

Strategic Benefit Payments Scheme

For private landowners hosting major new
transmission infrastructure projects in NSW

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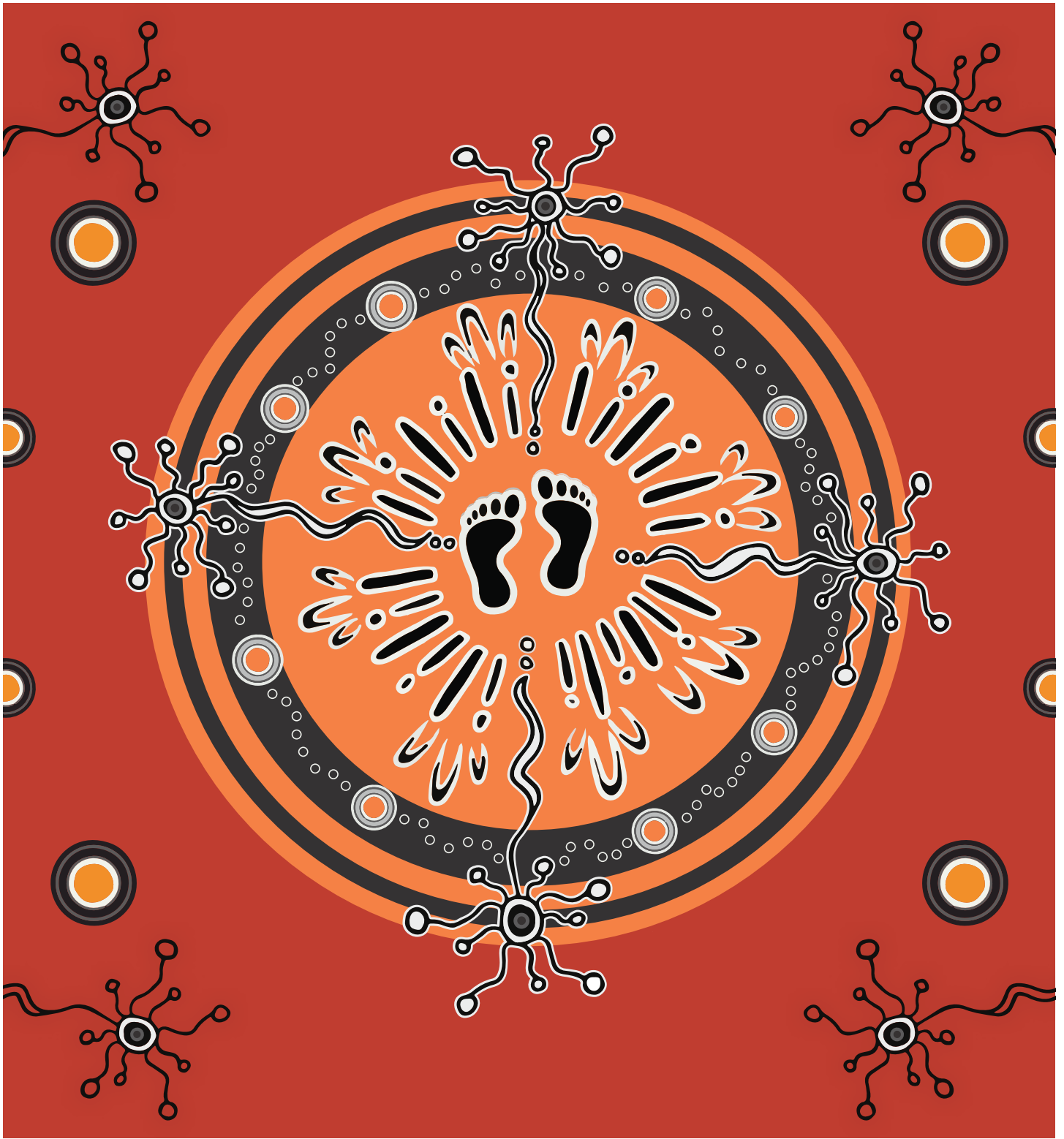
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Cover image Image courtesy of iStock. View to over town in the southern highlands.

