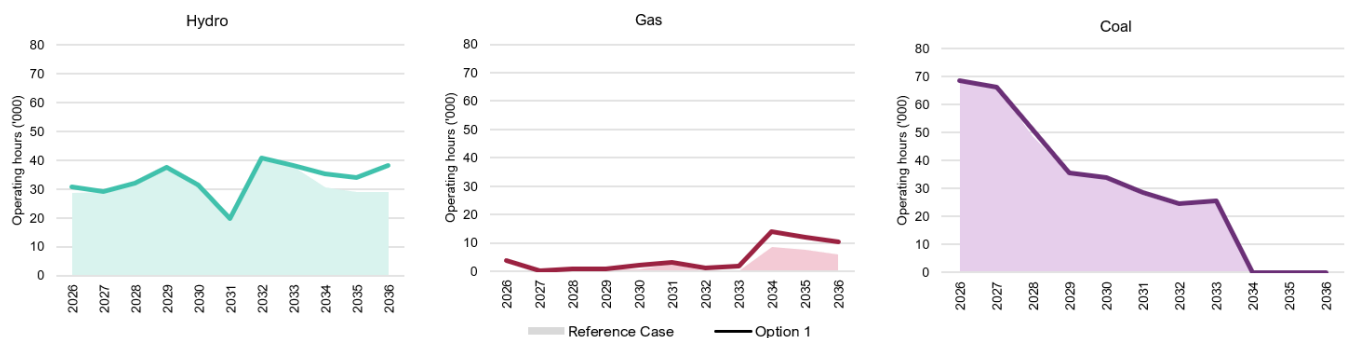
In present value terms⁴⁵, the total estimated capital cost of this option, over the life of the assets, is approximately \$1,144.7 million, which can be broken down as follows:

- \$1,134.5 million for synchronous condensers
- \$1.5 million for upgrading a ‘committed’ GFL BESS to be GFM⁴⁶, and
- \$8.7 million for upgrading an existing generator (to also be capable of operating in synchronous condenser mode).

Over the 11-year assessment period, and considering the terminal value (as outlined in Section 7.4), this equates to approximately \$453.2 million and \$41.3 million in total capital and operating costs, respectively.

Figure 10 shows the redispatch of existing generators in the Victorian system under option portfolio 1, relative to the energy-only dispatch of the reference case. This demonstrates the possible level of additional synchronous generator dispatch, and therefore potential unit contracting over time, required to meet the system strength requirements with the other option portfolio 1 solutions in place.

Figure 10 Victorian synchronous generator operating hours, option portfolio 1 relative to the reference case



In the above chart, and all charts of this type in the PACR:

- the option portfolio dispatch is shown using a solid line, while the reference case dispatch is shown by the shaded area, and
- since the option portfolio includes some hydro generators being converted to be capable of operating in synchronous condenser mode, the option dispatch line of the hydro chart includes operating hours for these units in either hydro generator or synchronous condenser mode.

A4.2 Option portfolio 2 – The same technology types as option portfolio 1 plus upgrading additional GFL BESS to be GFM

Option portfolio 2 includes the same technology types as option portfolio 1⁴⁶ plus upgrading additional ‘committed’/‘anticipated’ GFL BESS to be GFM.

⁴⁵ All present values presented in this PACR use the central discount rate of 7% (as discussed in Section A6.4).

⁴⁶ The BESS that upgrades from GFL to GFM in option portfolio 1 is considered ‘committed’ under the RIT-T and has submitted a proposal in response to the RFI. While the other BESS assumed to upgrade from GFL to GFM in option portfolios 2-4 are also considered ‘committed’ (or ‘anticipated’) under the RIT-T, they have not submitted a proposal at this stage and are for proposals that are further into the future.

This portfolio has been developed to determine, through comparison with option portfolio 1, whether upgrading additional GFL BESS to be GFM is considered optimal compared to investing in synchronous condensers. This option therefore involves fewer plant bale to operate as synchronous condensers than option portfolio 1 (as outlined below).

The upgrading of additional GFL BESS to be GFM for meeting the efficient level ramps up over time and allows the following BESS capacities to be used *in addition to those included for option portfolio 1*:

- 500 MW at the Hazelwood SSN and 350 MW at the Moorabool SSN from 2032
- a further 300 MW at the Moorabool SSN from 2033, and
- 65 MW at the Red Cliffs SSN from 2035.

This allows the following to be avoided to meet the efficient levels, compared to option portfolio 1:

- two synchronous condensers at the Giffard (Gippsland) Offshore Wind Hub 500 kV in 2031 and 2032 (although option portfolio 2 has one more synchronous condenser at the Hazelwood SSN in 2031)
- one Bulgana Terminal Station 500 kV synchronous condenser in 2033, and
- one Kerang Terminal Station 500 kV synchronous condenser in 2035.

In total, option portfolio 2 involves six new plant able to operate as synchronous condensers over the assessment period (three fewer than under option portfolio 1).

The specific components included in this portfolio, for meeting both the minimum and efficient system strength requirements, are summarised in **Table 17**.

Table 17 Option portfolio 2 – Summary of components

Financial year	Minimum fault levels	Efficient level
2026	Existing generators, including conversion of some units to be capable of operating in synchronous condenser mode 1 x Existing synchronous condenser Red Cliffs SSN	Covered by minimum fault level requirements
2027		
2028		900 MW GFM BESS Moorabool SSN
2029	Same as 2028 + 2 x synchronous condensers Hazelwood SSN	Same as 2028 + 350 MW GFL to GFM BESS Hazelwood SSN
2030		
2031	Same as 2030 + 1 x synchronous condenser Hazelwood SSN	Same as 2031 + 500 MW GFL to GFM BESS Hazelwood SSN 350 MW GFL to GFM BESS Moorabool SSN
2032		
2033		Same as 2032 + 300 MW GFL to GFM BESS Moorabool SSN
2034	Same as 2033 + 1 x synchronous condenser Hazelwood SSN	Same as 2033 + 1 x 500 kV synchronous condenser Giffard (Gippsland) Offshore Wind Hub
2035		Same as 2034 + 65 MW GFM BESS Red Cliffs SSN
2036		Same as 2035 + 1 x 500 kV synchronous condenser Giffard (Gippsland) Offshore Wind Hub

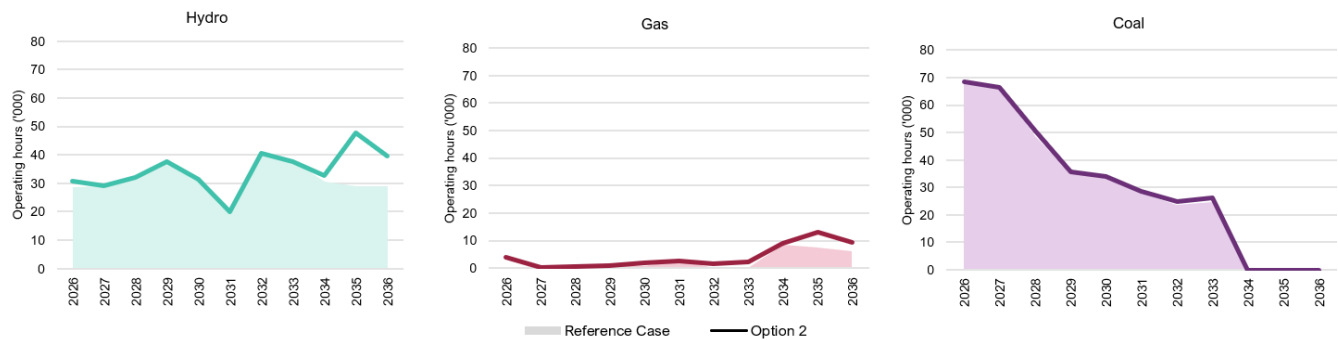
In present value terms, the total estimated capital cost of this option, over the life of the assets, is approximately \$795.6 million, which can be broken down as follows:

- \$779.1 million for synchronous condensers
- \$7.8 million for GFL BESS to be GFM, and
- \$8.7 million for upgrading an existing generator (to also be capable of operating in synchronous condenser mode).

Over the 11-year assessment period, and considering the terminal value (as outlined in Section 7.4), this equates to approximately \$335.5 million and \$30.8 million in total capital and operating costs, respectively.

Figure 11 shows the redispatch of existing generators in the Victorian system under option portfolio 2, relative to the energy-only dispatch of the reference case. This demonstrates the possible level of additional synchronous generator dispatch, and therefore potential unit contracting over time, required to meet the system strength requirements with the other option portfolio 2 solutions in place.

Figure 11 Victorian synchronous generator operating hours, option portfolio 2 relative to the reference case



A4.3 Option portfolio 3 – The same technology types as option portfolio 2 plus a GFM BESS from the IBR forecasts

Option portfolio 3 involves the same technology types as option portfolio 2, plus a generic GFM BESS from the IBR forecasts to help meet the efficient level requirements.

The inclusion of option portfolio 3 shows the potential cost savings from being able to use future ‘committed’/‘anticipated’ BESS, and therefore the value (cost savings to consumers) of waiting to see whether these emerge rather than committing to more plant able to operate as synchronous condensers now.

In addition to the BESS assumed in option portfolio 2 from 2032, option portfolio 3 also assumed the use of a generic 400 MW GFM BESS at the Hazelwood SSN, which is included in AEMO’s IBR forecasts but is not yet considered ‘anticipated’ or ‘committed’ under the RIT-T to meet the efficient level requirements from that point. This BESS allows one synchronous condenser at Gippsland South to be avoided in 2036, and the other synchronous condenser to be deferred by one year (from 2034 to 2035), compared to option portfolio 2.

In total, option portfolio 3 involves five new plant able to operate as synchronous condensers over the assessment period (four fewer than under option portfolio 1).

The specific components included are in **Table 18**.

Table 18 Option portfolio 3 – Summary of components

Financial year	Minimum fault levels	Efficient level
2026	Existing generators, including conversion of some units to be capable of operating in synchronous condenser mode 1 x Existing synchronous condenser Red Cliffs SSN	Covered by minimum fault level requirements
2027		
2028		900 MW GFM BESS Moorabool SSN
2029	Same as 2028 + 2 x synchronous condensers Hazelwood SSN	Same as 2028 + 350 MW GFL to GFM BESS Hazelwood SSN
2030		
2031	Same as 2030 + 1 x synchronous condenser Hazelwood SSN	Same as 2031 + 500 MW GFL to GFM BESS Hazelwood SSN 350 MW GFL to GFM BESS Moorabool SSN 400 MW ISP forecast GFM BESS Hazelwood SSN
2032		
2033		
2034	Same as 2033 + 1 x synchronous condenser Hazelwood SSN	Same as 2032 + 300 MW GFL to GFM BESS Moorabool SSN
2035		Same as 2034 + 65 MW GFM BESS Red Cliffs SSN + 1 x 500 kV synchronous condenser Giffard (Gippsland) Offshore Wind Hub
2036		

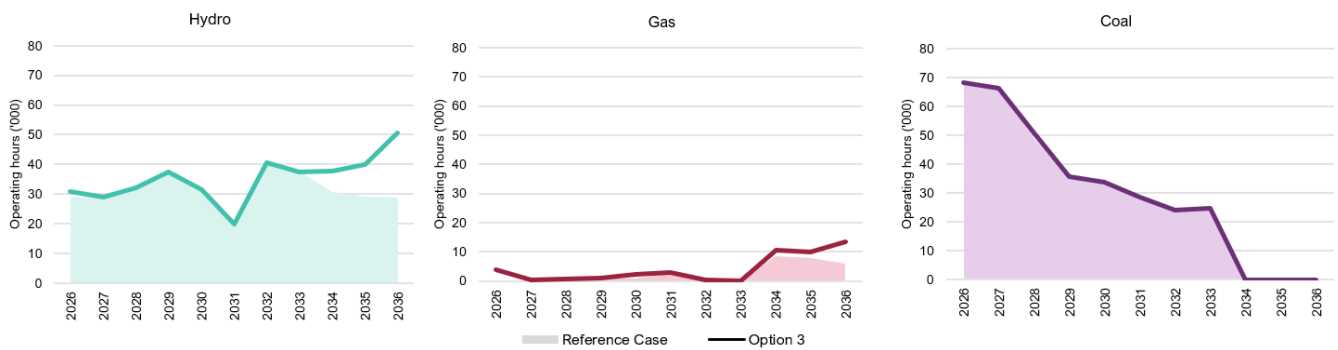
In present value terms, the total estimated capital cost of this option, over the life of the assets, is approximately \$689.6 million, which can be broken down as follows:

- \$673.1 million for synchronous condensers
- \$7.8 million for GFL BESS to be GFM, and
- \$8.7 million for upgrading an existing generator (to also be capable of operating in synchronous condenser mode).

Over the 11-year assessment period, and considering the terminal value (as outlined in Appendix A6.4), this equates to approximately \$311.2 million and \$28.9 million in total capital and operating costs, respectively.

As outlined in Section A5.1, and as with existing and committed/anticipated GFM BESS, AVP has not included a capital cost for the 'generic' GFM BESS from the IBR forecast, because the costs were assumed to be in the base case. In addition, AVP has not assumed upgrade cost, but has treated all new BESS as being GFM based on recent connection enquiries and application information from AEMO's Victorian Connections team (see Appendix A3).

Figure 12 shows the redispatch of existing generators in the Victorian system under option portfolio 3, relative to the energy-only dispatch of the reference case. This demonstrates the possible level of additional synchronous generator dispatch, and therefore potential unit contracting over time, required to meet the system strength requirements with the other option portfolio 3 solutions in place.

Figure 12 Victorian synchronous generator operating hours, option portfolio 3 relative to the reference case

A4.4 Option portfolio 4 – The same technology types as option portfolio 3, except with accelerated procurement of synchronous condensers

Option portfolio 4 includes exactly the same components as option portfolio 3, but expedites the timing of plant able to operate as synchronous condensers. Specifically:

- option portfolio 3 adds two Hazelwood SSN synchronous condensers in 2029, one Hazelwood SSN synchronous condenser in 2031, and one Hazelwood SSN synchronous condenser in 2034, and
- option portfolio 4 adds one Hazelwood SSN synchronous condenser in 2028, two Hazelwood SSN synchronous condensers in 2029, and one Hazelwood SSN synchronous condenser in 2034.

Option portfolio 4 is the same as option portfolio 3 from 2031 onwards.

This option has been developed to investigate whether expediting synchronous condensers is expected to be net beneficial. While AVP currently considers that the earliest realistic commissioning is 2029, option portfolio 4 applied an assumption proposed in response to the RFI that a synchronous condenser could be in place by 2028.

Option portfolio 4 is based on option portfolio 3 as option portfolio 3 it is the top-ranked portfolio (see section 5).

In total, option portfolio 4 involves five new plant able to operate as synchronous condensers over the assessment period (the same as option portfolio 3, and four fewer than under option portfolio 1).

The specific components included in this portfolio, for meeting both the minimum and efficient system strength requirements, are summarised in **Table 19**.

