

Victoria State Government, Department of Environment, Land, Water and Planning

Submitted online: <https://engage.vic.gov.au/project/victorian-transmission-investment-framework/survey/3388#sub-nav>

15 August 2022

**Submission to Victorian Transmission Investment Framework Preliminary Design Consultation Paper**

The Australian Energy Council (AEC) welcomes the opportunity to make a submission to the Victorian Transmission Investment Framework Preliminary Design Consultation Paper (Consultation Paper).

The Australian Energy Council is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

The AEC is a long-term supporter of a consistent approach to transmission planning across National Energy Market (NEM). The AEC considers that the national approaches, particularly the Integrated System Plan (ISP), supported by the strong cost-benefit principles contained within the Regulatory Investment Test for Transmission (RIT-T), are the appropriate approach to support the NEM's transition. Whilst the AEC considers these rules appropriate to support Victoria's transition, it also notes they continue to adapt and improve, including in work being presently carried out by the Australian Energy Market Commission (AEMC) and Energy Security Board (ESB).

A significant risk of Victoria's separate planning arrangements is that the highly interconnected NEM will not be planned efficiently from a national perspective. Investments may occur that would be more efficiently located in other states or could even interfere with the NEM's ability to efficiently nationally transfer energy. This is particularly the case with Victoria being the most interconnected region, with links to three other states, including a very complex interconnection with New South Wales through four dispersed Alternating Current (AC) transmission ties.

As such, the AEC does not support Victoria's proposed variations from the national approach. Nevertheless, the AEC accepts that this variation is Victorian Government policy and it has the power to implement it. This submission engages on the details of the Victorian policy from that perspective.

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

The AEC broadly agrees with the four concepts of the Victorian Transmission Planning Objective which have similarities to the National Electricity Objective (NEO) and is pleased by the inclusion of a reference to the reliability, safety and security of the national system. The AEC notes it makes no reference to price for non-Victorian customers. The Objective could be improved in this regard by removing “Victorian” before “consumers” in its introduction.

Alternatively, the AEC suggests it would be simpler, and still consistent with the Victorian government policy, to simply adopt the NEO as the Planning Objective.

*2. What are your views on the proposed measures to ensure costs to consumers are minimised as outlined above and detailed elsewhere in the Consultation Paper?*

The AEC supports many features of the framework, particularly its early stages around building scenarios and candidate REZ pathways. These are not unlike those AEMO performs for the ISP, and could also reasonably be performed by Transmission Network Service Providers (TNSPs) under existing national rules.

Consistent with the response to 1, the cost-benefit analysis should consider the best interests of all consumers, not just Victorian consumers, i.e. the modelling should assess NEM-wide benefits, as each Victorian investment will have national impacts. It may be useful to provide a methodology for this modelling and allow for consultation on it.

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

The horizon should be aligned with AEMO’s ISP, which currently uses 20 years. In addition to this the updating frequency should also align with the ISP and be two yearly rather than the proposed four years.

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

The interconnection scenario input should also consider how generation may affect interconnector flows and constraints. For example, the recent commissioning of large-scale solar projects in southern NSW have resulted in the Victoria NSW interconnector being constrained to almost zero during some daytime periods.

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

These should be developed in a consultative process with all stakeholders and not just based on pathways recommended by NSP's or AEMO. Currently these pathways are developed in isolation from industry, consumers and the community which is resulting in smaller less costly projects not being considered in favour of higher cost projects.

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

An early strategic land use assessment (SLUA) is possibly the most useful part of Stage 2 which, the AEC acknowledges as having been handled too late in recent previous Victorian transmission planning. Many transmission projects are finding obtaining a social licence for their project is the most challenging aspect and can cause significant costs and delays. Furthermore, environmental issues have also shown themselves to be extremely important. The AEC believes this part of the process needs to be as rigorous as possible within budgetary constraints and the analysis is regularly updated.

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

The AEC supports most of the criteria included in the paper. The Multi-criteria Analysis should however be limited to the energy industry, in terms of its costs, environmental impacts and ability to support existing and new generation and customers. The inclusion of additional criteria such as "regional development opportunities" is outside a reasonable economic scope and is not what customers should be paying for. It could lead to REZ decisions becoming politicised for electoral benefits. The AEC is concerned that the Consultation paper does not set out any checks and balances to mitigate this risk.

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

Allowable benefits should be aligned with the national RIT-T allowable benefits as promulgated by the Australian Energy Regulator (AER) following numerous detailed reviews into the appropriate economic basis for developing shared transmission.

The AEC does not believe expected increases in GSP due to the investment should be included in the CBA. If a project costs more than another project, all other things being equal, it will create a higher level of GSP through the investment component of GSP and is an example of a “Bastiat Paradox”<sup>1</sup>. The Consultation Paper notes that “measuring GSP increases due to transmission investment can be challenging”. The AEC would go one step further, noting it can result in perverse outcomes, adds unnecessary complexity and the forecasts would most likely be very inaccurate.

