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Mr John Pierce
Chair
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Ref: SBR009930

Dear Mr Pierce

AEMC OPTIONS PAPER FOR THE COORDINATION OF GENERATION AND TRANSMISSION INVESTMENT

Thank you for the opportunity to make a submission to the Australian Energy Market Commission's *Options Paper for the Coordination of Generation and Transmission Investment*. The Department of Environment, Land, Water and Planning (DELWP) considers this an issue of major importance for transforming the electricity grid, and is pleased to provide the following comments on behalf of the Victorian Government.

AEMC's five options for implementing the Integrated System Plan (ISP)

I note DELWP's views, provided in its submission in May 2018 to the AEMC that in the absence of well signaled planning of transmission and efficiently timed development, there is potential for sub-optimal, pre-emptive development of network infrastructure associated with individual projects and for barriers to entry for timely development of new generation sources. The Minister for Energy, Environment and Climate Change has also made clear to the Energy Security Board her view that the Integrated System Plan should be binding in the direction it gives to Transmission Network Service Providers (TNSPs) and the Australian Energy Regulator (AER), noting that the Integrated System Plan (ISP) is an important step towards sending appropriate and timely signals to investors in generation and transmission across the National Electricity Market (NEM).

DELWP reiterates this position, and would support options that provide for efficient network planning and development while ensuring strong harmonisation between TNSPs in their implementation of the ISP. In this regard either Option 4 or 5 proposed in the Options Paper are most likely meet these criteria. I encourage the AEMC to continue to progress this review on an urgent basis, so that it informs the Energy Security Board's report to the COAG Energy Council in December 2018.

The AEMC should consider the compatibility and implications of its options for the Victorian framework and provide advice on this in future reports. The AEMC will be aware that in Victoria, the transmission grid is planned and managed by AEMO under the "declared network functions" framework set out in Chapter 8 of the National Electricity Rules. This provides for AEMO to independently plan, procure and transfer network augmentation projects to declared transmission system asset owners, as well as direct those owners to augment their own networks. AEMO undertakes these functions based on an independent, public benefit oriented, probabilistic planning approach.

The development of a new national approach to transmission planning could be expected to impact upon the planning framework already in place in Victoria. The AEMC should consider the compatibility and implications of its options for the Victorian framework and provide advice on this in future reports. If changes are required, Victoria may need to undertake a review of its own approach. DELWP would welcome continued dialogue with the AEMC on this topic as its thinking develops.

AEMC's four options for implementing Renewable Energy Zones (REZs)

Being a long term strategic plan, the ISP implementation framework is expected to have strong regard to state-based energy and environment policies, like Victoria's Renewable Energy Targets, that have a direct impact on the energy market and that drive the investment decisions on transmission development. Given this commitment to driving renewable energy projects, the Victorian Government is particularly concerned about the options proposed for implementing REZs.

While noting the AEMC's view that implementing REZs depends on how the ISP is made actionable, the Department believes that it is important that the AEMC begins investigating viable options for REZ implementation. The AEMC outlines four options by which this might be done in Chapter 6 of its paper, including (1) enhanced information provision; (2) generator funded augmentation; (3) transmission business speculative investments; and (4) through a transmission prescribed service. The AEMC further makes perceptive comments about the barriers which exist to options 1-3 as a result of the current approach to access to the transmission grid – namely the inability to fund investments based on the sale of firm access to the grid. Absent a significant revision of the way access is provided, these are likely to remain for the foreseeable future.

However, it is confusing that the AEMC has indicated that it will not further consider the remaining viable option for implementing REZs, namely as a TNSP prescribed service (Option 4). It is DELWP's view that this model has the most potential to be implemented in the foreseeable future. DELWP agrees with the AEMC that this model would require the introduction of additional protections to ensure that undue risk is not placed on consumers as a result of consumer funded network augmentations and expansions. DELWP does not, however, agree that this model should be excluded from consideration merely because of the existence of this issue. The need for a transmission planning framework that can handle major geographic shifts in generation is pressing and all options should remain on the table. As a result, DELWP strongly urges the AEMC to further consider ways in which to implement the TNSP prescribed service model.

I trust this input is of assistance. If you have any questions about this submission, please contact Mr Paul Murfitt, Executive Director, Energy Sector Reform by email Paul.Murfitt@delwp.vic.gov.au or on (03) 9637 8235.

Yours sincerely

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