Table 19 Option portfolio 4 – Summary of components

Financial year	Minimum fault levels	Efficient level
2026	Existing generators, including conversion of some units to be capable of operating in synchronous condenser mode 1 x Existing SC Red Cliffs SSN	Covered by minimum fault level requirements
2027		
2028	Same as 2027 + 1 x synchronous condenser Hazelwood SSN	900 MW GFM BESS Moorabool SSN
2029	Same as 2028 + 2 x synchronous condensers Hazelwood SSN	Same as 2028 + 350 MW GFL to GFM BESS Hazelwood SSN
2030		
2031		

Financial year	Minimum fault levels	Efficient level
2032	Same as 2033 + 1 x synchronous condenser Hazelwood SSN	Same as 2031 + 500 MW GFL to GFM BESS Hazelwood SSN 350 MW GFL to GFM BESS Moorabool SSN 400 MW ISP forecast GFM BESS Hazelwood SSN
2033		Same as 2032 + 300 MW GFL to GFM BESS Moorabool SSN
2034		Same as 2034 + 65 MW GFM BESS Red Cliffs SSN + 1 x 500 kV synchronous condenser Giffard (Gippsland) Offshore Wind Hub
2035		
2036		

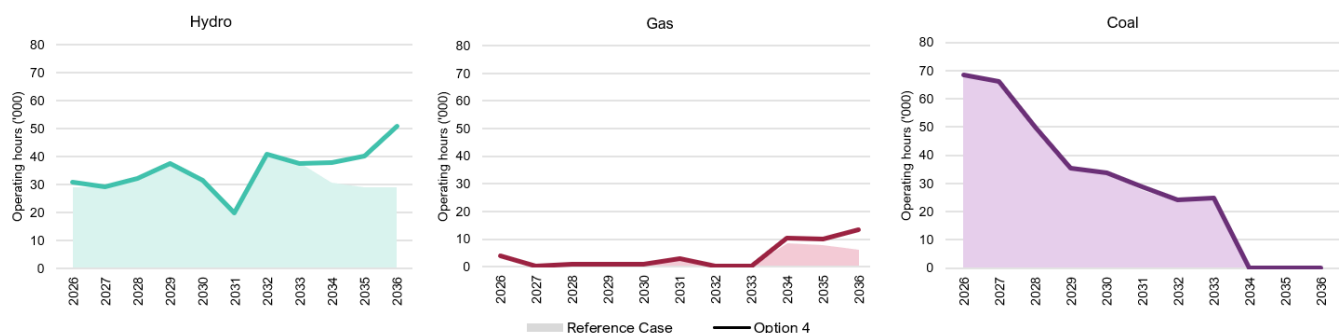
In present value terms, the total estimated capital cost of this option, over the life of the assets, is approximately \$714.9 million, which can be broken down as follows:

- \$698.4 million for synchronous condensers
- \$7.8 million for GFL BESS to be GFM, and
- \$8.7 million for upgrading an existing generator (to also be capable of operating in synchronous condenser mode).

Over the 11-year assessment period, and considering the terminal value (as outlined in Appendix A6.4), this equates to approximately \$342.9 million and \$33.1 million in total capital and operating costs, respectively.

Figure 13 shows the redispatch of existing generators in the Victorian system under option portfolio 4, relative to the energy-only dispatch of the reference case. This demonstrates the possible level of additional synchronous generator dispatch, and therefore potential unit contracting over time, required to meet the system strength requirements with the other option portfolio 4 solutions in place.

Figure 13 Victorian synchronous generator operating hours, option portfolio 4 relative to the reference case



A4.5 The base case

Consistent with the RIT-T requirements, the assessment undertaken in the PACR compares the costs and benefits of each portfolio option to a 'do nothing' base case for each scenario. The base case is the (hypothetical) projected case if no action is taken, that is:

*"The base case is where the RIT-T proponent does not implement a credible option to meet the identified need, but rather continues its 'BAU activities'. 'BAU activities' are ongoing, economically prudent activities that occur in absence of a credible option being implemented"*⁴⁷.

The base case for this PACR assumed no proactive investment in meeting the system strength requirements in Victoria, beyond investments that were committed to separately from, and ahead of, this RIT-T. These committed investments, which were also considered as committed investments in assessing each option portfolio, include:

- Koorangie Battery Energy Storage System (KESS) System Strength Support Agreement, contracting 120 MVA of GFM BESS capacity at Koorangie Terminal Station until approximately 2045
- Ararat Synchronous Condenser System Strength Support Agreement, contracting 250 MVA of synchronous condenser capacity at Ararat Terminal Station until approximately 2045, and
- Red Cliffs SSN shortfall services agreements, contracting up to 145 MVA of existing synchronous condenser capacity in the Red Cliffs SSN area until 31 July 2026.

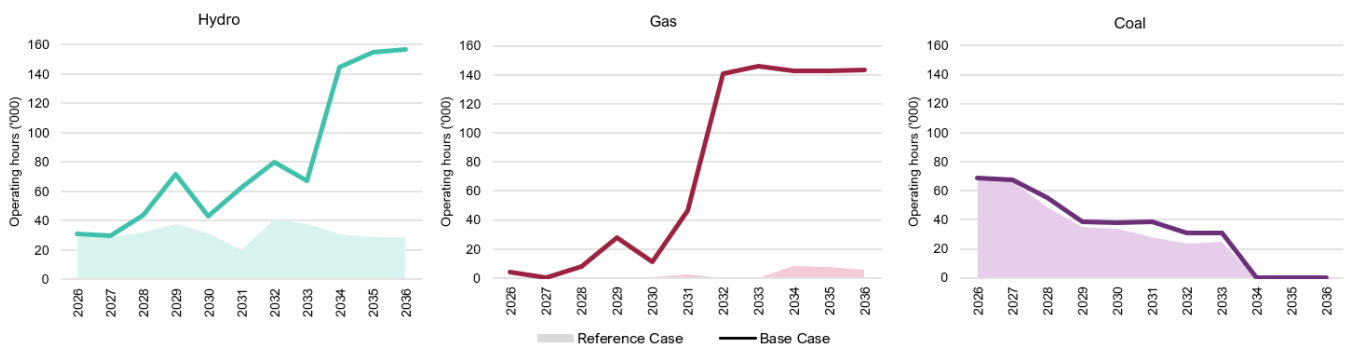
The Victorian Government has made the KESS and Ararat Synchronous Condenser agreements available to meet Victoria's system strength requirements, which has reduced the need for additional system strength services in Victoria to support new IBR. Other than the committed investments noted, the RIT-T assessment only assumed the use of existing synchronous generators to meet the system strength requirements under the base case, resulting in very high forecast levels of unserved energy in the future as existing synchronous generators exit the market.

While this is not a situation AVP plans to encounter, and the NER obligations and this RIT-T have been initiated specifically to avoid them, the assessment is required under the RIT-T to consider this base case as a common point of reference when estimating the net benefits of each credible option. To be clear, AVP does not intend to let power system security decline in this way.

While the forecast unserved energy due to insufficient system strength is extremely high, it is ultimately not considered material for the comparison of the options in the RIT-T assessment, due to each option portfolio avoiding it equally, given they are each designed to meet the system strength requirements in the same way. While the avoided unserved energy has been quantified and presented at the start of Section 5 (the NPV results), AVP removed it for the remainder of the PACR to allow for a more meaningful comparison of the real differences in the costs and benefits of each option portfolio (as explained in Section 5.1).

Figure 14 shows the redispatch of existing generators in the Victorian system under the base case, relative to the energy-only dispatch of the reference case. This demonstrates the possible level of additional synchronous generator dispatch required to meet the system strength requirements prior to 2030 (at which point there are insufficient existing synchronous machines available to meet the requirements) if no other proactive system strength solutions were put in place.

⁴⁷ AER, *Regulatory Investment Test for Transmission Application Guidelines*, October 2023, p. 22.

Figure 14 Victorian synchronous generator operating hours, counterfactual base case relative to the reference case

The base case (and the options cases) assumed minimum synchronous unit commitment, as a proxy for more realistic bidding while maintaining a short-run marginal cost bidding approach. The synchronous unit commitment also provides a form of a system strength constraint for the other states.

Once the minimum unit commitments cease, it was assumed that other states would be maintaining system strength in their regions, predominantly through the use of synchronous condensers or already committed GFM BESS (which would not impact energy dispatch outcomes, so did not need to be modelled explicitly). For all cases, specific system strength constraints were developed for the Victorian region, as outlined in Section A6.2.

A4.6 Land, environmental and social considerations

In the PSCR, AVP made an initial assessment of land availability to identify preferred credible options of installing three 250 megavolt amperes reactive (MVar) synchronous condensers connected at Moorabool 500 kV, Bulgana Terminal Station 500 kV and a new proposed terminal station at Kerang 500 kV to be delivered by VNI West.

Updated analysis for the PADR presented the number of new network and non-network assets connecting to nominated host terminal stations to meet system strength needs at each system strength node.

While a shortlist of sites for new network components has been presented as part of the credible options described in Appendix A5.1, other sites with similar technical effectiveness and similar ability to host new components could form part of the option portfolios instead. Therefore, any sites ultimately selected to host assets providing contracted services will be assessed through the procurement process, which is expected to include consideration of environmental and social impacts and value for money, balancing technical effectiveness with service provision cost.

AVP acknowledges there may be temporary impacts during construction of new assets, and the siting of assets to support system strength services should be carefully considered to minimise potential environmental and social impacts. The option portfolios are not anticipated to cause significant social license risks during operation for communities surrounding sites ultimately selected to host assets. There may be other requirements that need to be considered as part of planning and environment approval processes. AVP has presented an indicative build period that factors in time and estimated costs of planning and environmental approval processes in Appendix A5.2.

The analysis in this PACR is based on desktop available information only, is subject to change, and has not been informed by any field investigations, community or landholder engagement, or the specific requirements of any planning and

environmental approval processes relevant at the time. Further detailed studies assessing the potential environmental and planning impacts will form part of the relevant planning and approval processes for the option portfolios.

A5. Estimating option costs

The material presented in this appendix is the same as that included as Section 6 of the PADR.

This appendix outlines how the various option components have been costed for the purposes of the PACR assessment.

The cost estimation approach adopted includes a mixture of specific costs proposed by proponents and the use of cost information contained in AEMO's 2024 ISP Inputs and Assumptions Workbook, including the AEMO TCD.

All option portfolios have been costed in accordance with the RIT-T framework. The procurement process accompanying this RIT-T aims to identify the specific lowest cost solutions and the ultimate cost to consumers will be determined from these costs.

A5.1 Components included in the four option portfolios

The sections below outline how the various components included in the four option portfolios have been costed.

All option portfolios have been costed in accordance with the RIT-T framework and include the costs incurred in constructing or providing the option, the operating and maintenance costs, and the cost of complying with laws, regulations and applicable administrative requirements in relation to the construction and operation of the credible option (where applicable)⁴⁸. As required under the RIT-T Application Guidelines⁴⁹ and reconfirmed in the AER guidance note⁵⁰, funds that move between participants, such as non-network proponent offer costs above the economic cost estimated for the purposes of the RIT-T, have been treated as a wealth transfer and do not affect the calculation of the final net economic benefit under the RIT-T. The procurement process accompanying this RIT-T aims to identify the specific lowest cost solutions and the ultimate cost to consumers will be determined from these costs.

Existing and committed/anticipated grid-forming BESS

AVP has not included a capital cost for these components in the analysis, because the costs were assumed to be sunk and/or included in the base case. No upgrade cost was assumed because AVP treated all new BESS as being GFM, based on recent connection enquiries and application information from AEMO's Victorian Connections team.

New plant able to operate as synchronous condensers

All new plant able to operate as synchronous condensers have been costed in the RIT-T assessment as synchronous condensers and assumed to have a capital cost of \$193.6 million (in 2023-24 dollars). This has been sourced from the AEMO TCD, version number 4-0, and escalated to be in 2023-24 dollars.

Common synchronous condenser costs have been applied, regardless of location. Although shortlisted sites have been identified based on their ability to host new assets, considering technical, environmental and social factors, the ultimate location of assets contracted to provide system strength services will be determined through the procurement process, and

⁴⁸ AEMC, *National Electricity Rules version 227*, March 2025, NER 5.15A.2(8).

⁴⁹ AER, *Regulatory Investment Test for Transmission Application Guidelines*, November 2024, p. 59.

⁵⁰ AER, *The Efficient Management of System Strength Framework AER Guidance Note*, December 2024, p. 23.

overall, each area is expected to have similar known and unknown risks that are accounted for within the accuracy class of the cost estimate applied. AVP included standard connection assets assumed necessary to connect to the Declared Shared Network in the synchronous condenser costs.

The capital costs of new synchronous condensers applied in this PACR were developed to a class 5A (+/- 30% accuracy) estimate using AEMO's TCD and have been escalated to 2023-24 dollar terms based on the Consumer Price Index (CPI).

The TCD is substantially based on the Association for Advancement of Cost Engineering (AACE) international classification system commonly used in many industries⁵¹. The TCD enables the selection of known and unknown risks for each build component to reflect the level of project complexity and risks that will or could arise during further development of credible options:

- Known risks:
 - Compulsory acquisition.
 - Cultural heritage.
 - Environmental offset risks.
 - Macroeconomic influences.
 - Market activity.
 - Geotechnical conditions.
 - Outage restrictions.
 - Weather delays.
- Unknown risks:
 - Productivity and labour cost.
 - Plant procurement costs.
 - Project overheads.
 - Scope and technology.

Known and unknown risks, in line with the TCD, were produced as a proportion of the total cost and considered a contingency in line with AEMO's Mott MacDonald: Transmission Cost Database Update final report released in July 2023⁵². A contingency allowance of \$23.2 million, in undiscounted terms and without factoring in a terminal value, was included in all new synchronous condenser cost estimates, reflecting the known and unknown risks selected in line with the TCD.

⁵¹ The approach taken in the TCD differs from the AACE system in two superficial ways – see AEMO, 2023 *Transmission Expansion Options Report*, September 2023, p 21, at <https://www.aemo.com.au/energy-systems/major-publications/integrated-system-plan-isp/2024-integrated-system-plan-isp/current-inputs-assumptions-and-scenarios>.

⁵² As referenced in AEMO *Transmission Cost Database, Building Blocks Costs and Risk Factors Update Final Report*, 24 July 2023, prepared by Mott MacDonald, at <https://aemo.com.au/en/energy-systems/major-publications/integrated-system-plan-isp/2024-integrated-system-plan-isp/current-inputs-assumptions-and-scenarios/transmission-cost-database>.

AVP also assumed an annual operating and maintenance cost for synchronous condensers of 1% of the upfront capital expenditure⁵³.

AVP estimates build periods to be three years for synchronous condensers⁵⁴ and two years for BESS, starting after a future procurement process contract award is complete. These indicative build periods provide time to commence long-lead procurement and secure land, planning and environmental approval processes prior to construction, as well as a period in which testing is conducted prior to in-service dates. Synchronous condenser lead times have also been tested and confirmed as reasonable with industry, with a PADR submission noting that synchronous condenser manufacturing slots remain available and advising that delivery timeframes range from 20-30 months.

AVP notes in AEMO's Draft 2025 *Electricity Network Options Report*, an updated TCD version for consultation identified an increase in the anticipated cost of synchronous condensers, estimating the cost of a 250 MVA synchronous condenser, including associated site works and buildings, step up transformers, and high voltage connection assets, at \$323 million (Class 5b $\pm 50\%$)⁵⁵. AVP has not considered updated cost estimates for the PACR because, at the time of preparing this PACR, the Draft 2025 *Electricity Network Options Report* remained under consultation and the procurement of new synchronous condensers will be conducted via a competitive tender with the aim of maximising value for money and ensuring any new proposed asset investment is at the lowest cost to consumers. Additionally, higher synchronous condenser costs would only increase the net market of option portfolio 3 relative to the alternative options assessed in this RIT-T.

Upgrading grid-following BESS to be grid-forming

The cost of upgrading committed/anticipated GFL BESS to be GFM has been assumed to be a flat \$2 million per BESS (in 2023-24 dollars). This has been informed through responses to the RFI and reflects the costs associated with the NER 5.3.9 processes (to enable GFM mode).

This upgrade cost was assumed to be a once-off cost, not involving any ongoing additional operating or maintenance costs (since the upgrade is effectively just a procedural step that needs to be undertaken, mostly involving power system analysis to demonstrate grid code compliance and legal fees to amend connection agreements).

While this upgrade cost has not been estimated using the AACE cost estimate classification system, the approach taken is considered more suitable for these costs given they are not covered in the TCD. AVP notes that this assumed cost was ultimately found to not be material in the PADR assessment (as outlined in Section 5.3.1).

'Generic' grid-forming BESS from the IBR forecasts

As with existing and committed/anticipated grid-forming BESS, AVP has not included a capital cost for this component in the analysis, because the costs were assumed to be in the base case. AVP did not assume any upgrade cost, treating all new BESS as being GFM based on recent connection enquiries and application information from AEMO's Victorian Connections team.

⁵³ As referenced in AEMO, *Transmission Expansion Options Report*, September 2023, at <https://aemo.com.au/energy-systems/major-publications/integrated-system-plan-isp/2024-integrated-system-plan-isp/current-inputs-assumptions-and-scenarios>.