The core reason for REZs is to encourage investment in transmission and renewable generation in a more orderly and efficient manner. Estimates of changes to GSP has no relevance to this goal.

With respect to costs, the AEC believes consideration needs to be given to capital efficiency. Smaller projects, even when they have lower net benefits, can be superior for the customer because of the lower amount of capital at risk in the presence of great forecasting uncertainty.

Of all the inputs into the CBA, the capital costs of the project and to a lesser extent the operating costs would be the most accurate estimates when compared with the benefits that are listed in the Consultation Paper. The CBA should focus on these when comparing projects that deliver the same electrical outcomes.

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

The AEC is uncertain as to how the optimal REZ pathway is determined based on the Consultation Paper and Figure 3. Our understanding is at this stage the values would either be a net cost or benefit because a CBA produces a net outcome. Accordingly, the AEC would like to see a detailed methodology that is available for consultation. Furthermore, we believe firming generation needs to be given more consideration.

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

The AEC is supportive of further consideration being given to weighting the scenarios. However, the weighting methodology needs to be defined publicly, open for consultation and if implemented consideration should be given to allowing stakeholders to challenge the weightings.

---

<sup>1</sup> <https://www.investopedia.com/ask/answers/08/broken-window-fallacy.asp>

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

The AEC disagrees with pursuing the “least negative” net cost of any development. Any project should have a positive business case before proceeding, as, in these cases, “do nothing” is in the best interests of consumers.

Whilst it can be argued adopting the proposed “least cost” approach would provide increased certainty to potential generation investors and profits for the NSP who owns the network, it increases risk for electricity consumers and may not result in the project with the highest net benefit or in fact any net benefit at all to the market and consumers being constructed. This could be particularly the case where a more efficient project is not necessarily located in the Vic geographical region.

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

The AEC supports increasing the contestability threshold and considers the different value bands (in the Consultation Paper) an improvement on the current arrangements. There should also be a process or mechanism to periodically review the thresholds. For, example inflation-based indexation.

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

REZs were originally conceptualised by the Finkel Report<sup>2</sup> as discrete, greenfield, radial extensions to the network without impact on the broader network nor existing participants. In some other states, REZs approach this concept. However, as noted in the paper, the Victorian network is completely different, with proposed REZs being brownfield and highly meshed. Any augmentation to the parts of the Victorian network will unavoidably have many impacts on existing generation, and on other parts of the network and even on other states.

---

<sup>2</sup> <https://www.energy.gov.au/government-priorities/energy-markets/independent-review-future-security-national-electricity-market>

Thus, we are dealing with an entirely different concept, yet the Victorian government has still assigned the name “REZ”. The AEC is unsure what value comes with attempting to geographically distinguish parts of such an integrated system, and, in any case, the declared “REZ” have vague and potentially intersecting boundaries. If the government is committed to applying non-national rules to its transmission network, the AEC suggests that serious consideration should be given to declaring the entire non-metro Victorian 220kV transmission system (excluding Melbourne) as a REZ. Nevertheless, if future modelling indicates discrete greenfield REZs in Victoria these should be treated as are the REZs in NSW.

The AEC supports the use of access regimes as part of the orderly investment arrangements for REZs, suitable to the circumstances. For the NSW greenfield REZs, the AEC supported managing it via limiting physical connection. The AEC is not yet sure whether it is reasonably possible to do this in the Victorian meshed/brownfield situation. There would be great challenges in, ex-ante, determining what is a reasonably acceptable level of connection in such meshed situations and providing any confidence to connectors about a level of access that would be recognised in dispatch.

Furthermore, expansion would relieve existing congestion that could be seen as a form of free-riding, and it opens new questions on the rights for existing generators to carry out planned expansions.

The AEC suspects the paper has under-estimated these complexities when describing the physical approach as the simplest. Financial arrangements are also likely to have some complexity but are generally considered more straightforward for resolving access in highly meshed circumstances.

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

Notwithstanding the more complex meshed arrangements in Victoria, the regime could draw on the treatment of storage in other states’ REZ’s. Fundamentally the charging of a storage is a form of negative load, and its value in reducing congestion can be recognised either in the (negative) cost of physical access, or quite naturally in a financial arrangement.

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

Transitional arrangements should be approach 2 as set out in the Consultation Paper. If an FTR access model is adopted then these generators would be treated as Tier One. The AEC is unsure when a project should qualify.

With respect to questions 16-18, the AEC congratulates VicGrid on the focus it has placed on early community engagement and gaining social licence for network and generation investments.

Any questions about our submission should be addressed to Peter Brook, by email to [peter.brook@energycouncil.com.au](mailto:peter.brook@energycouncil.com.au) by telephone on (03) 9205 3103.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'P Brook', is displayed on a light yellow rectangular background.

**Peter Brook**  
Wholesale Policy Manager  
Australian Energy Council