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Ms Anh Mai

Acting Deputy Secretary, Energy

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East Melbourne, Vic, 3002

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Victorian Transmission Investment Framework – Preliminary Design Consultation Paper

Dear Ms Mai

Energy Networks Australia (ENA) appreciates the opportunity to provide a response on the Victorian Renewable Transmission Investment Framework - Preliminary Design, Consultation Paper.

ENA is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

There are benefits to a more connected grid in the transition to a highly renewables-based energy mix. ENA supports the intent of the Victorian Transmission Investment Framework (VTIF) and the need for:

- » A new approach to land use planning and investment;
- » A review of the contestability arrangements for transmission investment;
- » A new approach to consumer and stakeholder engagement; and
- » Improving the clarity of the various transmission roles.

It is essential to deliver timely and efficient transmission projects to support generation and plan for the energy transition in a robust and transparent manner.

The consultation paper notes the urgency with Victoria relying on the three remaining coal generators who supplied about 70% of Victoria's energy in 2020. Yallourn is scheduled to close in 2028 and LoyYang has a possible earlier closure of from 2032. Delivering an appropriate mix of generation and the right level of transmission in anticipation of these closures is critical.

The critical interconnectors to support reliable energy into Victoria are not expected until the late 2020's or early 2030's – MarinusLink and VNIWest. The consultation paper also highlights an expected 2,000MW of offshore wind capacity by 2032.

ENA notes that the last consultation on the Victorian Renewable Development Plan was in March 21 and the planning framework has yet to be finalised. VicGrid will continue to engage with stakeholders and summarise feedback by the end of 2022, however, there is still much to be done.

In NSW, the NSW Electricity Infrastructure Act was passed in 2020 and NSW is still working on the underlying policy and regulations. Whilst NSW has commenced an Expressions of Interest process for Central West Orana Renewable Energy Zone (REZ) infrastructure, we understand that the contract to deliver the infrastructure and terms will not be finalised until late Q1 2023 for delivery in 2028.

Victoria can draw on the national framework to keep arrangements simple and consistent or utilise aspects of the NSW framework that may help facilitate a timely response. Roles should be clear for planning and investment and should include appropriate governance arrangements and a RACI (responsible, accountable, consulted, informed). It is important the responsibilities and accountabilities in the end-to-end framework are clear. Whether during an access term or once the framework reverts to the national rules, responsibility for day-to-day security and reliability of the power system should be clear.

In summary ENA supports:

- » The development of the Victorian plan every two years so that the state's policy feeds into the Integrated System Plan (ISP) in a similar manner to the NSW Roadmap arrangements.
- » That the scenarios, scenario weightings, inputs etc follow the ISP unless there is good reason to vary. Where Victorian specific adjustments are made these should be transparent and accompanied by the rationale.
- » A robust VicGrid plan which identifies the needs, input and assumptions and the scenarios of the plausible futures with public consultation. It is important that stakeholders understand the development of the plan, the cost/risk tradeoffs made and are clear on why certain projects are required for consumers and investors to have confidence in the plan.
- » The broader consideration of benefits to ensure the timely delivery of the appropriate transmission projects. ENA supports including resilience and agree with the consultation paper that determining the benefits to the GSP will be challenging. Where the Victorian test is broader than the RIT-T under the national framework, noting this may change if emissions are included in the National Electricity Objective, consideration should be given to Government contributions or funding.
- » Increasing the contestability threshold to at least \$100m (depending on the services included) to generate market interest for substantial projects and enable contestability of large greenfields, separable projects. Contestable processes should be transparent, stakeholders should know what the transmission or network augmentations are costing and ultimately what end-use Victorian consumers will be paying. The services that are subject to the threshold should be clear – transmission infrastructure development, connections services, operating and maintenance (O&M) or system strength services.
- » The contestability threshold being indexed by CPI rather than remain static.
- » VicGrid being the one party that plans and procures the necessary infrastructure to meet the Victorian drivers as an independent planner. This should provide clarity and promote early decisions on contestability on major projects to improve confidence for transmission investors and avoid cost duplication. The framework should facilitate VicGrid approving project costs and cost recovery to facilitate timeliness.
- » The framework should carefully consider the duplication of functions and seek to minimise duplication and cost, VicGrid should be the independent planner.

- » Consideration of the compatibility of this framework with the NER. If VicGrid is the independent planner and decision maker then there will be a need for good cost governance and transparency of decision-making processes. The costs of any new framework will ultimately be borne by end use consumers.

Further detail can be found in the Attachment.

ENA recognises the significant amount of work in the development of the NSW Roadmap framework and recommends that VicGrid develop a detailed and pragmatic plan to deliver the necessary infrastructure. Timeframes are already tight and VicGrid may need to opt for simplicity and timeliness.

ENA looks forward to further engagement with DELWP as the framework progresses.

Should you have any queries on this response please feel free to contact Verity Watson, vwatson@energynetworks.com.au.