⁵⁴ The one exception is for the first accelerated synchronous condenser under option portfolio 4, which was assumed in 2028 (a two-year assumed build period).

⁵⁵ AEMO, Draft 2025 *Electricity Network Options Report*, May 2025, p. 193. At, <https://aemo.com.au/consultations/current-and-closed-consultations/2025-electricity-network-options-report-consultation>. AVP estimated synchronous condenser costs at Class 5a ($\pm 30\%$), refer to pages 47-48 of the Victorian System Strength RIT-T PADR.

Upgrading an existing generator (to also be capable of operating in synchronous condenser mode)

The cost of upgrading an existing synchronous generator to also be capable of operating in synchronous condenser mode has been assumed at a total capital cost of \$10 million (in 2023-24 dollars). This cost covers conversion of multiple units of an existing generator, has been informed through responses to the RFI, and reflects the minor station works required to enable synchronous condenser mode.

AVP also assumed an annual operating and maintenance cost of 1% of the upfront capital expenditure.

While this upgrade cost has not been estimated using the AACE cost estimate classification system, the approach taken is considered more suitable for these costs given they are not covered in the TCD.

A5.2 Other components considered but not ultimately included in the four option portfolios

All other components that were proposed (such as STATCOMs and Magnetically Controlled Shunt Reactors) were ultimately not included in the four option portfolios on account of them not yet being 'anticipated' or 'committed' under the RIT-T, and therefore having significantly greater costs than the components outlined above (without being expected to deliver any additional market benefits). Moreover, each of these potential solutions is only able to contribute to the efficient level, and not the minimum level, requirements.

Conversion of existing plant to operate as synchronous condensers was included in the development of the options portfolio and included where it formed part of the least cost option portfolio.

A5.3 Treatment of 'anticipated' and 'committed' projects

In preparing the PADR, AVP engaged with solution proponents on the commitment status of their projects. Specifically, AVP liaised directly with proponents to determine whether their solutions are considered 'anticipated' or 'committed' under the RIT-T (that is, whether they meet the criteria for these classifications under the RIT-T).

The RIT-T defines a 'committed' project as one that meets the following criteria⁵⁶:

- the proponent has obtained all required planning consents, construction approvals and licenses, including completion and acceptance of any necessary environmental impact statement
- the proponent has purchased/settled/acquired land (or commenced legal proceedings to acquire land) for the purposes of construction
- contracts for supply and construction of the major components of the necessary plant and equipment (such as generators, turbines, boilers, transmission towers, conductors, terminal station equipment) have been finalised and executed, including any provisions for cancellation payments
- the necessary financing arrangements, including any debt plans, have been finalised and contracts executed, and

⁵⁶ AER, *Regulatory Investment Test for Transmission*, August 2020, p. 13.

- construction has either commenced or a firm commencement date has been set.

An ‘anticipated’ project is defined as one that does not meet all of the criteria of a committed project but is in the process of meeting at least three of the criteria⁵⁷.

All projects AVP considered as ‘anticipated’ or ‘committed’ in the PADR assessment have the same status in AEMO’s NEM Generation Information January 2025 workbook⁵⁸. Where proponents suggested projects should be considered ‘anticipated’ but were not classified as such in this version of AEMO’s NEM Generation Information workbook, AVP assessed the projects against the RIT-T criteria based on information provided by proponents, and all these projects were ultimately determined to be ‘publicly announced’ for the PADR assessment.

Where projects have been determined as ‘anticipated’ or ‘committed’ under the RIT-T, they have been included in the base case and option cases for AVP’s assessment. Since costs and/or market benefits associated with the provision of system strength from anticipated or committed projects are netted off between the base case and portfolio options, AVP only estimated project costs to the extent they differed to what was assumed in the base case.

⁵⁷ AER, *Regulatory Investment Test for Transmission*, August 2020, p. 13.

⁵⁸ At <https://www.aemo.com.au/energy-systems/electricity/national-electricity-market-nem/nem-forecasting-and-planning/forecasting-and-planning-data/generation-information>.

A6. Estimating market benefits

The material presented in this appendix is the same as that included as Section 7 of the PADR.

AVP estimated four categories of market benefit under the RIT-T as part of this RIT-T assessment, including the recently added 'changes in Australia's greenhouse gas emissions'. Wholesale market modelling was used to estimate these categories of market benefits.

The four options considered were found to have similar levels of market benefit over the first five years of the assessment period. This is predominantly driven by the need for the minimum fault level requirement to be met by synchronous machines, and the feasibility of options available within that period being relatively limited, considering the expected procurement lead times for development of new assets such as plant able to operate as synchronous condensers.

Competition benefits, option value, changes in network losses, voluntary load curtailment, and ancillary service costs are not expected to be material for this RIT-T, so were not estimated.

A6.1 Expected market benefits from the option portfolios

The RIT-T requires categories of market benefits to be calculated by comparing the 'state of the world' in the base case where no action is undertaken with the 'state of the world' with each of the credible portfolio options in place, separately. The 'state of the world' is essentially a description of the NEM outcomes expected in each case, and includes the type, quantity and timing of future generation and storage investment as well as unrelated future transmission investment.

The specific categories of market benefit under the RIT-T that have been modelled as part of this PACR are:

- changes in fuel consumption in the NEM arising through different patterns of generation dispatch
- changes in Australia's greenhouse gas emissions
- changes in costs for parties, other than the RIT-T proponent (that is, changes in investment in generation and storage capital and fixed and variable operating and maintenance costs), and
- changes in involuntary load curtailment.

AVP engaged Jacobs to conduct wholesale market modelling to quantify these benefits. A wholesale market modelling approach similar to the short-term (ST) time-sequential modelling approach used in the ISP has been applied to estimate the market benefits associated with each credible option included in this RIT-T assessment⁵⁹.

While the remainder of this section provides further detail on the approach taken to estimating each of these market benefits, it is also discussed in greater detail in the accompanying Jacobs market modelling report.

⁵⁹ The RIT-T requires that in estimating the magnitude of market benefits, a market dispatch modelling methodology must be used, unless the transmission network service provider(s) (TNSP(s)) can provide reasons why this methodology is not relevant. See AER, *Regulatory Investment Test for Transmission*, August 2020, p. 8.

Changes in fuel consumption in the NEM

This category of market benefit is expected where credible option portfolios result in different patterns of generation and storage dispatch across the NEM, compared to the base case. This is found to be the largest category of market benefit estimated across the option portfolios (noting that the avoided unserved energy estimates have been removed from the assessment, as explained in Section 5).

In the base case, renewable energy sources are curtailed in favour of dispatching existing synchronous machines to meet the growing system strength requirements. All option portfolios see a considerable buildout of plant capable of operating as synchronous condensers and GFM batteries, which reduce the need for significant additional coal, gas and hydro redispatch relative to the base case and therefore result in net market benefits associated with avoided fossil fuel consumption.

Changes in Australia's greenhouse gas emissions

Following the change to the National Electricity Objective (NEO) in September 2023 to include changes in Australia's greenhouse gas emissions, and the subsequent change to the NER on 1 February 2024, RIT-T proponents now need to include a new benefit category to cater for changes in emissions in RIT-T assessments (where material). This category was found to be the second largest category of market benefit estimated for each of the portfolio options.

Reductions in emissions under the option portfolio have been valued using the VER published by the AER. AVP also investigated sensitivities assuming +/- 25% on the VER value, consistent with guidance from Australia's Energy Ministers⁶⁰. The VER is not considered in the dispatch of energy within the market model, instead being added to the resultant dispatch, considering emissions intensity values from the 2024 ISP Inputs and Assumptions Workbook, for each portfolio to estimate the economic benefits. This is consistent with the approach taken in the 2024 ISP, as required under the AER guidance and explanatory statement on valuing emissions reduction⁶¹.

Changes in costs for other parties in the NEM

This category of market benefits is expected where the operational patterns of assets within portfolio options change in response to meeting system strength constraints, relative to the base case.

This market benefit class captures the differences in capital costs, fixed operations and maintenance (FOM) costs, variable operations and maintenance (VOM) costs, and generator start and stop costs. While these avoided costs have been estimated for each option, they were found to be relatively small compared to the avoided fuel and emissions costs.

Changes in involuntary load curtailment

Where no action is taken to meet Victoria's minimum and efficient level system strength requirements, there would be a significant deficit in system strength because of the withdrawal of coal generation and increasing renewable connections.

In this hypothetical future, it is expected that AEMO would direct existing synchronous generators to operate, or constrain renewable generation (where possible) to maintain system security. If the efficient level of system strength is not met, the remaining renewable generation that is able to operate securely may be insufficient to meet system demand, which may lead to load shedding. If the minimum level of system strength is not met, voltage instability might occur and protection

⁶⁰ See <https://www.aemc.gov.au/sites/default/files/2024-04/MCE%20statement%20on%20interim%20VER.pdf>.

⁶¹ See <https://www.aer.gov.au/system/files/2024-08/Amended%20VER%20MCE%20Statement.pdf>.

systems might not operate correctly, potentially leading to cascading failures and/or power system instability and, in the worst case, widespread and extensive power outage and power system plant damage.

While the forecast unserved energy due to insufficient system strength is extremely high, it is ultimately not considered material in the comparison of options for the RIT-T assessment, due to each option portfolio avoiding it equally, given they are each designed to meet the system strength requirements in the same way. While the avoided unserved energy has been quantified and presented at the start of Section 5 (the NPV results), AVP removed it for the remainder of the PADR to allow for a more meaningful comparison of the real differences in the costs and benefits of each option portfolio (as explained in Section 5.1).

Moreover, while AVP estimated unserved energy as part of the assessment, it was only estimated based on the minimum fault level requirements, and not the efficient level requirements. While this approach significantly underestimates the expected level of unserved energy, it is considered proportionate under the RIT-T given the additional computational time to expand the calculations to cover the efficient level, which can also be met by first constraining down IBR generation to maintain a stable voltage waveform, and the fact that all option portfolios are designed to avoid the expected unserved energy equally.

Where AVP has quantified the changes in involuntary load curtailment at the start of Section 5, the modelling estimated the megawatt hours of unserved energy in each trading interval over the modelling period as a result of violations in minimum-level requirements, and then applied a VCR, expressed in \$/MWh, to quantify the estimated value of avoided unserved energy for each option. The exact amount of load to be shed at a node is not easily quantifiable, and a factor of 0.25 was applied to the system demand as a proportion of the (total) shortfall, reflecting that it is likely to be unnecessary to disconnect all the load on that node.

This estimate of the load to be shed is considered conservative, as the reduction in load at time of minimum demand would likely include a significant contribution of rooftop solar which is not included in the system demand. AVP adopted the AER's most recent assumptions for the Victorian VCR for the purposes of this assessment.

A6.2 Market modelling has been used for the wholesale market benefits

AVP engaged Jacobs to undertake the wholesale market modelling to assess the market benefits expected to arise under each of the option portfolios.

Jacobs performed market modelling in PLEXOS⁶², which employed mixed integer programming to solve the unit commitment problem associated with Victorian synchronous generators to accurately reflect system strength contribution from each of these assets. This was carried out on the AEMO 2024 ISP database, which uses a 12-node framework.

System strength constraints were integrated into the database to dispatch sufficient services to meet the system strength requirement. The dispatch was co-optimised for least cost system strength provision and energy demand, then evaluated in PSS[®]E to ensure the accuracy of the constraint equations and that the system strength requirement was met.

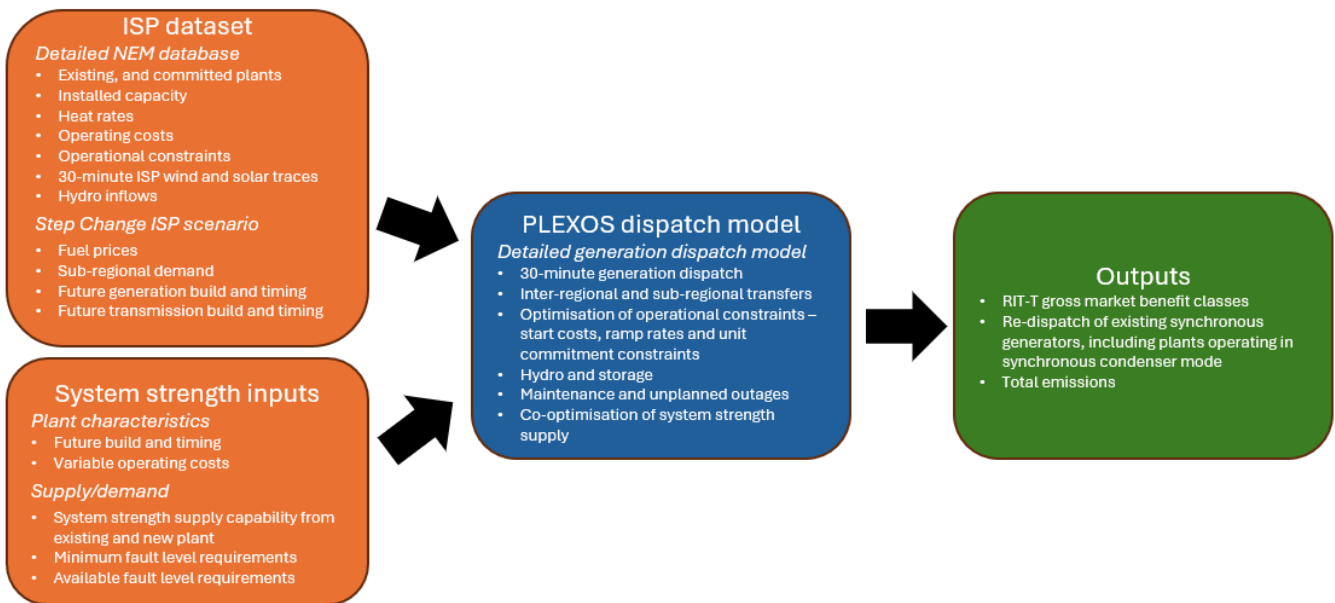
Input modelling assumptions were primarily based on the Final 2024 ISP *Step Change* scenario, including the 2024 ISP Inputs and Assumptions Workbook, with adjustments made for more recently announced changes to the retirement of coal-fired power stations, as well as unit commitment requirements in the first half of the assessment period as a proxy for more

⁶² PLEXOS[®] is an energy simulation software, developed by Energy Exemplar.

realistic bidding while maintaining a short-run marginal cost bidding approach. Transmission development was based on the 2024 ISP’s optimal development pathway (ODP) and used the least cost generation expansion plan (candidate development path [CDP] 14).

The modelling undertaken by Jacobs assumed short-run marginal cost bidding, consistent with the ISP, as well as fit-for-purpose assumed synchronous unit commitment (in all regions of the NEM), to provide more realistic modelling outcomes. This aims to balance the risk of over-procurement of system strength solutions, while erring on the side of having sufficient system strength in the system.

Figure 15 Summary of the wholesale market modelling undertaken by Jacobs



Further details on the inputs and methodologies applied by Jacobs for estimating the market benefits of each option portfolio can be found in the Jacobs market modelling report accompanying the PADR.

A6.3 Market benefits that are not expected to be material

Table 20 summarises the other categories of market benefit catered for under the RIT-T and why each is not considered material in this RIT-T assessment.

Table 20 Market benefit categories that are not expected to be material

Market benefit	Reason(s) why it is not considered material
Competition benefits	As the option portfolios considered in this PACR do not address network constraints between competing generators, and all credible options are expected to meet the system strength requirements, competition benefits are not expected to be material for this RIT-T assessment.
Option value	While each portfolio option is found to involve a number of flexible/modular elements, ‘option value’ is also not considered material for this RIT-T, on account of only one scenario being considered relevant for the assessment (as outlined in Section A7.1). Moreover, as outlined in Section A7.1, AVP considers that each portfolio option exhibits the same approximate level of flexibility and so does not consider materially different levels of option value across the portfolios.

