

VicGrid 26 June 2025 Submitted online: <u>vicgrid@deeca.vic.gov.au</u>

AEC Submission to the Draft 2025 Victorian Transmission Plan

The Australian Energy Council (AEC) welcomes the opportunity to make a submission in response to the Draft 2025 Victorian Transmission Plan ("the Draft Plan").

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 and its members welcome the release of the Draft Plan. This is an important milestone in supporting Victoria's energy transition. While the Draft Plan is very informative, we consider there are some ways that further clarity could be provided to potential developers and other stakeholders.

Integration with Distribution planning

While the Draft Plan references Victoria's distribution network service providers (DNSPs) and their own planning frameworks¹, it doesn't provide clarity on how DNSP planning, data and relevant activity feeds in to the transmission plan. DNSPs, in particular the regional DNSPs AusNet and Powercor, host large and growing volumes of generation and storage. Much of this is small scale consumer resources (CER), but AusNet and Powercor both have the ability to host significant capacities of large scale generation. The DNSPs are in the midst of their revenue reset processes for 2026-31, which provides some insight into their plans.

- AusNet is proposing to invest \$156m in the 2026-31 period to unlock 950 MW of renewables², and is progressing three Regulatory Investment Tests (RIT-Ds) to that end.
- Powercor is still considering whether to include a distribution level REZ in its revised proposal³. In any case it is expecting to connect 435MW of grid connected batteries between 2026–2031⁴.

There is no obvious recognition of the potential for grid-connected generation and storage at DNSP level to contribute to Victoria's emissions reduction targets. AEMO's documentation on its Integrated System Plan also appears not to account for DNSP hosting (as distinct from CER).

DNSPs' load forecasts can also play a useful role in informing transmission planning. It may be that VicGrid and the DNSPs have appropriate processes in place to share this information, but it is not evident from the Draft Plan. Greater transparency regarding the way that distribution level planning and resource connection is accounted for in transmission planning would reassure stakeholders that the Plan will ultimately deliver a lowest cost transition.

¹ For example, the infographic on p41 of the Draft Plan

² AusNet, Electricity Distribution Price Review 2026-31 Regulatory Proposal, January 2025, p169

³ Powercor, Regulatory Proposal 2026-31, Part B: explanatory statement Revenue and expenditure forecasts, January 2025, p72 ⁴ Op. cit., p70

Storage and its role in supporting hosting capacities

The Draft Plan acknowledges the important role that storage will play in the future energy system. This could include Battery Energy Storage Systems (BESS) at both utility and distributed scale, pumped hydro (PHES), as well as newer technologies that are currently being piloted in Australia such as compressed air storage (CAES). Aside from PHES which is highly location-dependent, most of these technologies are capable of deployment across a wide range of locations, with the modular nature of BESS making it especially versatile.

Accordingly, storage could have a valuable role to play in supporting hosting capacities in each REZ. However, the hosting capacities provided for each REZ in the Draft Plan refer only to the renewable generation⁵. It is unclear how storage is factored into individual REZs or the extent to which additional storage in a REZ could support greater capacities of renewable generation. This would be useful information for project proponents considering alternative locations for their projects. We recognise that VicGrid plans further assessment of the contribution of "non-network solutions", such as storage, as a substitute for transmission investment, but it's unclear whether this will take account of the opportunity to increase overall hosting capacities.

Notwithstanding the points above, it's essential that in evaluating the benefits storage can provide – both inside and outside a REZ – that VicGrid is realistic about the way storage will participate in the market and how this can vary with circumstances. Storage may be deployed as a standalone resource, as part of a geographically dispersed portfolio, or as part of a hybrid resource (paired behind the meter with a renewable generator). Each of these deployment types will face different incentives and be deployed accordingly. As a storage unit will be settled at the Regional Reference Price (RRP), it may not be deployed on a profile that would optimise congestion reduction within the REZ - unless it faces an additional incentive to do so. VicGrid should also ensure it uses the most up-to-date information on storage costs and duration.