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Acknowledgement of Country

The NSW Government acknowledges that it stands on Aboriginal land. We acknowledge the Traditional Custodians of the land and we show our respect for Elders past, present and emerging through thoughtful and collaborative approaches to our work, seeking to demonstrate our ongoing commitment to providing places in which Aboriginal people are included socially, culturally and economically.

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Summary

The NSW Government has committed to transforming NSW's electricity system into one that is cheaper, cleaner and more reliable. Under the NSW Electricity Infrastructure Roadmap (NSW Roadmap), NSW is moving towards an energy system based on renewable energy generation backed up by long-duration storage and connected to regions and cities by new transmission infrastructure to replace retiring coal-fired generation.

This involves fundamental changes to both the location and the way energy is generated and used. Communities and businesses across NSW will all play a part in, and benefit from, this transformation and cheaper, cleaner and more reliable energy supply.

The scale of the new transmission infrastructure required to connect new energy sources to the homes and businesses across the State is unprecedented and delivering this infrastructure in the time needed to ensure energy security, supply and affordability is becoming increasingly critical as coal-fired generation retires.

The urgency of the task is also increasing as the Australian Energy Market Operator's (AEMO) 2022 Integrated System Plan (ISP) indicates that coal-fired power stations in NSW are likely to close sooner than anticipated. To facilitate the timely delivery of a modern electricity grid for NSW that benefits both consumers and communities, the NSW Government is establishing a Strategic Benefit Payments Scheme (SBP Scheme) for new major transmission projects.

Under the SBP Scheme, private landowners in NSW will receive annual payments for hosting new high-voltage transmission infrastructure on their land for a period of 20 years. The benefit sharing payments recognise the critical supporting role landowners will have in hosting the new transmission infrastructure that will power the State into the future and ensure they share in the benefits of this significant economic investment in the energy transformation.

Importantly, these benefit sharing payments will be made separately, and in addition to, the existing requirement to pay compensation to landowners for transmission easements under the *Land Acquisition (Just Terms Compensation) Act 1991*.



Image courtesy of iStock. Farmers with laptop in field examining crops.

New transmission infrastructure is critical to future energy supply, security and affordability

High voltage transmission infrastructure is the backbone of the electricity grid that powers NSW's households, businesses, schools, industries, hospitals, infrastructure, and economy 24 hours a day, 365 days a year. Reliable and affordable energy supply is essential to the State's economic prosperity, maintaining our way of life and keeping communities across NSW connected.

The reality is that four of our five coal-fired power stations will come to their scheduled end of life in the next 15 years, and we need to ensure we have the next generation of energy infrastructure in place to keep our grid cheap and reliable. Replacing electricity infrastructure doesn't happen overnight. It takes time, and it takes careful planning.

That is why the NSW Government released the NSW Electricity Infrastructure Roadmap, which sets out the Government's 20-year plan to deliver the generation, storage, firming and transmission infrastructure needed to power NSW into the future. The Roadmap will support the private sector to bring at least 12 gigawatts of renewable energy (such as wind and solar energy) and two gigawatts of storage (such as pumped hydro and large scale batteries) online by 2030.

The Roadmap aligns with the Australian Energy Market Operator's most recent Integrated System Plan (ISP) which notes the least-cost and most efficient transition of the National Electricity Market from a centralised coal-fired generation system to a diverse portfolio of renewable energy supported by dispatchable firming and enhanced transmission grid and service capabilities.

A critical component of the NSW Roadmap is facilitating investment in new transmission infrastructure that will support investment in new energy generation and storage. New transmission infrastructure is critical to connecting these new energy sources to where they are needed the most.