Market benefit	Reason(s) why it is not considered material
	<p>One party stated in its submission that, while AVP has stated that ‘option value’ is not considered material for this RIT-T, AVP has in effect used an option value approach by noting that if some of the assumptions do not materialise, then AVP would pivot to a different preferred option.</p> <p>AVP agrees that this is an additional source of benefit for the preferred pathway forward (compared to if AVP committed to an option portfolio in full now and did not provide any flexibility to change in the future). However, it has not been estimated in the assessment as it is not proportionate to do so and would not change the ranking of the options, nor the preferred pathway forward.</p>
Changes in voluntary load curtailment	As each option portfolio is designed to meet the system strength requirements in the same way, changes in voluntary load curtailment are expected to be common across all option portfolios, and have been excluded on this basis.
Changes in network losses	Network losses were not modelled because the market model was based on the ISP framework, which does not include any intra-regional flows for the Victorian region. Changes in network losses are more influenced by dispatch of power and are not anticipated to materially influence the rankings of net market benefits.
Differences in the timing of transmission investment	<p>This benefit category relates to the costs, or timing, of unrelated transmission investment and typically captures intra-regional investment associated with the development of renewable energy zones (REZs) that could be avoided if an option portfolio is pursued.</p> <p>This category of market benefit is not considered material for this RIT-T assessment, as the option portfolios considered are not likely to significantly change the requirement for any planned augmentations. While the portfolio options may alter power flows, and therefore thermal loadings and voltages levels, in the system, and this has potential to impact the quantity of risk associated with the monitored limitations identified in the 2024 <i>Victorian Annual Planning Report</i> (VAPR), there is currently insufficient certainty around the need and timing of these investments to be able to ascribe benefits under this category.</p> <p>AVP notes, as set out in Section 5.3.1, that system strength can often contribute to the provision of inertia (and vice versa), and expects flywheels to be included as part of the synchronous condensers procured and commissioned as part of this RIT-T. However, the avoided alternate investment under the base case (retrofitting synchronous condensers to add flywheels at a later date to provide inertia) is not material to the outcome of this RIT-T. That is, at this stage, AVP expects that all option portfolios assessed will avoid this alternate investment equally. AVP also notes that the difference in the amount of synchronous condenser investment, and thus flywheel investment, across the option portfolios is not large enough to change the ranking of the option portfolios (driven largely by the relatively low cost of adding a flywheel to synchronous condenser as part of the initial build). AVP has therefore not explicitly modelled the benefit of avoiding this alternate investment as part of the PADR.</p>
Changes in ancillary services costs	<p>While the cost of FCAS may change as a result of changed generation dispatch patterns and changed generation development following any increase to transfer capacity from the options, AVP considers that changes in FCAS costs are not likely to be materially different between options and are not expected to be material in the selection of the preferred option (because the quantity of GFM BESS is relatively similar across all option portfolios, independent of whether they are part of the option portfolio). FCAS costs are relatively small compared to total market costs and the market is relatively shallow.</p> <p>There are unlikely to be material changes between portfolio options to the costs of network support and control ancillary services (NSCAS), or system restart ancillary services (SRAS) because of the options being considered.</p>

A6.4 General cost benefit analysis parameters adopted

The PADR analysis considers an 11-year assessment period from 2025-26 to 2035-36. This period was determined by taking into account the interaction with the engineering exercise necessary for this PADR assessment, which suggests that only the immediate 10 years can be sufficiently and confidently assessed (the eleventh year has been included to reflect the terminal value of capital components). Overall, AVP considers it reflects an appropriate period given the horizon that forecasts are available and the size, complexity and expected asset lives of the options, as well as providing a reasonable indication of the costs and benefits over a long outlook period.

Where the capital components of the credible options have asset lives extending beyond the end of the assessment period, the NPV modelling includes a terminal value to capture the remaining asset life. This ensures that the capital cost of long-lived options over the assessment period is appropriately captured, and that all options have their costs and benefits assessed over a consistent period, irrespective of option type, technology or asset life. The terminal values has been calculated based on the undepreciated value of capital costs at the end of the analysis period and expected operating and maintenance cost for the remaining asset life.

A real, pre-tax discount rate of 7% has been adopted as the central assumption for the NPV analysis presented in this PADR, consistent with AEMO's 2024 ISP Inputs and Assumptions Workbook and the latest final IASR⁶³. The RIT-T requires that sensitivity testing be conducted on the discount rate and that the regulated weighted average cost of capital (WACC) be used as the lower bound. AVP therefore tested the sensitivity of the results to a lower bound discount rate of 3.63%⁶⁴. AVP also adopted an upper bound discount rate of 10.5% (the upper bound in the 2024 ISP Inputs and Assumptions Workbook and the latest IASR)⁶³.

⁶³ AEMO, 2023 IASR, July 2023, p 123, at <https://www.aemo.com.au/energy-systems/major-publications/integrated-system-plan-isp/2024-integrated-system-plan-isp/current-inputs-assumptions-and-scenarios>.

⁶⁴ This is equal to WACC (pre-tax, real) in the latest final decision for a transmission business in the NEM (TasNetworks) as of the date of this analysis. See AER, *TasNetworks – 2024-29 – Final decision – PTRM*, April 2024, WACC sheet.

A7. Ensuring the robustness of the analysis

The material presented in this appendix is the same as that included as Section 8 of the PADR.

Each option portfolio has been assessed against the ISP *Step Change* scenario, consistent with how the system strength obligations are set by AEMO.

AVP used the assumptions in the 2024 ISP Inputs and Assumptions Workbook, or final 2023 IASR where not otherwise available, for assessments undertaken as part of the PADR (that is, both the portfolio option formation process and the wholesale market modelling).

AVP has undertaken a number of sensitivity tests to confirm the robustness of the RIT-T assessment, and the conclusions reached in this PACR.

A7.1 The assessment considered the ISP *Step Change* scenario

AVP assessed each option portfolio against the ISP *Step Change* scenario, consistent with how its system strength obligations are set by AEMO⁶⁵. The *Step Change* scenario is summarised by AEMO as achieving ‘a scale of energy transformation that supports Australia’s contribution to limiting global temperature rise to below 2°C compared to pre-industrial levels’⁶⁶.

AVP did not use the other two ISP scenarios (*Progressive Change* and *Green Energy Exports*) in the analysis. This is because AVP does not consider them to be relevant in light of its current obligations, in which stable voltage waveform requirements are driven by AEMO’s IBR forecasts, which have been determined by AEMO using the *Step Change* scenario.

Appendix A3 summarises the specific key variables that influence the net benefits of the options under the *Step Change* scenario. Additional detail can be found in the accompanying Jacobs market modelling report.

⁶⁵ This is also consistent with how both Transgrid and Powerlink have undertaken their system strength RIT-T analysis.

⁶⁶ AEMO, 2023 IASR, July 2023, p. 15 at <https://www.aemo.com.au/energy-systems/major-publications/integrated-system-plan-isp/2024-integrated-system-plan-isp/current-inputs-assumptions-and-scenarios>.

A8. Key assumptions used in the market modelling

Table 21 summarises the specific key variables that influence the net benefits of the options under *the Step Change* scenario.

Table 21 PADR modelled scenario key drivers input parameters

Key input parameters	Step Change scenario
Underlying consumption	AEMO Final 2024 ISP – 50% probability of exceedance (POE).
Demand side participation (DSP)	AEMO Final 2024 ISP.
Rooftop solar	
Victorian Renewable Energy Target (VRET)	AEMO Final 2024 ISP – 95% minimum variable renewable energy (VRE) of statewide generation by FY35. ISP interim targets and ISP interpolation of target also modelled to this point.
Queensland Renewable Energy Target (QRET)	AEMO Final 2024 ISP – 80% minimum VRE share of underlying consumption by FY35. ISP interim targets also modelled to this point.
Tasmanian Renewable Energy Target (TRET)	AEMO Final 2024 ISP – 21,000 gigawatt hours (GWh) of renewable generation by FY40. Interim target and ISP interpolation of target followed to this point.
Resource limits	AEMO Final 2024 ISP.
Group REZ limits	
VIC offshore wind	AEMO Final 2024 ISP – 9 GW of Victorian offshore wind capacity by FY40. ISP interim targets also modelled to this point.
Victorian Energy Storage Target	AEMO Final 2024 ISP – 2.6 GW by 2030 and 6.3 GW of energy storage systems by FY35.
New South Wales Energy Infrastructure Roadmap (EIR) Generation	AEMO Final 2024 ISP – 33,600 GWh per year by FY30.
New South Wales EIR Storage	AEMO Final 2024 ISP – 2,000 MW of eligible large-scale storage by FY30.
New South Wales firming constraint	Final 2024 ISP – 930 MW of eligible installed capacity by FY26.
Flow path augmentations	New South Wales flow path augmentations aligned to ODP Final 2024 ISP. Queensland flow path augmentations aligned to ODP Final 2024 ISP.
Interconnector developments	ODP Final 2024 ISP.
Network representation	AEMO Final 2024 ISP.
Emissions intensity	2024 Inputs and Assumptions Workbook.
VER	AER Guidance Valuing Emissions Reduction.
Fixed date asset retirement - coal	AEMO Final 2024 ISP, Eraring retirement deferred to August 2027 ^A .
Fixed date asset retirement - gas	AEMO Final 2024 ISP.
Fixed date non-thermal asset retirement	
Snowy 2.0	December 2028. October 2024 NEM Generation Information.
New entrant build limits	AEMO Final 2024 ISP.
Generator energy limits	
Capital costs	
WACC	

Key input parameters	Step Change scenario
New entrant generators	
REZ representation	
Capacity factors	
Coal fuel cost	
Gas fuel cost	
Technical parameters of existing generation and storage	

A. As per the announcement of the agreement between Origin Energy and the New South Wales Government released on 23 May 2024.

A9. Additional detail on the core NPV analysis

The material presented in this appendix is the same as that included as sections 9.2 to 9.5 of the PADR.

A9.1 Option portfolio 1 – Existing generation plus committed/anticipated GFM BESS and new synchronous condensers

Option portfolio 1 assumed that existing synchronous generation can assist with providing system strength, as well as committed and anticipated GFM BESS (for the efficient level), including one that upgrades from GFL to GFM, and new synchronous condensers (for the minimum and efficient levels).

Option portfolio 1 is made up of:

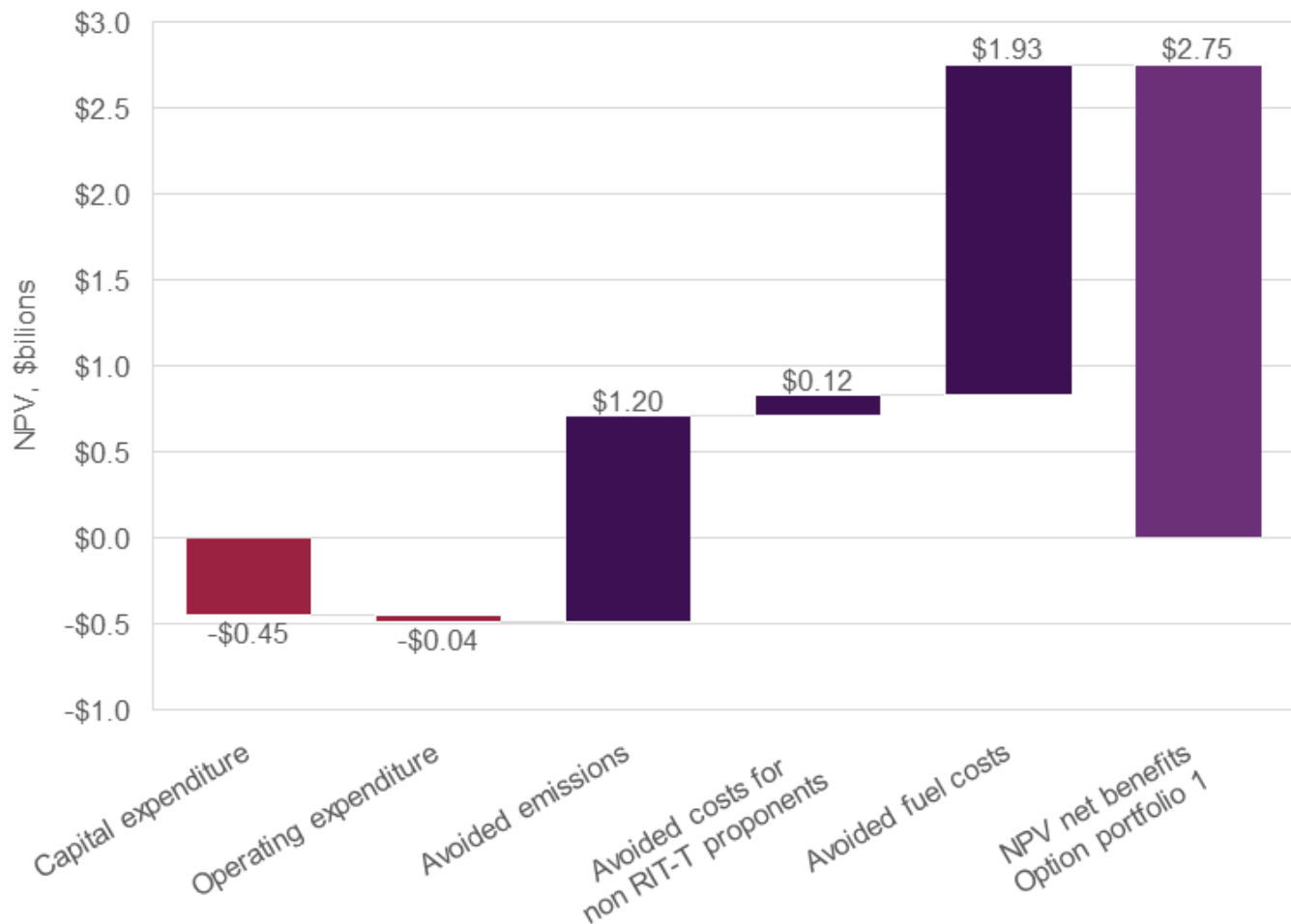
- existing generation for both the minimum and efficient levels
- an increasing number of synchronous condensers over the assessment period (up to five by 2036) to meet the minimum fault levels, and
- a further five synchronous condensers between 2032 and 2036 (at Giffard, Bulgana and Kerang), as well as 900 MW of GFM BESS at the Moorabool SSN and 350 MW of BESS capacity that converts from GFL to GFM at the Hazelwood SSN, to meet the efficient level.

In total, option portfolio 1 involves nine new synchronous condensers over the assessment period. It also assumed the use of one existing synchronous condenser (however, this was assumed in all four option portfolios).

Overall, option portfolio 1 is found to deliver at least⁶⁷ \$2.75 billion in net benefits (in present value terms) over the assessment period. This result is driven primarily by significant avoided generator fuel costs and lower emissions with the portfolio option in place, compared to the base case (as shown in **Figure 16**).

⁶⁷ 'At least' is used here and elsewhere in the PACR on account of the approach taken to removing the common avoided unserved energy in the assessment to allow for a meaningful comparison across options (as outlined in Section 5.1). If the full unserved energy is added to the analysis, the expected net benefit of all option portfolios would be significantly greater.

Figure 16 Composition of the estimated net market benefits for option portfolio 1 (NPV, \$billions)



Both the avoided fuel costs and lower emissions of portfolio option 1 relative to the base case stem from a reduced need for the re-dispatch of synchronous machines. This is primarily due to the introduction of dedicated system strength assets such as GFM BESS and synchronous condensers reducing the need to dispatch existing synchronous generators for system strength reasons.

A9.2 Option portfolio 2 – The same technology types as option portfolio 1 plus upgrading additional GFL BESS to be GFM

Option portfolio 2 includes the same technology types as option portfolio 1, plus upgrading additional committed/anticipated GFL BESS to be GFM. This portfolio has been developed to determine, through comparison with option portfolio 1, whether upgrading additional GFL BESS to be GFM is considered optimal compared to investing in new synchronous condensers.

The upgrading of GFL BESS to be GFM for meeting the efficient level ramps up over time and allows the following BESS capacities to be used *in addition to those included for option portfolio 1*:

- 500 MW BESS at the Hazelwood SSN and 350 MW BESS at the Moorabool SSN from 2032

- a further 300 MW BESS at the Moorabool SSN from 2033, and
- a 65 MW BESS at the Red Cliffs SSN from 2035.

