



Department of Environment, Land, Water and Planning

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Ms Anna Collyer
Chair
Australian Energy Market Commission
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Dear Ms Collyer

EFFICIENT MANAGEMENT OF SYSTEM STRENGTH ON THE POWER SYSTEM – DRAFT RULE DETERMINATION

Thank you for the opportunity to make a submission to the Australian Energy Market Commission (AEMC)'s *Efficient management of system strength on the power system draft rule determination* (ERC0300). The Department of Environment, Land, Water and Planning (DELWP) is pleased to provide the following feedback on behalf of the Victorian Government.

The Victorian Government is broadly supportive of the AEMC's proposed preferable rule change to introduce an evolved framework for system strength and welcomes reforms aimed at addressing the system strength issues facing the National Electricity Market (NEM).

As you are aware, inadequate system strength in Victoria has resulted in significant delays in the connection of new renewable generators over recent years and curtailment of other existing plant. This has in large part been driven by the inadequate design of the current regulatory framework for addressing system strength issues, including issues around the implementation and lack of coordination observed in the existing the 'do no harm' arrangements.

Alleviating system strength constraints in Renewable Energy Zones (REZs) and ensuring future regulatory frameworks appropriately incentivise forward-looking investment in cost-effective system strength solutions is a key priority for the Victorian Government. We believe reforms aimed at achieving this will be a critical support to the energy transition, the timely and efficient development of REZs and meeting Victoria's Renewable Energy Targets as outlined in our REZ Development Plan.

The Victorian Government agrees that in principle the AEMC's new framework for the provision of system strength should be in the long-term interests of electricity consumers and result in a number of benefits, including:

- more timely and planned investment in system strength, taking future system projections into account that align with AEMO's Integrated System Plan (ISP) and development of Victorian REZs;
- reduced connection timeframes for new renewable generators;
- increased certainty around the costs of connections for new plant which should see project financing risk premiums reduced;
- more cost-effective procurement of system strength solutions, based on taking advantage of economies of scale and scope under a centralised procurement model;
- increased supply of renewable generation;
- support for REZ development and efficient use of network assets with new generators incentivised to locate close to system strength nodes;
- increased incentives for renewable generation and loads to minimise system strength impacts on the network;
- reductions in wholesale prices for consumers over time as a result of many of the above benefits; and

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- providing a suitable framework for support of a smooth energy transition that involves a high penetration renewable generation supported grid.

Key to realising these benefits, however, will be ensuring that the new framework is appropriately designed to forecast system strength needs, and optimally share system strength costs between consumers and new connecting generators/load. It will be important that optimal levels of system strength are procured and stranded asset risks are minimised. Safeguarding energy affordability under the new rules will also be driven by making sure the new framework is adaptive to changes in technology and takes advantage of innovative system strength solutions as they become proven.

The Victorian Government is pleased to see the AEMC's proposed rule changes appear to allow flexibility to ensure these design characteristics, risks and innovation can be appropriately managed. This is achieved by much of the detailed framework design being set out in flexible guidelines to be developed and issued by the Australian Energy Market Operation (AEMO) and the Australian Energy Regulator (AER).

While outside the scope of this rule change, the Victorian Government also recognises the need to ensure appropriate mechanisms are in place to allow AEMO to address system strength issues that may emerge in the operational timeframe, which would complement system strength procurement made under the new evolved framework in the investment timeframe. Such mechanisms could include the scheduling mechanisms being considered by the Energy Security Board under the Post 2025 electricity market design review.

In finalising the new rules, the AEMC should continue to provide careful focus on the need to accommodate Victoria's unique transmission planning framework (and specifically AEMO's functions within this). The AEMC should also consider VicGrid's role as set out in Victoria's REZ Development Plan.

The Victorian Government is committed to working with the AEMC as it finalises its rule change determination. We also intend to engage closely with the Victorian transmission planners at AEMO to ensure support for the rule change's effective and timely implementation in Victoria.

Finally, we wish to encourage the AEMC to look for ways to bring forward introduction of the new rules where possible, given the significant impact system strength issues are having on the NEM's transition to a low-emissions future. In line with this, the Victorian Government would be pleased to discuss with the AEMC the possible merits of utilising Victoria as a trial site for the new rules, ahead of their broader implementation in the NEM, where they cannot be brought forward universally.

I trust this submission is of assistance. If you have any questions about the points raised here please contact me by email at Matt.Garbutt@delwp.vic.gov.au or on (03) 8624 3240.

Yours sincerely



Matt Garbutt
Executive Director, Energy Sector Reform

24/06/2021