It is estimated that almost 4,000 kilometres of new transmission infrastructure needs to be built in NSW over the next 20 years under the NSW Roadmap and 2022 ISP. This will include a range of projects delivered under the *NSW Electricity Infrastructure Investment Act 2020* (EII Act), such as REZ network infrastructure projects and priority transmission infrastructure projects, as well as actionable projects identified in AEMO's ISP that will be delivered under the National Electricity Rules.

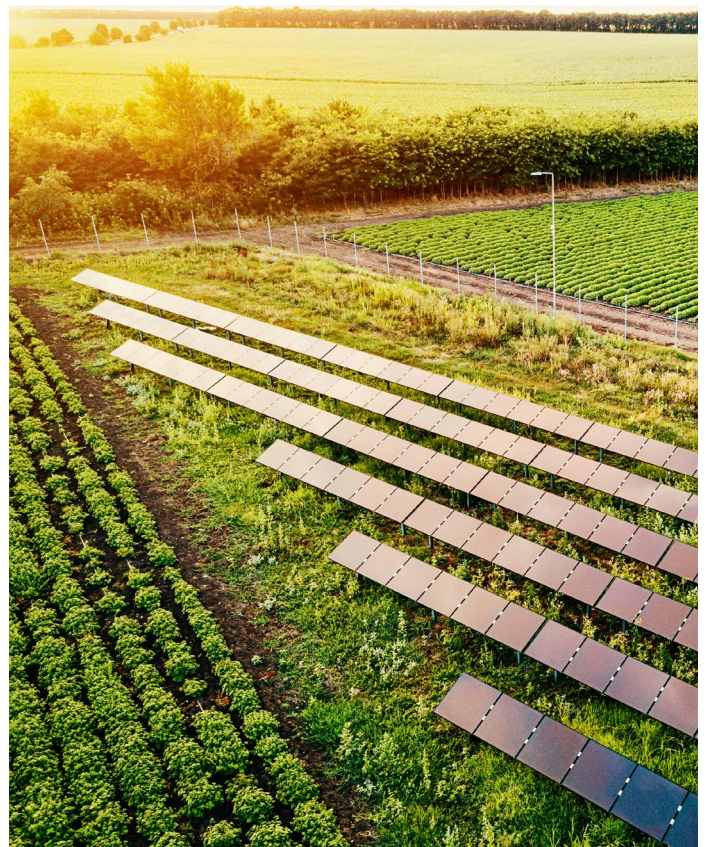


Image courtesy of iStock. Aerial view of solar panels.

Supporting landowners and communities who will host new transmission infrastructure

It is critical that new transmission infrastructure is delivered in a way that minimises the impacts on, and maximises the benefits for, the communities and landowners who will host it. Fostering community support for investment in new energy infrastructure is a key pillar of the NSW Roadmap and EII Act and a range of initiatives are already underway to support this objective, including:

- community benefit sharing schemes for REZs funded by access fees paid by energy generation and storage developers who connect to new REZ network infrastructure
 - implementing the recommendations of the Renewable Energy Sector Board and the Electricity Infrastructure Jobs Advocate to promote opportunities to maximise employment and training opportunities and the use of local content, goods and services in delivering the NSW Roadmap
 - guidelines about consultation and negotiation with local First Nations communities for the purposes of increasing employment and income opportunities for local First Nations communities
- NSW Transmission Guidelines that will provide a robust framework for the planning and development of new transmission infrastructure to provide greater clarity and certainty for landowners, communities and transmission project proponents on:
 - the strategic context, importance and benefits of the transmission rollout
 - the regulatory and planning approval processes that may apply
 - best-practice community engagement practices throughout all stages of the transmission project lifecycle
 - clear and transparent route design processes and principles that maximise local community input and minimise potential impacts on existing land uses.

These initiatives are part of a holistic approach to building community support for the delivery of new generation, storage and transmission infrastructure across the State and delivering enduring benefits to regional communities.