Yours sincerely,



Dominic Adams

General Manager Networks

Attachment

VicGrid plans should be aligned with the ISP

The electricity system is transitioning rapidly. Any new framework should not only cater for the regular development of a plan but should allow a light touch update of the plan if needed. ENA recommends that the Victorian plan be developed every two years so that the state's policy feeds into the ISP in a similar manner to the NSW Roadmap arrangements. ENA suggest that VicGrid develop the plan on at least a two-yearly cycle to improve the linkage of state inputs and outputs to/from the ISP.

Scenario planning is a time consuming and complex exercise. To the extent possible, ENA suggests that the scenarios, scenario weightings, inputs etc follow the ISP unless there is good reason to vary. Where Victorian specific adjustments are made these should be transparent and accompanied by the rationale. The framework should provide the flexibility if the drivers and plausible futures haven't changed that this could be a light touch rather than a ground up approach.

The VicGrid plan which identifies the needs, input and assumptions and the scenarios of the plausible futures should be robust with public consultation. It is important that stakeholders understand the development of the plan and are clear on why certain projects are required for consumers and investors to have confidence in the plan.

ENA notes the need for timely transmission and generation investment in Victoria. The ISP notes that Victoria will be a major importer of electricity in the 2030's and will be reliant on several large interconnectors that will provide diversity of electricity generation and improved access to firming. It will be important in the development of the VicGrid plan to consider the cost/risk tradeoffs of state self-reliability and end use consumers bills.

Should electricity consumers be paying for the broader benefits test?

The RIT-T has been the subject of independent reviews by the Productivity Commission and COAG Energy Council, both of which concluded the investment test should not be expanded to consider costs and benefits outside the electricity sector. ENA agrees with the consultation paper that determining the benefits to the gross state product (GSP) will be challenging.

A broader benefits test is applied to each REZ candidate pathway and measured against the do-nothing case. The optimal pathway evaluates the net benefits foregone or a least regrets approach. The optimal REZ pathway is the most robust pathway under all scenarios, it minimises regrets.

The development of the optimal REZ pathway will consider the traditional costs and benefits but will also extend to include the benefits of increasing the GSP due to the investment and also environmental and carbon emissions reduction benefits. The benefits will also include improving resilience to high impact and low probability events.

ENA supports the broader consideration of benefits to ensure the timely delivery of the appropriate transmission projects. Where the Victorian test is broader than the RIT-T under the national framework, noting this may change if emissions are included in the National Electricity Objective, consideration should be given to Government contributions or funding.

In any event the cost of delivering the infrastructure on the optimal path should clearly outline the average costs increase of the infrastructure on end use consumers' bills arising from the framework and

the corresponding savings. This would be like the national arrangements clarifying the distributional bill impacts.

Support an increase in the contestability threshold and clarity of process and responsibility

ENA supports increasing the contestability threshold to at least \$100 m (depending on the services included) to generate market interest for substantial projects and enable contestability of large greenfields, separable projects. Contestable processes should be transparent. Stakeholders should know what the transmission or network augmentations are costing and ultimately what end-use Victorian consumers will be paying. The services that are subject to the threshold should be clear – transmission infrastructure development, connections services, O&M or system strength services.

The threshold should be indexed by CPI rather than remain static so that the framework can remain fit for purpose and enduring.

ENA understands that VicGrid will select the network or non-network proponent for contestable work. Where a transmission project is not contestable due to the level of integration with existing or future network or it is below the contestability threshold, VicGrid should also assign the work to the respective NSP. There is benefit in VicGrid being the one party that plans and procures the necessary infrastructure to meet the Victorian drivers. This should provide clarity and promote early decisions on contestability on major projects to improve confidence for transmission investors and avoid cost duplication. The framework should facilitate VicGrid approving project costs and cost recovery to facilitate timeliness.

The framework should be clear whether increases in project costs in the cost benefit test are still progressing the best credible option before contracts are finalised. It should also be clear as to who bears the risks of out turn costs being significantly higher, consumers or the winning tenderer. It is important that stakeholders understand the project contracted and out turn costs, including fixed or variable bids and how the cost recovery arrangements will work. In the case of NSW, the framework and infrastructure costs are paid for by a fund vehicle and costs may be recovered from connected generators or from distribution network service providers and not the transmission network service providers (TNSPs).

In the development of the optimal pathway, the Victorian Network Investment Test (VNIT) or the contestability threshold it is important to consider the total system costs, including the increased coordination and complexity, to ensure that it reduces the long-term costs for consumers. The creation of these new frameworks and deviation from the national rules gives rise to additional costs. Every effort should be made to minimise the additional costs of the framework. Ultimately VicGrid will be balancing timeliness and cost to consumers and it should do so in a transparent manner.

A consumer panel with consumer advocacy bodies should be established to help govern the community program and costs to ensure there is long term value for local communities and transparent, fair and equitable arrangements. The types of projects that can be included in community or local benefits should be clear in the framework and valued by the regional community.

Upfront and ongoing payments should be clear and supported by a published allocation methodology if some costs are to be allocated to generation connections and others to end use consumers.

Physical access arrangements – practicality on a meshed network?