This allows the following to be avoided to meet the efficient fault levels, compared to option portfolio 1:

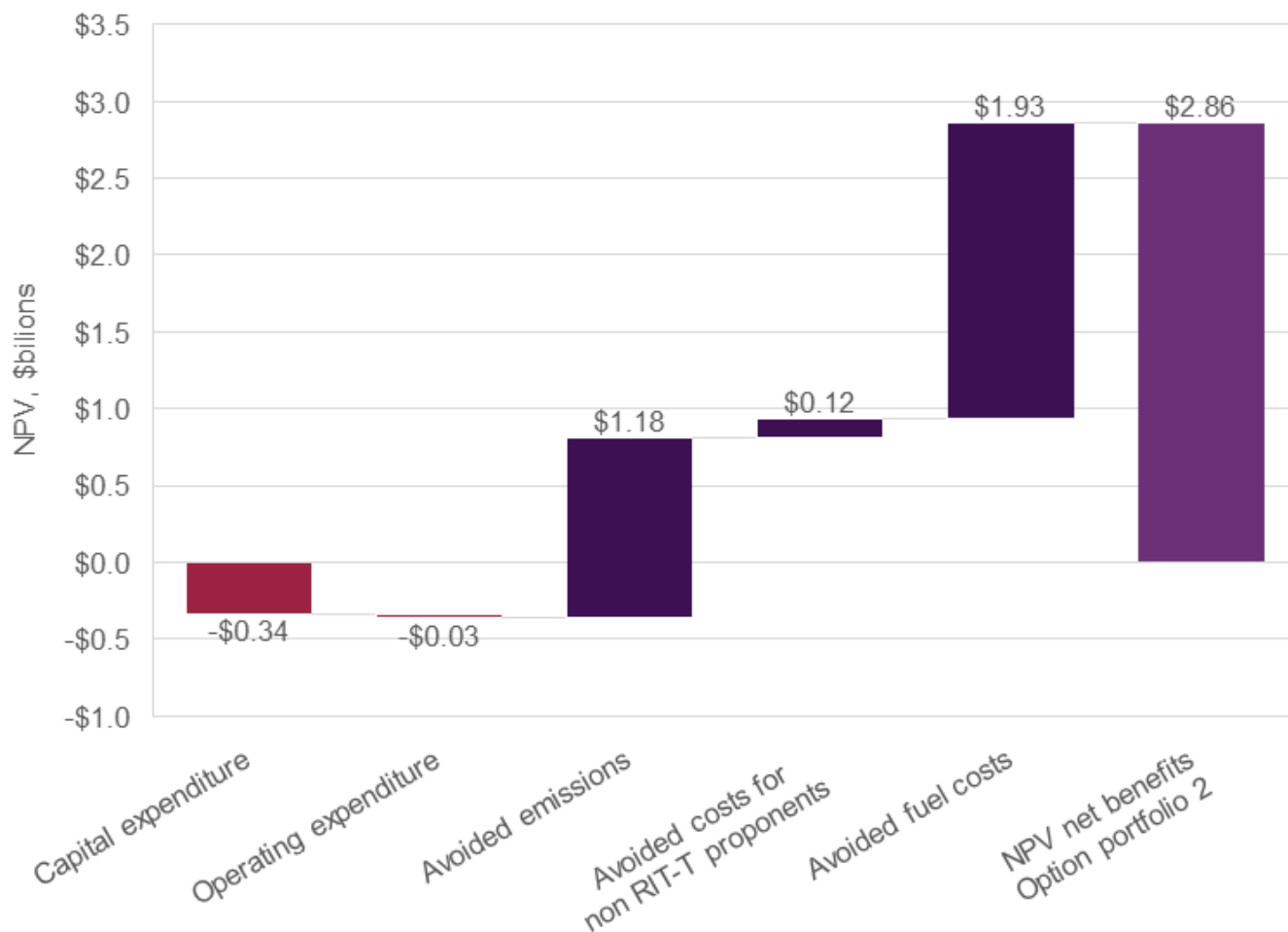
- two synchronous condensers at the Giffard (Gippsland) Offshore Wind Hub 500 kV in 2031 and 2032, although option portfolio 2 has one more synchronous condenser at the Hazelwood SSN in 2031
- one Bulgana Terminal Station 500 kV synchronous condenser in 2033, and
- one Kerang Terminal Station 500 kV synchronous condenser in 2035.

In total, option portfolio 2 involves six new synchronous condensers over the assessment period (three fewer than under option portfolio 1).

Overall, option portfolio 2 is found to deliver at least \$2.86 billion in net benefits (in present value terms) over the assessment period. As with option portfolio 1, this result is driven primarily by significant avoided generator fuel costs and lower emissions with the portfolio option in place, compared to the base case (as shown in **Figure 17**).

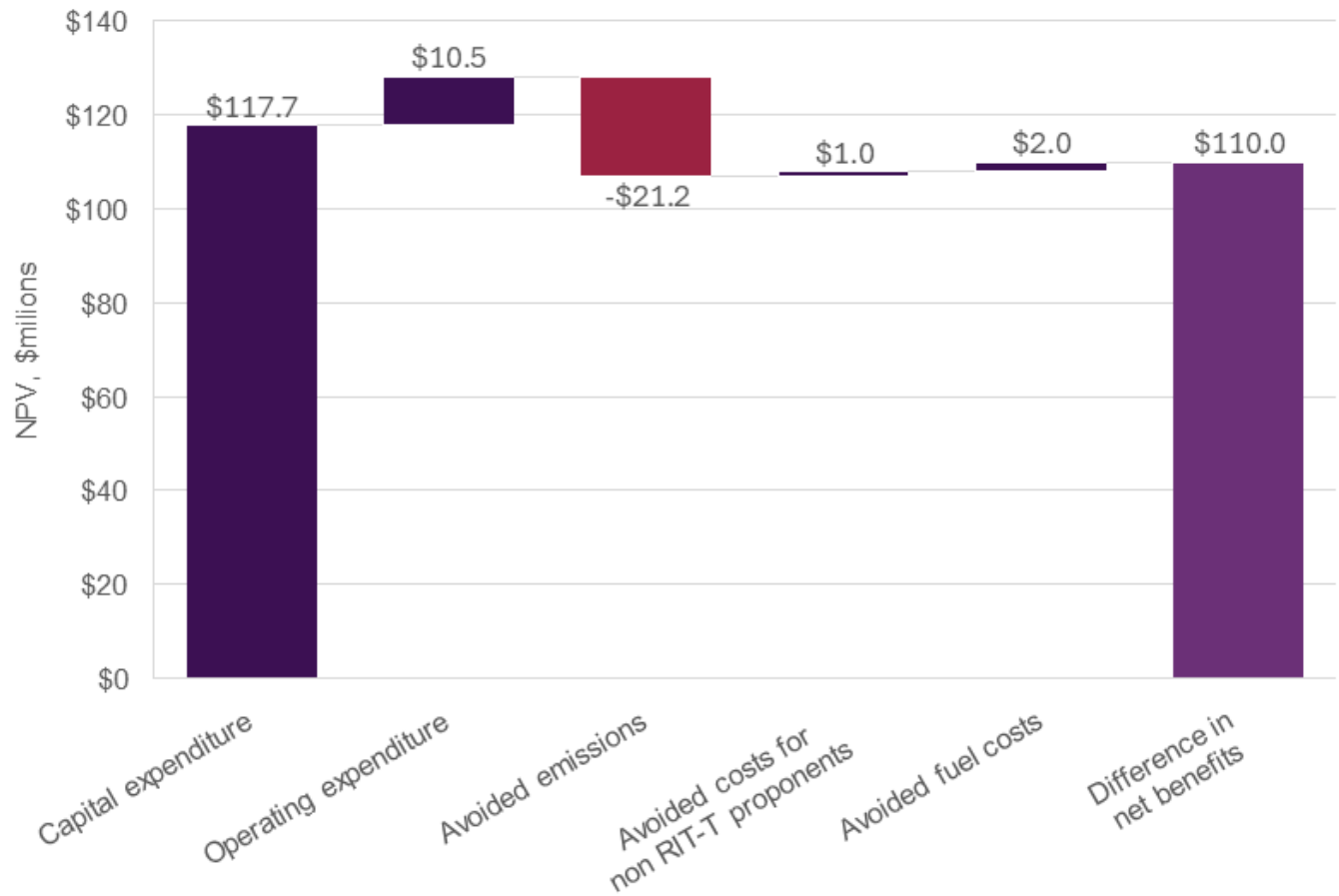
In present value terms, option portfolio 2 involves approximately \$340 million of capital costs relative to the base case, which is approximately \$112 million lower than option portfolio 1 due to the capital expenditure it avoids.

Figure 17 Composition of the estimated net market benefits for option portfolio 2 (NPV, \$billions)



Under this option portfolio, the expected net market benefits increase by approximately \$110.0 million (in present value terms), compared to under option portfolio 1. This increase is driven primarily by the avoided capital expenditure it allows for by avoiding significant investment in new synchronous condensers (as shown below in **Figure 18**).

Figure 18 Key changes in the composition of the estimated net market benefits for option portfolio 2, compared to option portfolio 1 (NPV, \$millions)



The slightly greater level of emissions with option portfolio 2 in place, compared to option portfolio 1, is primarily driven by differences in 2031, 2032 and 2033. This is attributed to the slower build-out of synchronous condensers, with more coal-fired generation needing to be dispatched (in these three years, there is between 0.5% and 1.9% more coal-fired dispatch than under option portfolio 1).

A9.3 Option portfolio 3 – The same technology types as option portfolio 2 plus a GFM BESS from the IBR forecasts

Option portfolio 3 involves the same technology types as option portfolio 2, plus the use of a generic GFM BESS from the IBR forecasts to help meet the efficient level requirements.

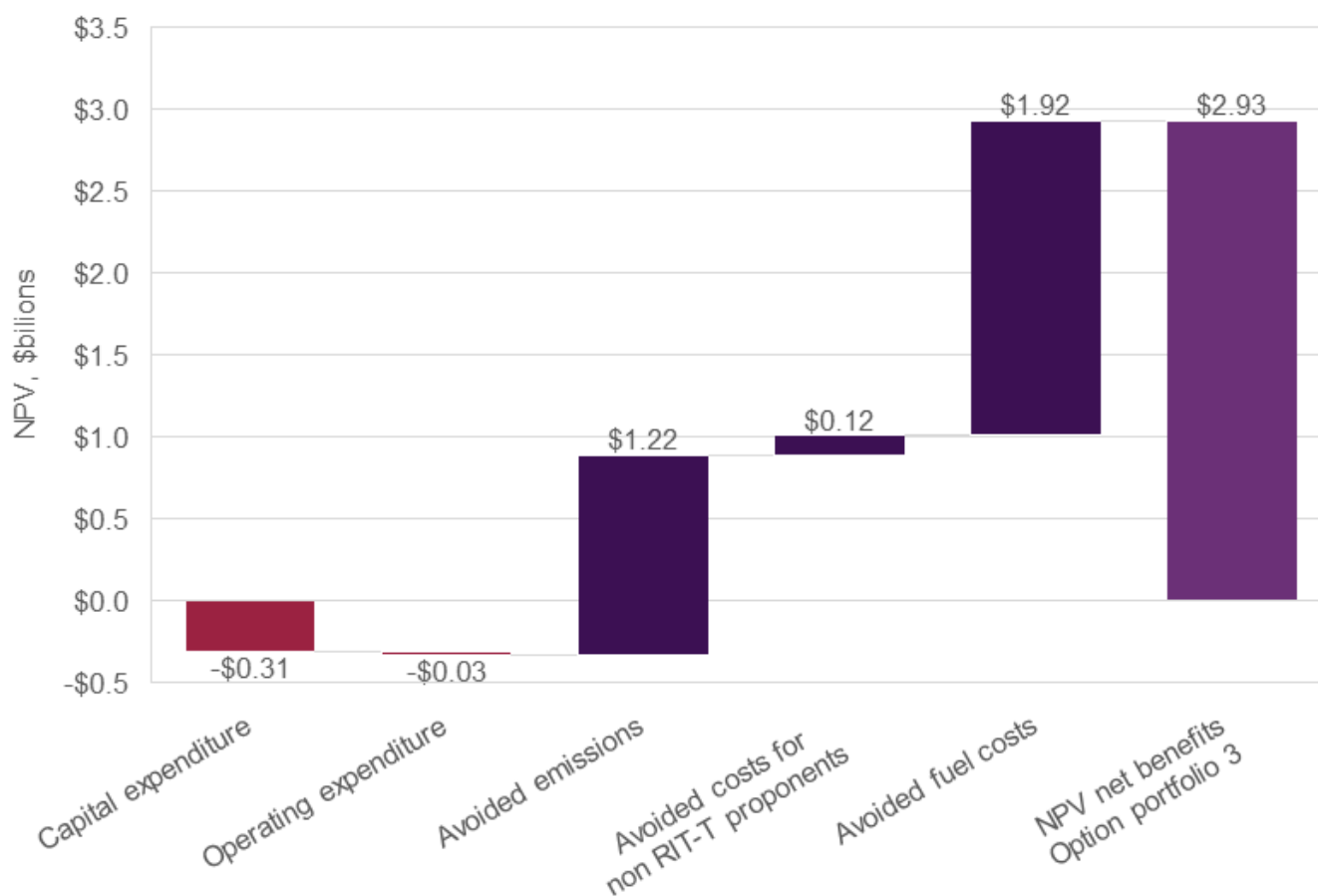
Specifically, in addition to the BESS assumed in option portfolio 2 from 2032, option portfolio 3 also assumed the use of a generic 400 MW GFM BESS at the Hazelwood SSN that is not yet considered ‘anticipated’ or ‘committed’ under the RIT-T to meet the efficient level requirements from that point on. This BESS allows the following differences to option portfolio 2:

- one 500 kV synchronous condenser at Giffard (Gippsland) Offshore Wind Hub to be deferred by one year (from 2034 to 2035), and
- one 500 kV synchronous condenser at Giffard (Gippsland) Offshore Wind Hub to be avoided in 2036.

In total, option portfolio 3 involves five new synchronous condensers over the assessment period (four fewer than under option portfolio 1).

Overall, option portfolio 3 is found to deliver at least \$2.93 billion in net benefits (in present value terms) over the assessment period. As with the preceding two options, this result is driven primarily by significant avoided generator fuel costs and lower emissions with the portfolio option in place, compared to the base case (as shown below in **Figure 19**).