Image courtesy of iStock. Family spending time together at farm.

Why the NSW Government is introducing a Strategic Benefit Payments Scheme

New major transmission projects provide an essential public service (energy) and have different rules and legislative requirements that must be adhered to compared to private energy projects such as wind and solar energy projects. Landowners hosting transmission easements in NSW currently receive a one-off compensation payment under the *Land Acquisition (Just Terms Compensation) Act 1991* (Just Terms Act), which includes the market value of the land, loss due to severance and disturbance, and reasonable costs and expenses.

Unlike private developers, the commercial negotiations that transmission network operators undertake with landowners for transmission infrastructure must be informed by the obligations under the Just Terms Act. This is generally consistent with the land acquisition process for transmission projects in other jurisdictions across Australia and for other public infrastructure projects in NSW.

However, given the scale and urgency of delivering new transmission infrastructure to facilitate the transformation of our energy system, the NSW Government considers that private landowners who host this infrastructure should receive a greater share of the benefits of building and operating new transmission lines.

This is consistent with the objectives of the NSW Roadmap and the EII Act which aim to ensure regional communities receive enduring benefits from the energy transformation in NSW while balancing the costs to consumers of delivering transmission infrastructure.

In addition to existing initiatives that are already being implemented to deliver broader benefits to communities (as outlined above), the NSW Government is implementing a Strategic Benefit Payment Scheme (SBP Scheme) that will deliver additional financial benefits to private landowners hosting new major transmission projects.

Under the SBP Scheme, private landowners will receive an annual payment for a period of 20 years for hosting major new transmission projects in recognition of their role in building an energy grid that supports the future of all people in NSW. This means that private landowners hosting this infrastructure will see a meaningful increase in total monetary benefits, as they will now receive:

- upfront compensation paid in accordance with the Just Terms Act for the easement acquisition, **plus**
- an annual SBP payment for hosting new transmission infrastructure, from energisation for 20 years.

Further details of the SBP Scheme are provided below.



Image courtesy of Getty. Mother and daughter walking near wind turbines.

Strategic Benefit Payments Scheme



Image courtesy of EnergyCo. Central-West Orana region.

Overview

Under the SBP Scheme, private landowners hosting new high voltage transmission projects critical to the energy transformation and future of the electricity grid will be paid a set rate of \$200,000 per kilometre of transmission hosted (in real 2022 dollars), paid out in annual instalments over 20 years.

The \$200,000 rate per kilometre of transmission has been set in consideration of several factors, including:

- the economic and social benefits of building community support for new major transmission projects
- the critical importance of ensuring new transmission infrastructure is rolled out in a timely way to support the delivery of the NSW Roadmap and AEMO's ISP
- ensuring that private landowners hosting the transmission infrastructure for these projects share directly in the benefits of the NSW Roadmap, and that this benefit is material
- balancing the cost of payments with the consumer benefits of the timely and efficient delivery of transmission infrastructure that contributes to the future security of the energy grid.

Payments made under the SBP Scheme will be in addition to any compensation paid under the Just Terms Act to applicable private landowners for transmission easements on their land.

The SBP payments are an acknowledgement of the important role landowners have in hosting this critical energy infrastructure that will power NSW into the future.



Image courtesy of iStock. Farmer watching over cattle on farm.

Payment amounts and costs

The total amount paid to landowners is \$200,000 (in real 2022 dollars) per kilometre of transmission hosted, paid out in annual instalments over 20 years, beginning once the relevant project is energised (i.e. operational).

The annual SBP payment be indexed to inflation (using the CPI published by the Australian Bureau of Statistics) to ensure payments are not devalued in real terms over time.

Importantly, the rate of the payments will be calculated in the same way regardless of where they live in NSW to ensure all landowners are treated equitably under the scheme.

The illustrative example below shows what annual payments could look like for a private landowner hosting one kilometre of an eligible transmission project under the SBP Scheme.