ENA agrees that Victoria has unique characteristics, such as the likelihood that a REZ may be dominated by one technology and a highly meshed network. ENA supports a fit for purpose framework with alignment with NSW where practical and efficient. Bespoke REZ or planning arrangements in each state are likely to result in competition for development or framework shopping between states, making investment more complex and more risky.

ENA understands that NSW are considering a simpler physical access approach with flat profiles and a higher curtailment level. ENA queries how physical access rights can work readily in such a meshed network, where aspects of the REZ will form part of major transmission flowpaths.

The framework should encourage both transmission investment and a mix of generation and ensure that Victoria is able to operate with a reliable and secure power system across the year and weather conditions.

ENA supports arrangements that do not allow hording of access rights. We agree that access rights should only be afforded to genuine projects that will be commissioned. It is worth considering removing any access rights from projects that do not reach connection agreements within a year of the auction.

As the framework and plans develop there is a need to improve the clarity of the REZ location, geographically and by voltage level. There is some consideration in NSW that there may be controlled access on some aspects of the existing transmission and distribution network. This has not been made clear. The framework should clarify whether any controlled access arrangements extend to the distribution network, e.g. below 220kV.

Early engagement and continued VicGrid support for projects is essential

VicGrid is well placed to ensure that the end-to-end engagement processes are acceptable for those that are impacted and the many consumers that benefit and pay for electricity. The improved land use tool and appropriate engagement can be used to assess the deliverability of different network options early.

ENA supports the early and ongoing coordinated engagement proposed with communities. It will be important to engage at the appropriate time so that community impacts and expectations are able to be managed. ENA acknowledges that early engagement with the community is often challenging when the information most relevant to the community is not available at that time. However, stakeholder engagement is crucial and is becoming part of TNSPs' business as usual. The nature of the engagement during the options assessment undertaken by VicGrid needs to reflect the considerations at that stage of the planning process (i.e., comparison across options rather than detailed route determination).

It is critically important that it is clear that VicGrid is not just leading but is also responsible for overall engagement and community acceptance as they are proposing the infrastructure corridors. Whilst the early generic engagement appears to be led by VicGrid, the landowner engagement and negotiation is left with the winning bidder. It will be important to maintain engagement and consistent messaging and ensure that these handover points are well managed. The quality of the collective engagement and messaging will be essential to project acceptability by communities and landowners impacted. It may be useful to consider the handover point after the planning and environmental approvals and land compensation as this may lower the risk for the winning bidders and instil VicGrid as an independent planner.

Clear responsibilities for overall engagement and community acceptance with appropriate hand-over arrangements to winning bidders will reduce risks and costs of investing, as well as support the broader social license for the energy transformation that is critical to effectively managing the energy system transition.

ENA recognises that building social licence across the broader community is essential to support the initial investment in, operation and maintenance of and potential reinvestment in the infrastructure over its entire life. ENA notes that the level of compensation may not always be fully determined by jurisdictional arrangements. Often it will be more efficient to incur land acquisition costs at above 'fair value' and the legal minimum, where that assists in obtaining and maintaining social licence. Any framework developed should allow the flexibility of these negotiated arrangements and recovery of efficient costs by the winning bidder.

Community benefits and governance should be clear

ENA recognises that any of the three models proposed could work.

The community and employment costs need to balance the interests of the regional communities and the end use consumers who ultimately fund these costs. The purpose of the benefits cost is clear but who is governing the program costs and funding, in conjunction with local council and communities, is not clear. ENA suggests that a consumer panel with consumer advocacy bodies be established to help govern the program and costs to ensure there is long term value for local communities and transparent, fair and equitable arrangements.

The types of projects that can be included in community or local benefits should be clear in the framework and valued by the regional community.

Upfront and ongoing payments should be clear and supported by a published allocation methodology if some costs are to be allocated to generation connections and others to end use consumers.

VicGrid and other roles need clarification

ENA supports VicGrid having a partnering role with key stakeholders through delivery and transmission commissioning to ensure the success of the policy and ensure consistent messaging to communities across Victoria.

The consultation paper notes that the transmission investment framework is intended to cover inside REZs and also outside REZs. It is not clear whether there is a need for the Australian Energy Market Operator (AEMO) to continue to have a Victorian Transmission Planning role. AusNet also plans replacement and maintenance work on its network. The framework should carefully consider the duplication of functions and seek to minimise duplication and cost, VicGrid should be the independent planner.

Additional entities involved in transmission network planning do not necessarily aid confidence and streamlined processes and may add to costs. ENA urges VicGrid to consider the total system and end user costs of the framework and seek to simplify and keep costs as efficient as possible.

The compatibility of this framework with the NER will need to be considered. If VicGrid is the independent planner and decision maker then there will be a need for good cost governance and

transparency of decision-making processes. The costs of any new framework will ultimately be borne by end use consumers.

If VicGrid is taking on the planning role, will they also be developing the Victorian Transmission Annual Planning Report and also managing connection processes on the Victorian transmission system?

ENA recommends that the VTIF defers to the national access arrangements when the REZ access rights expire after the 10 or 20 year term.