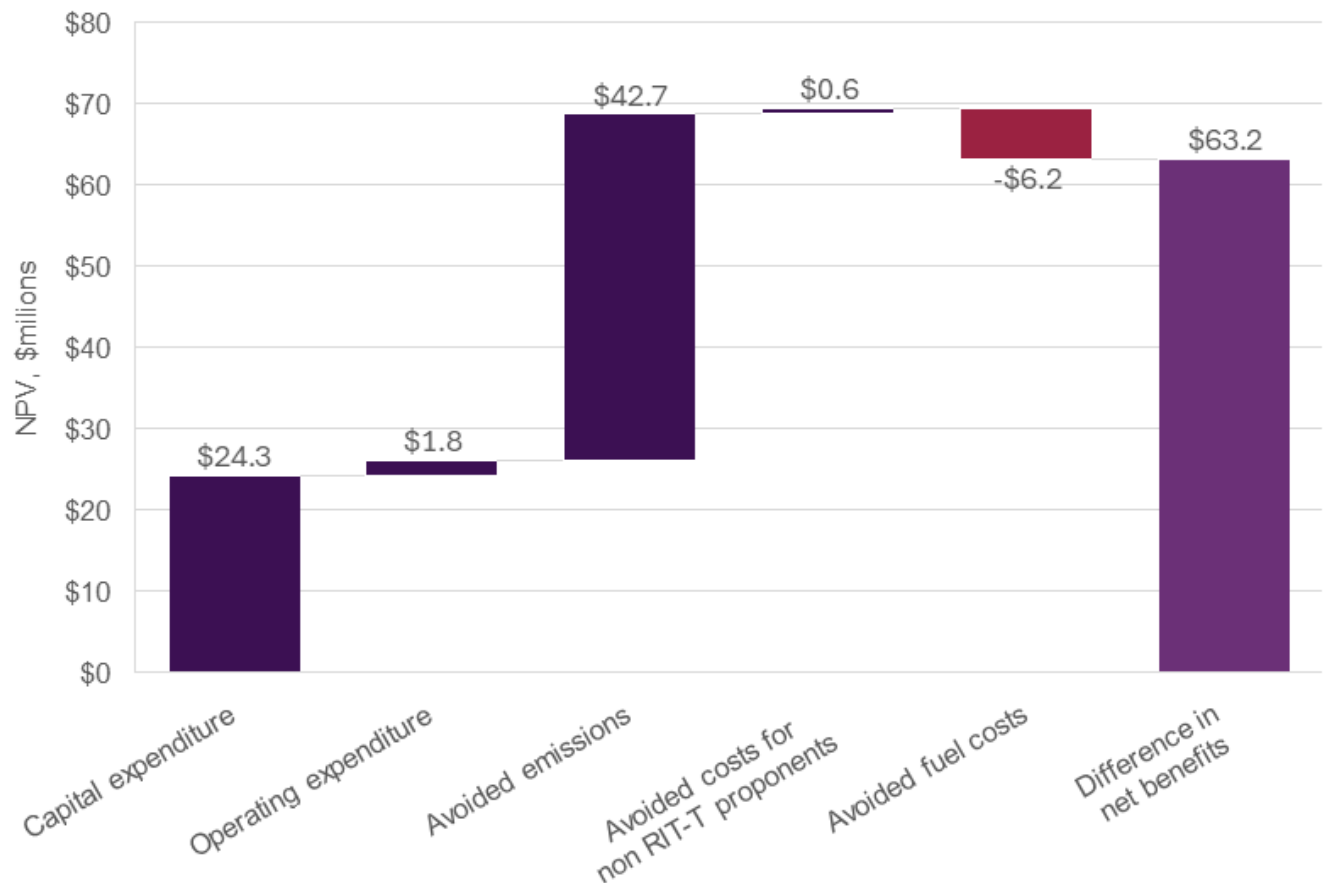
Figure 19 Composition of the estimated net market benefits for option portfolio 3 (NPV, \$billions)



In present value terms, option portfolio 3 involves approximately \$310 million of capital costs relative to the base case, which is approximately \$24 million lower than option portfolio 2 due to the capital expenditure it avoids/defers (as shown below in **Figure 20**).

Under this option portfolio, the expected net market benefits increase by approximately \$63.2 million (in present value terms), compared to under option portfolio 2. This increase is driven primarily by the avoided/deferred synchronous condenser capital costs and additional avoided emissions.

Figure 20 Key changes in the composition of the estimated net market benefits for option portfolio 3, compared to option portfolio 2 (NPV, \$millions)



The slightly greater avoided emissions with option portfolio 3 in place, compared to option portfolio 2, are driven by coal dispatch differences in 2032 and 2033. Specifically, in these years, option portfolio 2 results in 2.3% and 3.8% more coal dispatch, respectively, when compared on an average interval basis to option portfolio 3, on account of option portfolio 3 involving more GFM BESS system strength solutions (which offset the need to dispatch coal).

A9.4 Option portfolio 4 – The same technology types as option portfolio 3, except with accelerated procurement of synchronous condensers

Option portfolio 4 includes exactly the same components as option portfolio 3, but expedites the timing of synchronous condensers. Specifically:

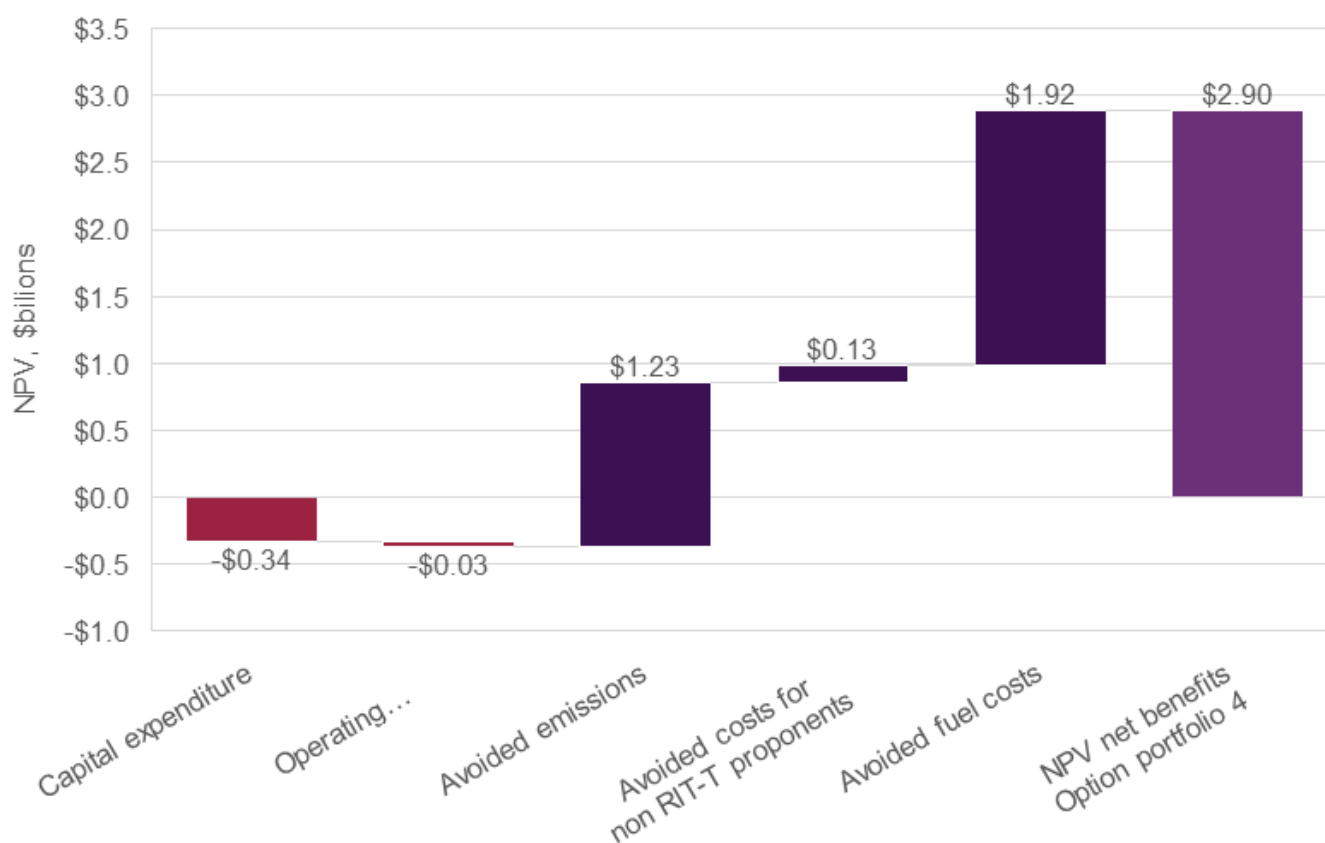
- option portfolio 3 has two Hazelwood synchronous condensers in 2029, one Hazelwood synchronous condenser in 2031, and one Hazelwood synchronous condenser in 2034, and

- option portfolio 4 has one Hazelwood synchronous condenser in 2028, two Hazelwood synchronous condensers in 2029, and one Hazelwood synchronous condenser in 2034.

Option portfolio 4 is the same as option portfolio 3 from 2031 onwards and, in total, option portfolio 4 involves five new synchronous condensers over the assessment period (the same as option portfolio 3 and four fewer than under option portfolio 1).

Overall, option portfolio 4 is found to deliver at least \$2.90 billion in net benefits (in present value terms) over the assessment period. As with option portfolio 3 (which this option is based on), this result is driven primarily by significant avoided generator fuel costs and lower emissions with the portfolio option in place, compared to the base case (as shown below in **Figure 21**).

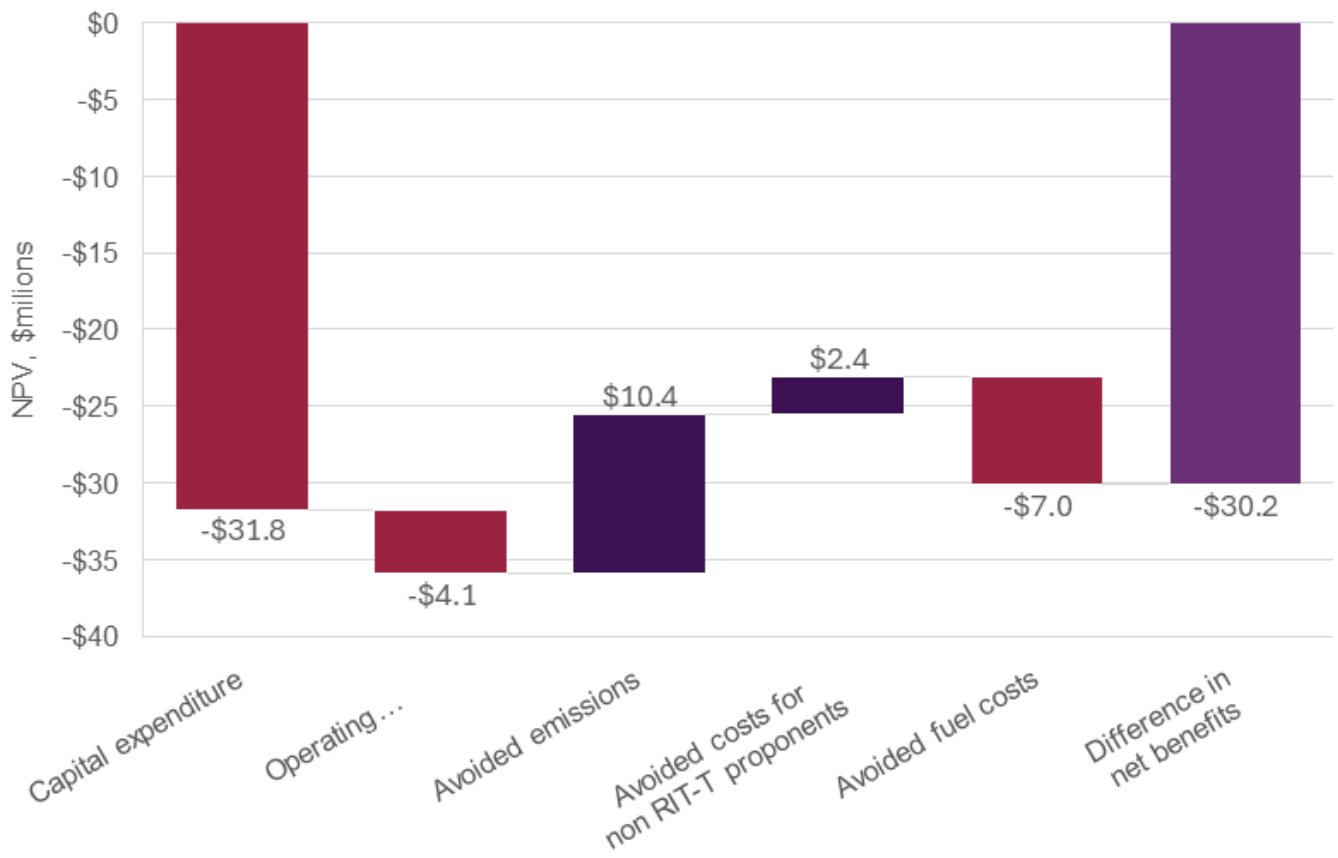
Figure 21 Composition of the estimated net market benefits for option portfolio 4 (NPV, \$billions)



In present value terms, option portfolio 4 involves approximately \$342.9 million of capital costs relative to the base case, which is approximately \$32 million more than option portfolio 3 due to the increased present value of the synchronous condenser costs (as shown below in **Figure 22**).

Under this option portfolio, the expected net market benefits decrease by approximately \$30.2 million (in present value terms), compared to under option portfolio 3. This decrease is driven primarily by the increased present value of the synchronous condenser costs, which are not offset by the additional benefits (primarily additional avoided emissions), suggesting that accelerating the use of synchronous condensers is not net beneficial.

Figure 22 Key changes in the composition of the estimated net market benefits for option portfolio 4, compared to option portfolio 3 (NPV, \$millions)



A10. Additional detail on the NPV sensitivity results

This appendix sets out the range of sensitivities for which AVP tested the impact on option portfolio rankings:

- 25% higher and lower VER values
- 30% higher and lower assumed synchronous condenser costs (both capital and operating costs)
- 25% higher and lower GFM BESS upgrade costs, and
- lower and higher commercial discount rates.

All sensitivity tests were run on the results excluding the common avoided unserved energy (as discussed in Section 5.1).

Option portfolio 3 is the top-ranked option under all sensitivity tests investigated (this conclusion does not change if the common avoided unserved energy is included in the analysis).

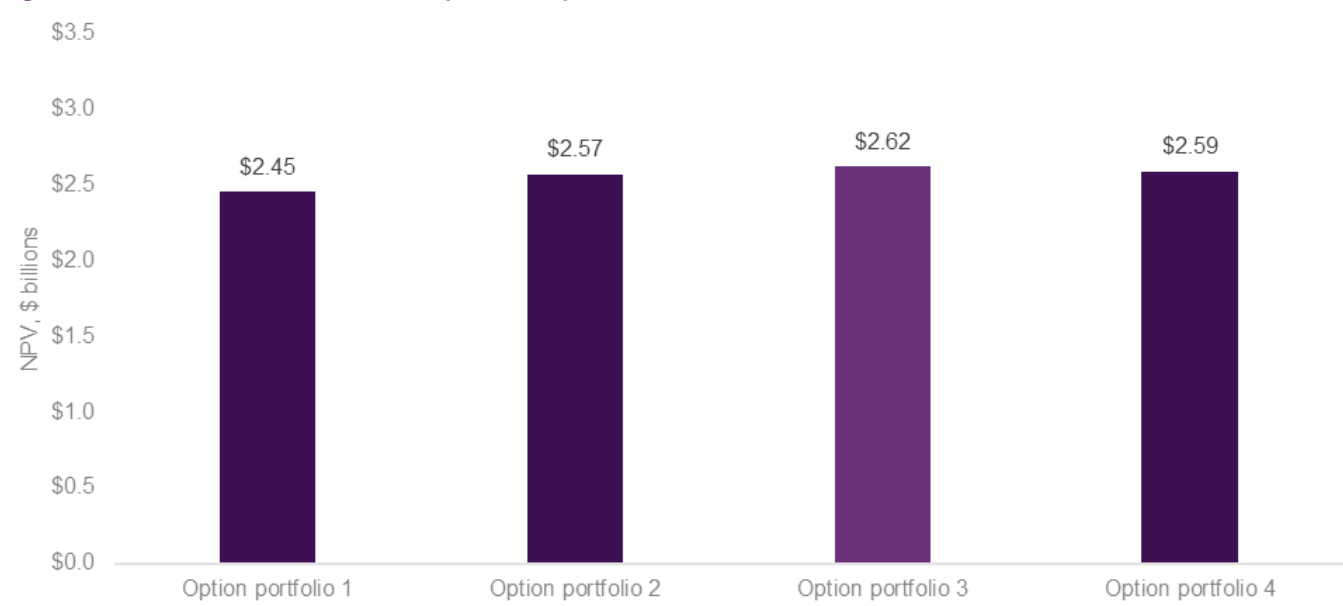
A10.1 Higher and lower VER values

Figure 23 and Figure 24 show the net market benefit results of assuming 25% higher and lower VER.

Figure 23 NPV results for each of the portfolio options with 125% VER



Figure 24 NPV results for each of the portfolio options with 75% VER



A10.2 Higher and lower synchronous condenser costs

Figure 25 and **Figure 26** show the net market benefit results of assuming 30% higher and lower synchronous condenser costs.