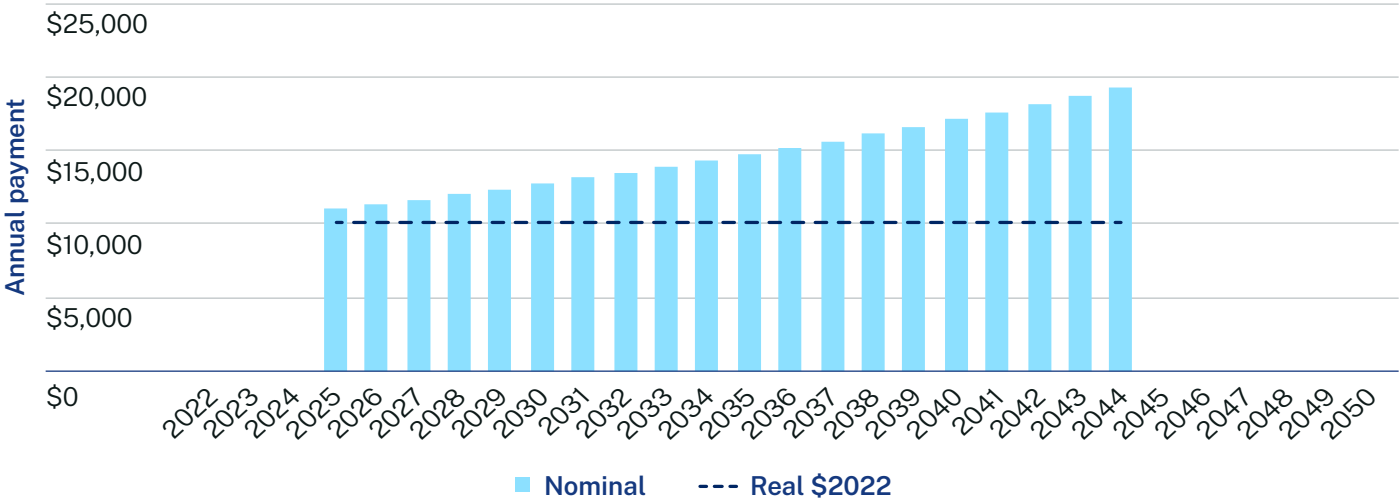
The total cost of implementing the SBP Scheme for applicable transmission projects is approximately \$786 million (\$241 million net present value as payments are made over time).

Modelling indicates that the resultant cost to consumers is around \$0.77 per year on average for a typical household electricity bill. This compares to an estimated saving of \$130 a year on average for a typical NSW household electricity bill by implementing the NSW Roadmap (Aurora modelling, November 2020).

The cost of the scheme also needs to be offset against the substantial additional costs to consumers and broader economic consequences that could be incurred as a result of project delays or failure to deliver projects as a result of losing community support.

Increased costs from project delays (often up to a year or more) or redesign associated with community opposition for major transmission projects are likely to significantly exceed the costs of implementing the SBP Scheme.

Figure 1: Example for project commissioned in 2025



(This graph is an example only)

Applicable transmission projects

The SBP Scheme applies to all new major transmission projects that are critical to the energy transformation and the future of the energy grid. This includes any of the following types of projects that are commissioned after the date of implementation of the SBP Scheme:

- REZ network infrastructure projects and priority transmission infrastructure projects delivered under the EII Act
- ISP transmission infrastructure projects identified in AEMO's ISP, delivered under the National Electricity Rules.

Examples of eligible projects that are underway or in early planning and development include Project EnergyConnect, HumeLink, the Central-West Orana REZ Transmission Project, the New England Transmission Project, and the Hunter Transmission Project.

For eligible projects, SBPs are required for the following infrastructure and works:

- new major transmission lines with a voltage of at least 330 kV
- increasing the voltage of existing lines that involves significant new works – such as increasing the width of easements to accommodate additional towers.

