



Department of Environment, Land, Water and Planning

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Mr John Pierce
Chair
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Mr Pierce,

COORDINATION OF GENERATION AND TRANSMISSION INVESTMENT DISCUSSION PAPER

Thank you for the opportunity to make a submission on behalf of the Victorian Government to the Australian Energy Market Commission's (AEMC) Discussion Paper, *Coordination of generation and transmission investment*.

The Victorian Government supports a coordinated approach to generation and transmission investment planning that will achieve efficient, least cost outcomes for energy users. However, significant changes to transmission planning frameworks in the National Electricity Market are needed in order to ensure that transmission network investment keeps pace with the transforming energy market and the growth of renewable energy generation.

The importance of the matters being considered by the AEMC is highlighted by the Victorian experience in developing its renewable energy resources. In June 2016, in its *Victorian Annual Planning Report*, the Australian Energy Market Operator (AEMO) identified a high level of interest in renewable generation connection in North West Victoria - primarily due to favourable wind and solar resources - and also the potential for additional connection in that region to exceed network capability. However, under current frameworks, new renewable energy generation proponents will not receive certainty regarding future transmission network augmentations in that region until early 2019.

It is critical that the Commission's final report reflect the decision of the Council of Australian Governments (COAG) Energy Council, made at its 20 April 2018 meeting, that the Energy Security Board would have responsibility for coordinating the work of the energy market bodies on planning and regulation of the transmission system and interconnection, and would report to Ministers at the August 2018 about the progress of this coordinated work.

Delivery timeframes for new energy generation projects are far shorter than delivery timeframes for transmission network development. This disconnect makes anticipatory transmission planning vitally important. Stronger interconnection between National Electricity Market regions will support reliability and security across the national grid. Several new interconnector projects are currently proposed, including those required to support the Snowy Hydro 2.0 project and the *Battery of the Nation* initiative.

The *Independent Review into the Future Security of the National Electricity Market* recognised the need for a more strategic approach to the coordination of generation and transmission investment in the National Electricity Market, recommending, amongst other matters:

- that AEMO develops an integrated grid plan to facilitate the efficient development and connection of renewable energy zones; and
- that AEMO develops a list of potential priority projects;
- that the AEMC should develop a rigorous framework to evaluate priority projects.

These recommendations were supported by the COAG Energy Council. In the absence of well-signalled planning of transmission and efficiently timed development (aligned through an integrated

system plan), 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.

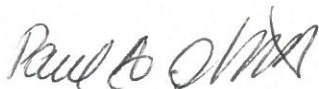
Given the above, in preparing its final report and in considering changes to current frameworks to improve the coordination of generation and transmission investment, the AEMC should:

- identify a clear role for the Integrated System Plan, currently being developed by AEMO, as well as consider other relevant findings and recommendations of the *Independent Review into the Future Security of the National Electricity Market*; and
- emphasise the changing nature of new generation investment being delivered in the National Electricity Market and the need for stronger anticipatory transmission planning.

Network investment is now being driven by a changing generation mix, rather than increased demand as it was in the past. This can make evaluating new investment projects particularly difficult where there is uncertainty as to whether new generation connections will eventuate. Current frameworks are designed to minimise the risk of creating stranded assets and protecting customers from unnecessarily high costs. However, this can lead to network augmentations being undertaken as a series of incremental upgrades which may in the long-run be more costly for consumers than had augmentation occurred to an appropriate scale in the first place.

I trust this input is of assistance. If you have any questions about this submission, please contact me by email paul.murfitt@delwp.vic.gov.au or on (03) 9637 8235.

Yours sincerely



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