Figure 25 NPV results for each of the portfolio options with 130% synchronous condenser costs

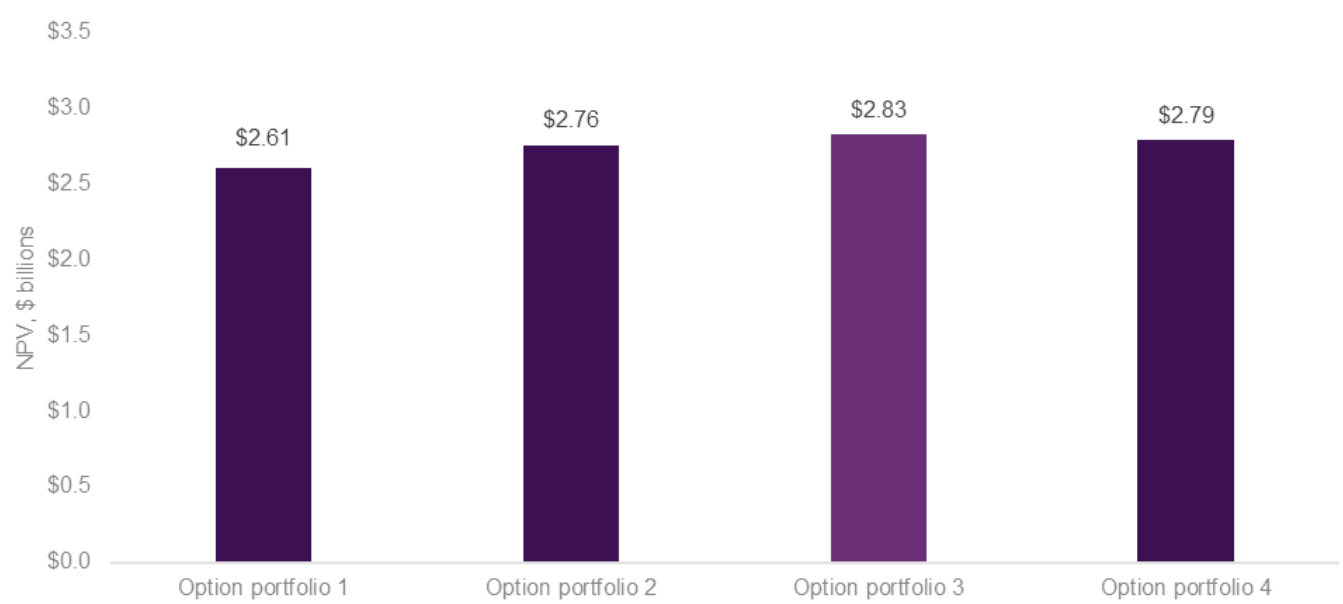


Figure 26 NPV results for each of the portfolio options with 70% synchronous condenser costs



A10.3 Higher and lower grid-forming BESS upgrade costs

Figure 27 and **Figure 28** show the net market benefit results of assuming 25% higher and lower GFM BESS upgrade costs.

Figure 27 NPV results for each of the portfolio options with 125% grid-forming BESS upgrade costs

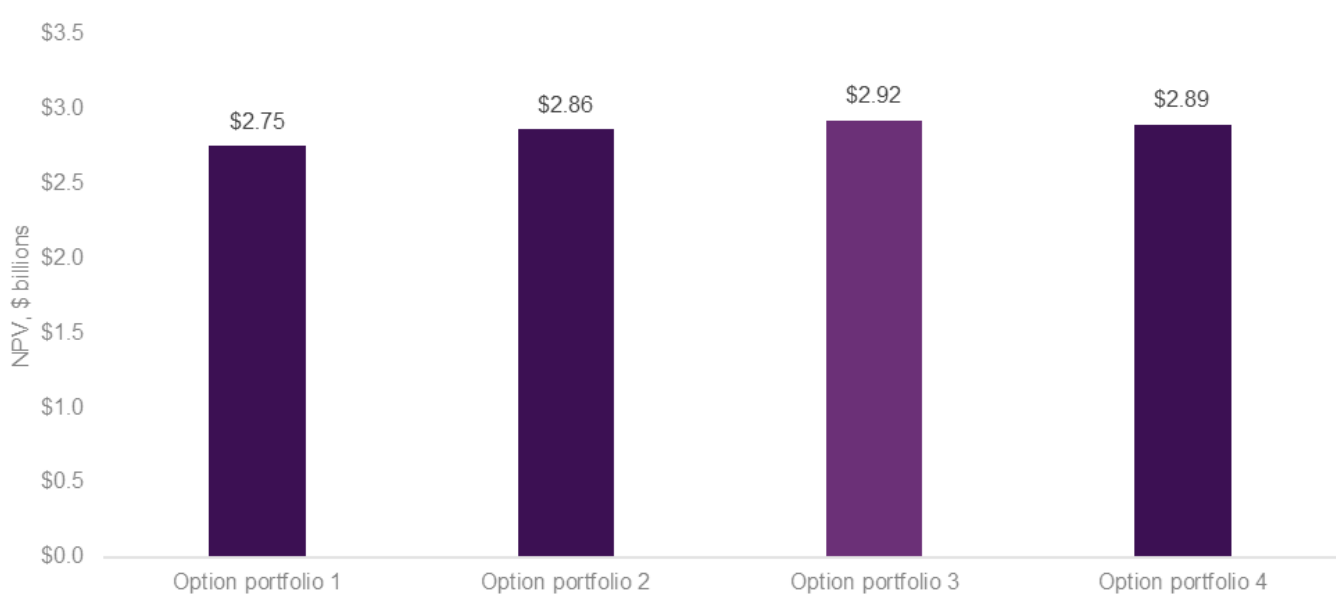
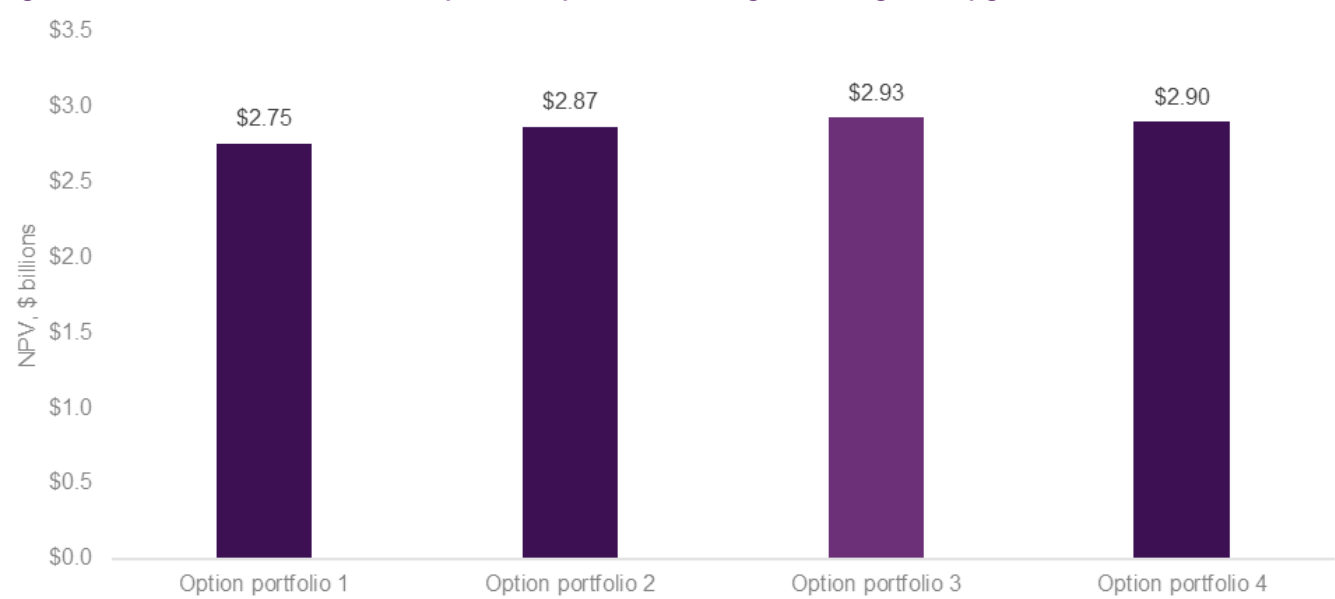


Figure 28 NPV results for each of the portfolio options with 75% grid-forming BESS upgrade costs



A10.4 Higher and lower discount rate

Figure 29 and **Figure 30** show the net market benefit results of assuming higher and lower discount rates.

Figure 29 NPV results for each of the portfolio options with 10.5% discount rate

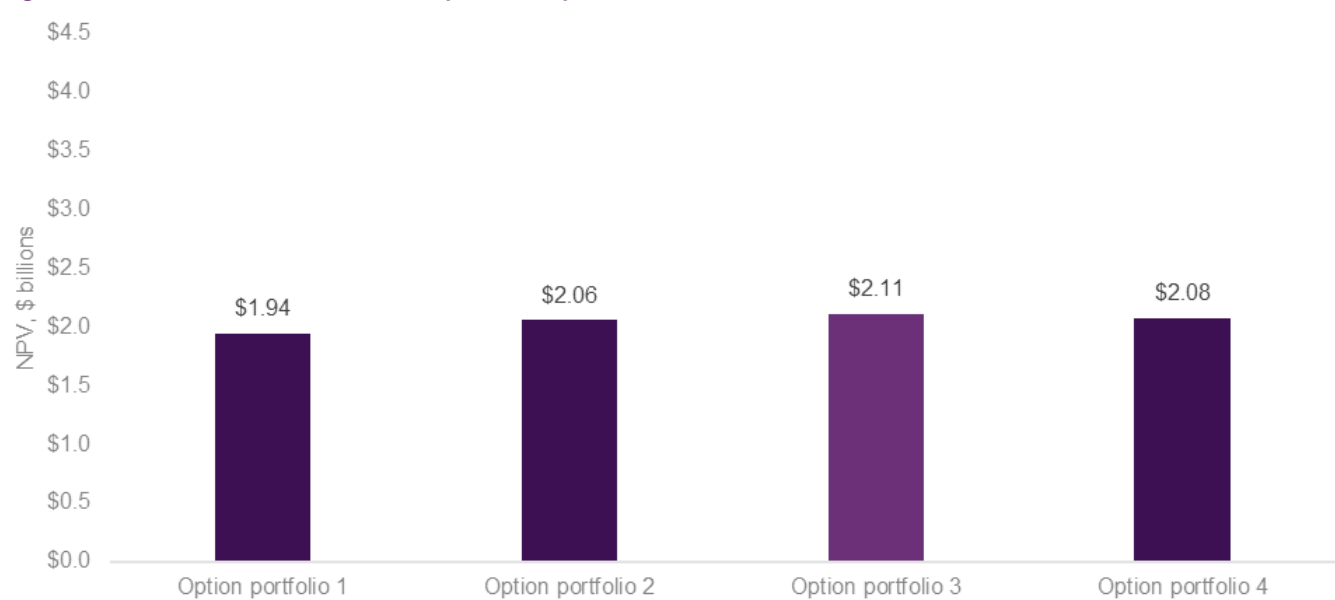


Figure 30 NPV results for each of the portfolio options with 3.63% discount rate



A11. Additional detail on non-confidential points raised in PSCR submissions

In addition to the responses to the RFI, AVP received submissions from two parties (EnergyAustralia and AusNet) directly in response to the PSCR, both of which have been published⁶⁸.

Eight broad areas were raised across these submissions:

- further specification of the identified need
- option value and the timing of options
- modelling and sensitivities
- how inter-regional assets are assessed
- the location of new system strength resources
- consideration of high benefit network reinforcement solutions
- real-time data and broader issues in procuring system strength, and
- engaging with other SSSPs for a consistent approach.

The key matters raised in non-confidential submissions are summarised and responded to in the following subsections.

A11.1 Further specification of the identified need

EnergyAustralia made a number of specific requests regarding information to be covered in the PADR, as summarised, and responded to, in the table below⁶⁹.

EnergyAustralia comments	AVP response
How will AVP deal with progressive changes to the specification of the system strength standard, which will change each year as new <i>System Strength Reports</i> are released (including after the PACR is published)?	AVP will continue to monitor changes to the system strength requirements going forward and ramp up/down provision (as catered for through this RIT-T) and/or initiate a new RIT-T.
How will AVP incorporate the potential declaration of a new node at Mortlake and other nodes that may occur over the coming years?	AVP would assess the materiality of the change and assess appropriate next steps, which may be providing an update and/or potentially triggering a new RIT-T. The PADR assessment has included efficient level constraint equations in the modelling to assist with more optimally located solutions to supply system strength closer to where IBR is forecast to connect. However, if minimum fault level requirements at future nodes were unable to be met by the preferred option portfolio identified in this RIT-T, that may constitute a material change in circumstance and/or trigger a new RIT-T.
How will potentially large changes to the efficient level of system strength requirement be reflected in the PADR? AVP should clarify the extent of its discretion in relying on these IBR forecasts as AEMO appears to have provided SSSPs the flexibility to adjust near term forecasts as new information becomes available.	See Section A2.2 for a discussion of how the efficient level of system strength requirements have been updated since the PSCR to reflect the most up to date information. In addition, the proposed preferred option set out in this PADR is a contingent one that allows AVP to adapt in response to key changes where possible.

⁶⁸ See <https://aemo.com.au/en/initiatives/major-programs/victorian-system-strength-requirement-regulatory-investment-test-for-transmission>.

⁶⁹ EnergyAustralia, pp. 2-3.

EnergyAustralia comments	AVP response
The NER appear to prescribe the 10-year IBR forecasts in the most recent <i>System Strength Report</i> , yet AVP's assessment will extend to the earlier of 2050 or the end of the asset life (expected to be 2050 as synchronous condensers have at least a 30-year technical life). We would support cost benefit assessments based on a full set of IBR forecasts and associated system strength needs over the full modelling horizon however AVP's obligations are unclear.	The assessment in this RIT-T is based on the 10-year IBR forecast in the 2024 <i>System Strength Report</i> , plus one additional year of modelling. As the life of new assets, as well as existing assets, is not equal, a terminal value representing the remaining value of the assets is applied at the conclusion of the assessment period.
AVP's presentation of IBR forecasts implies a largely mechanistic translation of these into efficient fault level requirements. The PADR should contain technical analysis on how it has translated AEMO's four criteria relating to voltage waveforms into a single minimum MVA fault level metric. Our expectation is that it has adopted the same approach as AEMO when determining shortfalls. AVP should demonstrate that this approach is robust and that it has explored opportunities for innovation in the provision of solutions	The IBR forecasts are first translated into a fault level equivalent using the AFL calculation outlined in AEMO's System Strength Impact Assessment Guidelines ^A . Option portfolios are developed to meet the AFL and then tested against the stable voltage waveform criterion by testing voltage step change impacts in PSS [®] E and assessing for the presence of any voltage oscillation in PSCAD [™] to verify the viability of option portfolios. See Section A3.4 of the PADR for additional detail, including how AVP derived equivalent fault level contribution for GFM BESS to the efficient level.
AVP states that services must be provided at a high level of availability (97%), however further data on the profile of system strength needs should be provided to justify the resource capabilities it will plan towards and eventually procure. We encourage AVP to publish supply and demand of system strength needs as a time series, at each system strength node from the base case and alternative scenario market modelling exercise undertaken for the RIT-T analysis.	The availability of system strength services was modelled using 2024 ISP Inputs and Assumptions Workbook data, in line with the AER guidelines. Depending on the machine type, this availability differs to the high level of availability indicated in the PSCR and better reflects what is expected to be achievable for a specific machine type. The synchronous generator dispatch in each interval was used to calculate the total fault level provision on a 30-minute basis. The requirement was met in all periods for each system strength node in each option portfolio. In the base case the requirement was met in all periods for each system strength node prior 2030, after which time coal generator retirements result in a lack of available services to meet the system strength requirements, resulting in forecast unserved energy due to a lack of system strength. AVP's approach addresses the non-linearity characteristic of system strength given that AVP constructed constraints on an interval basis and determined a different offset dependent on the synchronous units online. This detail is outlined in Section 4 (Constraints Methodology) of the Jacobs market modelling report.
AVP appears to apply the system strength standard as needing to be met "at all times of the year" implying 100% compliance. We encourage AVP to confer with other SSSPs on the interpretation of the planning standard and justify its approach, noting that the system strength specification in S5.1.14(a) applies "at any time in a relevant year" while subclause (b) provides for "reasonable endeavours" in meeting associated requirements. Delivering 100% compliance under very unusual circumstances may result in a very expensive system strength solution portfolio based on a 'fix it at any cost' approach.	AVP understands that the need is to meet the requirements 100% of the time (using reasonable endeavours). AVP's interpretation is that reasonable endeavours means planning to be able to cover requirements 100% of time, but acknowledging that planning timeframes and real-time operational events can result in different outcomes. As such, AVP has developed option portfolios that, for the minimum level, are capable of landing secure following a planned outage and any credible contingency or protected event, and, for the efficient level, that are capable of landing secure following any credible contingency or protected event (that is, for the efficient level AVP assumes it is acceptable to constrain off IBR for planned outages to ensure the system remains stable after any credible contingency or protected event).