SBPs are not required for the following infrastructure and works:

- new substations, as the land is typically purchased by the transmission network operator
- rebuilding existing transmission lines that do not involve significant new works, such as replacing existing towers

- augmentations or upgrades to the existing transmission network, including existing substations
- new transmission and distribution lines and any associated works with a voltage less than 330 kV.

The payments will be made by the transmission network operator for hosting the infrastructure of new major high-voltage transmission projects – such as the 330 kV and 500 kV transmission lines that form the backbone of electricity system and not for hosting smaller transmission links connecting individual electricity generation or storage projects to the electricity grid, distributing electricity from the new grid to consumers (operated by distribution network service providers) or landowners hosting existing transmission lines that were operational prior to the implementation of the SBP scheme.

For eligible projects and works, payments are based on the length of line required for a single set of transmission towers for the transmission infrastructure. If the transmission project requires two sets of towers (and subsequently two lines or parallel lines), the landowner will receive a SBP for each set of towers/lines for the project (i.e. two payments). There is no difference in payment for different voltages or different tower designs.



Image courtesy of EnergyCo. Two people looking over land.

Eligible landowners

Only private landowners are eligible to receive payments under the SBP Scheme. Public landowners are not eligible to receive payments under the SBP Scheme. Private landowners generally include individuals or private companies, businesses, or trusts.

Private holders of a Western land lease granted under the *Western Lands Act 1901* are also eligible to receive SBPs. SBPs would not be applicable for holders of other minor interests on the title of the land (such as leases, licences or easements).

Payments are made to the current private landowner of the land. If the land is sold or transferred to a private entity within the 20-year period, payments would be made to the new owner. This could be achieved through a caveat on the land title or a contractual agreement between the landowner and transmission operator to pay SBPs. If the land is sold or transferred to a public entity within the 20-year period, SBPs would no longer be paid.

Neighbours

Transmission infrastructure has been part of the NSW landscape for many decades, however, the NSW Government recognises that communities are concerned about potential amenity and environmental impacts associated with new transmission lines.

Designing the route of a new transmission line requires balanced consideration of several social, economic and environmental factors, such as (but not limited to), technical requirements, existing land uses, costs to consumers and environmental sensitivities.

New transmission projects also need regulatory and environmental approvals before they can proceed. This includes comprehensive assessment under applicable NSW and Commonwealth planning and environmental approval processes.

The NSW Government is developing NSW Transmission Guidelines to provide further guidance on transmission route design and mitigation strategies to avoid and minimise impacts on neighbouring properties.

Where the residual impacts of a transmission project on neighbouring properties cannot be adequately addressed through detailed design and additional mitigation measures (e.g. vegetation screening), negotiated agreements with these landowners can be considered by the transmission network operator on a case by case basis in accordance with existing policies.

Timing of payments

SBPs will be paid by the operator of the transmission infrastructure to applicable landowners on an annual basis over 20 years. The first payment will be made no later than three months after energisation of the new transmission project. A 20-year period also generally aligns with the access rights that will be granted to renewable energy generation and storage projects to connect to the new transmission infrastructure in REZs under the NSW Roadmap and EII Act.

Implementation

The SBP Scheme will be implemented by way of a new transmission licence condition under *Electricity Supply Act 1995* (ES Act) whereby transmission network operators will be required to make SBPs to eligible landowners under their operating licence issued by the Minister for Energy (the Minister) under the ES Act.

The licence condition would specify the details and parameters around the SBP Scheme, including:

- applicable transmission projects and works
- eligible landowners
- payment structure and timing
- any administrative requirements
- monitoring and enforcement requirements.

The Independent Pricing and Regulatory Tribunal (IPART) administers certain elements of the licencing regime on behalf of the Minister, including enforcement of the conditions of a licence. IPART would be responsible for ensuring transmission network operators make payments under the SBP Scheme in accordance with the conditions of their licence.