VicGrid and the Victorian government should also account for other jurisdictions' support policies and consider the implications for Victoria. Developers may be more attracted to jurisdictions with support policies in place, such as the NSW long duration energy storage (LDES) scheme and South Australia's firming mechanism (currently under consultation). This applies to dispatchable generation as well as storage, noting that the Draft Plan envisages an increase in gas power generation capacity through the 2030s but does not explain what will drive this deployment.

Supporting efficient non-REZ investments

Understandably there is a strong focus on developing REZs and seeing generation and storage resources connect within a REZ. However, if a project proponent can find an appropriate location outside of the REZ to locate and connect to the existing network, this outcome should be supported given that it will increase resources without incurring material shared transmission network costs. Of course, such an outcome would be dysfunctional if by doing so the proponent caused congestion downstream of a REZ such that the full benefits of that REZ could not be realised. Accordingly, we understand the need for a check that this is not expected to occur. Beyond that, we see no justification for imposing additional conditions on what is *prima facie* an efficient outcome. Proponents understand that local community engagement, including with relevant First Peoples representatives is an essential part of project delivery, so it's essential that regulatory requirements are assessed flexibly and pragmatically rather than manifesting as an onerous barrier to efficient deployment.

System security services can be acquired efficiently with the right procurement approach

The Draft Plan correctly notes the importance of system security and that transition planning includes planning for sufficient resources to ensure system security as traditional providers exit the market. This planning should ensure that all potential resources that can provide system security are considered and

⁵ For example, table 7 on p59 of the Draft Plan

procurement should be carried out on a level playing field. Technologies such as grid forming batteries and converted synchronous machines may be able to provide services at a lower resource cost than new transmission investments, but this will only be evident if all potential providers face a comparable risk profile.

Ensuring a system-wide approach to planning the transition

While VicGrid's remit is to plan transmission for Victoria, this process does not occur in a vacuum. Other NEM jurisdictions are simultaneously carrying out state-level planning exercises and deploying resources accordingly. Given Victoria is the most interconnected region in the NEM, it's essential that the Plan takes a whole of NEM perspective to ensure Victorian plans its transition efficiently. This role cannot simply be left to AEMO as it is obliged to take jurisdictional decisions as an input to its own planning and modelling.

For example, there are REZs in southern NSW that will interact with REZs in northern Victoria and there is no clarity in the Draft Plan as to how this has been considered. There is likely to be high correlation in renewable generation output between such REZs, which will constrain Victoria's ability to export surplus energy. Conversely, greater interconnection (where cost-effective) can help Victoria tap into geographically diverse resources, reduce price volatility, and enhance resilience to supply shortfalls. Assessing such constraints and opportunities entails co-ordination with planning authorities in neighbouring jurisdictions, which is not currently evident from the Draft Plan.

Unsurprisingly, the Panel carrying out the Inquiry into NSW transmission planning have arrived at the same conclusions, stating that:

"As state governments including NSW continue to develop and refine their individual transmission planning frameworks, it is increasingly important to ensure these frameworks do not evolve in isolation from the broader interconnected system. In practice, this means that state-based arrangements must facilitate coordinated whole-of-system decision-making across state boundaries, and within state boundaries across multiple networks and network owners". ⁶

The Panel also observes that a co-ordinated approach will also support efficient procurement of contestable transmission projects⁷.

Transparent assessment of delivery risks and contingencies will reassure stakeholders

There is an old saying attributed to US President and military leader Dwight Eisenhower: "*Plans are useless, but planning is indispensable*". This is not to imply that the Draft Plan is useless, rather the point of the saying is that planners cannot rely on their preferred or central scenario to eventuate in full and so planning needs to account for risks, contingencies and incorporate new information. The latter will presumably be reflected in each two year iteration, but it is never too soon to consider the implications of alternative outcomes.

Any questions about this submission should be addressed to <u>David.feeney@energycouncil.com.au</u>.

Yours sincerely,

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 $^{^{\}rm 6}$ NSW transmission planning review Options Paper, Farrier Swier, April 2025, p31 7 Op. cit., p32