A. AEMO, SSIAG, p.15, at https://aemo.com.au/-/media/files/stakeholder_consultation/consultations/nem-consultations/2022/ssriag/final-report/system-strength-impact-assessment-guideline_v2.pdf.

AusNet has undertaken independent power system analysis and consulted with its transmission operations team to provide AVP with some early feedback for consideration as part of the PADR. This is summarised and responded to in the table below⁷⁰.

AusNet comments	AVP response
AusNet requests AVP take into account the need to facilitate critical planned outages when identifying solutions to meet minimum standard in the PADR as a matter of priority. Planned outages are an essential BAU	AVP acknowledges the importance that system strength services play in managing outages, and the operational challenges that low system

⁷⁰ AusNet, pp. 1-2.

AusNet comments	AVP response
activity to conduct essential maintenance, connections, augmentation works and capital replacement. Deteriorating network operating conditions have required AEMO National Planning to introduce or modify constraints in Victoria that have made it very difficult for TNSPs such as AusNet to schedule and undertake planned outages	strength creates. Section A3.8 details how AVP has considered critical planned outages in development of its option portfolios.
Request AVP consult with AusNet's transmission operations team to ensure the list of critical planned outages is accurate and up to date (and suggested that the list of Victorian critical planned outages in the 2022 <i>System Strength Report</i> was incomplete).	Since publication of the PSCR, AVP has continued to consult with AusNet on both the treatment and list of critical planned outages considered in this PADR. While the list of critical planned outages remains effectively unchanged in the 2024 <i>System Strength Report</i> , AVP supports ongoing joint planning between AVP, AusNet and AEMO, including through consultation on AEMO's annual <i>System Strength Report</i> where the list of critical planned outages are maintained, to ensure the critical planned outages that AVP can consider in future RIT-Ts remains relevant and complete as the network develops.
Suggests the system strength standard needs to be updated to meet Victoria's future needs. In order to meet the standard, the solution proposed in the PSCR focuses investment in synchronous condensers at Hazelwood (HWTs) and Moorabool Terminal Station (MLTS) that then serve to 'prop up' system strength across the Victorian network. AusNet is concerned that placement of systems strength at these locations is inefficient and reflects historical needs. AusNet sees an opportunity for AEMO National Planning to update the system strength standard in the 2023 <i>System Strength Report</i> to reflect material changes in Victoria's future needs since the 2022 ISP, before proceeding to the PADR in early 2024. This includes declaring new system strength nodes where new network investment is planned, and updating minimum and efficient fault level requirements. Proceeding with the existing standard would be a missed opportunity to maximise the benefits of this investment to Victorians	Section 2 outlines how the assumptions underpinning the identified need for this RIT-T have been updated since the PSCR, including AVPs decision to use the revised 2025-26 and 2026-27 IBR forecasts. AVP will continue to monitor changes in the network and to system strength requirements, including any future knowledge advancements that might result updated minimum fault level requirements, and will invest in services that meet AVP's requirements in the long-term interests of Victorian consumers.

A11.2 Option value

EnergyAustralia considered that there could be material option value in the procurement of flexible non-network solutions, which are also likely to be less capital-intensive and ready for immediate deployment⁷¹.

AVP agrees that the procurement of flexible solutions (those that provide the ability to ramp up or down requirements as circumstances change) is expected to be important for this RIT-T given future uncertainty.

While each portfolio option is found to involve a number of flexible elements, 'option value' is not considered material for this RIT-T on account of only one scenario being considered relevant for the assessment (as outlined in Section A7.1).

Moreover, as outlined in Section A7.1, AVP considers that each portfolio option exhibits the same approximate level of flexibility and so does not consider materially different levels of option value exist across the portfolios.

A11.3 Modelling and sensitivities

EnergyAustralia made several comments on the modelling parameters and sensitivities, which are summarised and responded to in the table below⁷².

⁷¹ EnergyAustralia, p. 4.

⁷² EnergyAustralia, pp. 4-5.

EnergyAustralia comments	AVP response
EnergyAustralia offered to assist AVP prior to and after any market modelling is undertaken, to review key inputs and results – notably regarding how Yallourn, Jeeralang, Newport and Wooreen assets may be dispatched ^A .	While AVP appreciates the offer of support, in the interest of tender probity management, AVP has decided to not engage directly with proponents on modelling dispatch outcomes outside of any information that can be shared publicly through the PADR and market modelling report.
EnergyAustralia considered that there may be a bias in using AEMO's modelling parameters around thermal generation, as AEMO's methods and input parameters presume existing plant would be run inflexibly and without fuel limits, thus overstating the level of system strength present and understating the need for additional services. They stated that AEMO's standard set of fuel cost and unit commitment assumptions may also affect the modelling of non-network services and, overall, this could materially affect the ranking of network candidate options which will tend to have lower variable costs and AVP should explore these effects through input sensitivities ^A .	<p>The maximum annual capacity factor for an individual Victorian coal-fired generating unit is 75% over the entire modelling horizon, which is well within the current operating regime of these coal plants, which can be over 80% annually. Gas-fired generators have much lower capacity factors. Both of these points indicate that dispatch of the thermal plants is reasonable thus mitigating the risk of overstating system strength supply by incumbent generators.</p> <p>On the second point, the optimal mix was found to be a combination of network and non-network options. In addition, the ranking of options based on gross market benefits favoured more non-network options and less network options. These outcomes suggest the modelling was not biased against non-network solutions and so there is no need for additional sensitivity analysis.</p>
It may be prudent for AVP to conduct further sensitivity analyses on the location of IBR investment. Generally, there is a presumption that generation will diversify away from the Latrobe Valley. To the extent the analysis follows the 2024 ISP (which will move from draft to final over the course of this RIT-T assessment) AEMO's new approaches to accommodating social licence issues might favour developments that align to existing generation and transmission sites, with different implications on system strength needs.	<p>Section 2 of the PADR outlines how the assumptions underpinning the identified need for this RIT-T have been updated since the PSCR, including a large increase in forecast IBR connecting to the Latrobe Valley.</p> <p>While sensitivities to 2024 <i>System Strength Report</i> IBR forecast would provide insights to how the optimal location of services might change under an alternative capacity outlook, doing so would require additional detailed long-term market modelling, complete option portfolio redevelopment and additional short-term market modelling that AVP considers disproportionate to associated investment risk, particularly given that this RIT-T is a reliability corrective action where AVPs requirements are based on the <i>System Strength Report</i> IBR forecast.</p>
Expect the timing of VNI West will also be a key variable considered in the context of social licence issues.	<p>AVP is required to meet the standards set by AEMO and has based assumptions on these.</p> <p>While AVP could undertake a sensitivity considering the delay of VNI West or other major investments, this would require full long-term modelling similar to the ISP to reassess the capacity build over time and then reapply similar modelling to that done by AEMO as part of its annual <i>System Strength Report</i>. While this is theoretically possible, the resourcing effort to do so in the timeframe available prior to AVP's obligations coming into effect is not feasible.</p>

A. EnergyAustralia, p. 4.

A11.4 Treatment of inter-regional assets

EnergyAustralia asked AVP to explain how services from neighbouring jurisdictions are accounted for⁷³.

System strength does not stop at state boundaries, and some system strength naturally flows from interstate into Victoria. If AVP does not account for some of this system strength, it will effectively over-procure system strength in Victoria, leading to higher costs for consumers.

Since the PSCR was released, AVP consulted with other SSSPs and it was agreed that:

- for the minimum level of system strength, SSSPs should rely on joint planning arrangements to account for all interstate system strength contributions (and consequently 'expect' a certain level flowing from interstate), and

⁷³ EnergyAustralia, pp. 4-5.

- for the efficient level of system strength, SSSPs should not consider any benefit from interstate since it is not known when it will be scheduled (that is, it may not be online all the time), and because it is not known which technologies will provide a stable voltage waveform (voltage support is more ‘local’ than fault current – that is, stable voltage waveform support may not travel very far).

While interstate contributions have not generally been included to support the efficient level, AVP has accounted for the contribution of the four synchronous condensers being developed in south-west New South Wales as part of PEC.

For the minimum level of system strength, AVP has also moderately reduced the amount assumed to come from each state (beyond N-1) so each state is not relying on the other states meeting their minimum requirements in full (otherwise all states will be relying on each other, which would likely result in a gap in what is provided). See Section A3.7 for a discussion of how inter-state contributions have been considered.

A11.5 Location of new system strength resources

AusNet suggested the PADR explore a more dispersed portfolio of system strength solutions that supports generation connections in renewable energy zones (REZs) as generation in the Latrobe Valley is reduced. It suggested a more dispersed portfolio of solutions has a greater ability to uplift hosting capacity in Victorian REZs, which have strong developer interest particularly after the completion of committed transmission projects, as well as better resolution of issues from undertaking planned outages by more evenly distributing system strength across the Victorian network⁷⁴.

Section 2 outlines how the assumptions underpinning the identified need for this RIT-T have been updated since the PSCR, including AVP’s decision to use the revised 2025-26 and 2026-27 IBR forecasts.

While sensitivities to the 2024 *System Strength Report* IBR forecast would provide insights to how the optimal location of services might change under an alternative capacity outlook, doing so would require detailed long-term market modelling, complete option portfolio redevelopment, and additional short-term market modelling. AVP considers this disproportionate to the associated investment risks, particularly given that this RIT-T is a reliability corrective action where AVP’s requirements are set based on the *System Strength Report* IBR forecast.

AVP will continue to monitor changes in the network and to system strength requirements going forward, including any future knowledge advancements that might result in updated minimum fault level requirements, and will ramp up/down its investment in services to meet requirements in the long-term interests of Victorian consumers.

A11.6 Consider high benefit network reinforcement solutions

AusNet suggested the PADR should consider ‘high benefit network reinforcement solutions’, such as new transformers and turn-in projects that can be delivered within similar timeframes to non-network solutions. It said its preliminary analysis suggests that these solutions offer a wider range of market and essential system service benefits during both system normal and post-contingency conditions compared to non-network alternatives⁷⁵.

⁷⁴ AusNet, p. 2.

⁷⁵ AusNet, p. 2.

In developing the option portfolios, AVP considered the merits of network reinforcement solutions as alternatives to, or in addition to, the solutions forming the identified option portfolios. However, it was found that the proposed network reinforcements proposed would predominantly provide system strength support during prior outage conditions, the benefits of which are expected to be minor compared to the requirement for services under system normal conditions. As such, the solutions that form the option portfolios, which include contracting with existing generators, synchronous condensers and GFM BESS, were found to be more cost-effective options than the network reinforcement solutions identified.

Also, while additional line cut-ins, such as at Haunted Gully and Tarrone that AusNet proposed in its submission, will increase fault levels at these locations, AVP does not have a minimum fault level requirement at these locations, and the PADR assessment demonstrated that the efficient level requirements are more economically met by contracting committed or anticipated GFM BESS proximal to the connecting IBR, than by investing in higher capital cost solutions. The committed cut-in of the Haunted Gully to Tarrone line to the 500 kV terminal station at Mortlake will also improve the coupling to nearby system strength sources.

A11.7 Real-time data and broader issues in procuring system strength

EnergyAustralia saw a need for AEMO and jurisdictional planners to publish real-time data on system strength, and purpose-designed and quality-controlled models that allow participants to evaluate their portfolio assets' impact on system strength nodes across a range of operating conditions and scenarios⁷⁶. EnergyAustralia said that the ability of technologies and service providers to satisfy different system needs requires sufficiently granular datasets to understand how the existing mix of resources contributes to inertia, system strength and reactive support in operational timeframes and over different regional and subregional boundaries⁷⁷.

EnergyAustralia requested the publication of actual data on system strength relative to forecast requirements to identify the extent of any under- or over-procurement⁷⁸.

AVP considers that publication of data to assist service providers in providing system strength on a real-time basis is outside the scope of this RIT-T (which is looking at the planning horizon procurement of system strength services, as opposed to the real-time delivery of system strength).

A11.8 Engage with other SSSPs for consistent approach

EnergyAustralia urged AVP to engage with other SSSPs to develop a consistent and transparent approach to dealing with system needs under changing market and regulatory frameworks⁷⁹.

AVP has worked closely with the SSSP Working Group, which is comprised of the parties undertaking (or to undertake) the system strength RIT-Ts and AEMO and the AER, over the course of 2023 and 2024. This has greatly benefited the approaches taken by each party to their respective RIT-Ts.

⁷⁶ EnergyAustralia, p. 2.

⁷⁷ EnergyAustralia, p. 2.

⁷⁸ EnergyAustralia, p. 2.

⁷⁹ EnergyAustralia, p. 1.

Abbreviations

Abbreviation	Term	Abbreviation	Term
AACE	Association for Advancement of Cost Engineering	NPV	net present value
AEMC	Australian Energy Market Commission	NSCAS	network support and control ancillary services
AEMO	Australian Energy Market Operator	ODP	optimal development path
AER	Australian Energy Regulator	PACR	Project Assessment Conclusions Report
AFL	available fault level	PADR	Project Assessment Draft Report
AVP	AEMO Victorian Planning	PEC	Project EnergyConnect
BESS	battery energy storage system/s	POE	probability of exceedance
CDP	candidate development path	PSCR	Project Specification Consultation Report
CPI	Consumer Price Index	QRET	Queensland Renewable Energy Target
DSP	demand side participation	REZ	renewable energy zone
EIR	Energy Infrastructure Roadmap	RFI	request for information
EMT	electromagnetic transient	RIT-T	Regulatory Investment Test for Transmission
ESOO	<i>Electricity Statement of Opportunities</i>	RMS	root mean square
FCAS	frequency control ancillary services	SCR	short circuit ratio
FOM	fixed operations and maintenance	SRAS	system restart ancillary services
GFL	grid-following	SSIAG	System Strength Impact Assessment Guidelines
GFM	grid-forming	SSMR	System Strength Mitigation Requirement
GW	gigawatt/s	SSN	system strength node
GWh	gigawatt hour/s	SSRM	System Strength Requirements Methodology
IASR	<i>Inputs, Assumptions and Scenarios Report</i>	SSSP	System Strength Service Provider
IBR	inverter-based resource/s	ST	short-term
ISF	Improving Security Frameworks	syncon	synchronous condenser
ISP	<i>Integrated System Plan</i>	TCD	Transmission Cost Database
KESS	Koorangie Battery Energy Storage System	TNSP	transmission network service provider
kV	kilovolt/s	TRET	Tasmanian Renewable Energy Target
MCC	material change in circumstances	VAPR	<i>Victorian Annual Planning Report</i>
MVA	megavolt ampere/s	VCR	Value of Customer Reliability
MVA _r	megavolt ampere/s reactive	VER	Value of Emissions Reduction
MW	megawatt/s	VNI West	Victoria – New South Wales Interconnector West
MWh	megawatt hour/s	VOM	variable operations and maintenance
NEM	National Electricity Market	VRET	Victorian Renewable Energy Target
NEO	National Electricity Objective	WACC	weighted average cost of capital
NER	National Electricity Rules	WRL	Western Renewables Link