Image courtesy of iStock. Farmer using a mobile phone on a tractor.

Cost recovery

There are three types of new major high voltage transmission projects that will be built in NSW:

- REZ network infrastructure projects – projects that form part of a REZ
- Priority transmission infrastructure projects – projects that are identified in, or form part of an infrastructure project identified in AEMO's latest ISP, are located in NSW and are required to address an energy security breach
- ISP transmission projects – other projects identified in AEMO's ISP that are not being delivered as a REZ network infrastructure project or priority transmission infrastructure project.

REZ network infrastructure projects and priority transmission infrastructure projects are delivered under the regulatory framework and processes set out under the EII Act and accompanying regulations. ISP transmission projects are delivered under the National Electricity Rules.

There are different regulatory approval and cost recovery mechanisms under the EII Act and National Electricity Rules. Costs incurred by the transmission network operator in implementing the SBP Scheme in accordance with their obligations under their transmission licence can be recovered from consumers under both mechanisms as set out below.

National Electricity Rules (NER)

The NER provide for transmission network operators to recover the costs associated with delivering energy services from energy users. Under Chapter 6A of the NER, the Australian Energy Regulator (AER) periodically determines the allowable revenue that may be recovered by a transmission network operator from network users. This generally includes, among other things, the prudent and efficient capital and operating costs required to build and operate transmission infrastructure, as well as the costs of complying with all relevant regulatory and statutory obligation.

This would include the costs incurred by the transmission network operator in complying with conditions of their transmission licence issued under the ES Act that require implementation of the SBP Scheme. Costs incurred in implementing the SBP Scheme form part of the transmission network operator's operating costs (operating expenditure) as the payments come into effect after the energisation of the project.

Generally, transmission network operator should be able to forecast the costs they expect to incur in complying with the SBP Scheme and include them in their regulatory proposal under the periodic 'revenue reset'. This is because the transmission network operator will have a reasonable level of detail around the projected energisation date of a project, the length of the transmission line and the costs of payments under the SBP Scheme that are a fixed rate per kilometre.

Under this process, the transmission network operator submits a revenue proposal that forecasts the costs it expects to incur in operating and maintaining the network and the AER considers this proposal and sets the transmission network operator's maximum allowable revenue for the next five years. If the SBP Scheme obligation comes into effect during the regulatory control period (i.e., between the revenue resets), the transmission network operator can apply to amend its revenue allowance to pass through certain costs that were not foreseen when its allowance was set. This includes changes in regulatory obligations.

Electricity Infrastructure Investment Act 2020 (EII Act)

The EII Act and regulations made under the Act provide for network operators to be selected to carry out network infrastructure projects under either a contestable or non-contestable approach. Although the non-contestable revenue determination regulations under the EII Act are not yet finalised, it is expected that for non-contestable projects, the AER (as the Regulator appointed for this purpose under the EII Act), would apply a similar regulatory framework to that under Chapter 6A of the NER and set out above.

This means that the network operator would include the costs of complying with the SBP Scheme in its forecast expenditure and revenue proposal.

Under the contestable approach, the contractual arrangement between the infrastructure planner and network operator would specify the amounts for its revenue determination (including costs associated with the SBP Scheme). If the AER is satisfied the competitive procurement process for the network operator has resulted in a prudent, efficient and reasonable outcome, it will adopt the amounts specified in the contractual arrangement-including any SBP costs.

Find out more

You can find out more or ask questions about the NSW Government's Strategic Benefit Payments Scheme by getting in touch with the Energy Corporation of NSW (EnergyCo) through the details below.

Website: energyco.nsw.gov.au

Email: contact@energyco.nsw.gov.au

To subscribe to the EnergyCo mailing list for regular updates, please scan the QR code or visit energyco.nsw.gov.au.



Image courtesy of iStock. Aerial view of powerlines at sunset.

