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16 August 2022

Mr Alistair Parker
Interim CEO, VicGrid
Level 3, 8 Nicholson Street,
Melbourne Victoria 3002

Via email alistair.parker@delwp.vic.gov.au

Dear Mr Parker

AER submission to the Victorian Transmission Investment Framework – Preliminary Design consultation paper

The Australian Energy Regulator welcomes the opportunity to comment on the Victorian Transmission Investment Framework – Preliminary Design consultation paper (the Framework).

The Framework will be central to facilitating the electricity market transition in Victoria. The AER recognises the paper's intent of introducing a Framework that is fit-for-purpose in Victoria, to navigate the uncertainty of future system scenarios on a 'least regrets' basis. We also note the paper's fuller, and earlier, integration of local community impacts into cost benefit analyses.

As you know, the AER is responsible for the economic regulation of electricity transmission in the NEM. The AER's existing functions are closely relevant to stage 4 of the Framework, which sets out proposed transmission project planning and procurement, including a 'Victorian Network Investment Test'.

Under the NEM, the AER's central role in the economic regulation of transmission infrastructure is to set the maximum revenue that a transmission business can earn from its customers. The AER fulfils this role via a periodic determination process, in which it assesses how much revenue a prudent transmission business would need to cover its efficient costs.

The AER also has a range of functions associated with the Regulatory Investment Test - Transmission (RIT-T), which is the regulatory investment test for transmission. The AER is responsible for:

- publishing and maintaining guidelines concerning the application of the RIT-T by network businesses, and cost benefit analysis undertaken by AEMO as part of its Integrated System Plan (ISP)

- reviewing the outcome of RIT-Ts for non-ISP projects
- making determinations to settle disputes on the ISP or RIT-T
- undertaking transparency reviews at key stages in the ISP process.

The AER would be well-placed to carry out similar functions under the Framework and, in addition, could provide VicGrid with valuable assistance during the Framework's detailed design phase. While we understand the state based imperative, the AER would also bring to the table a national perspective that is vital as Australia works through the energy transition.

Maintaining consistency with the national regulatory settings, where possible, will promote efficient transmission infrastructure investment and operation across the NEM, to support the long-term interests of consumers.

We note the paper proposes to introduce contestability, based on value bands. We suggest VicGrid continue to examine contestability options further. We point to recent work undertaken by the Australian Energy Market Commission in the context of its Transmission Planning and Investment Review – Contestability Options Paper.¹ The broad range of straw people set out in that paper may assist in identifying relevant factors, in addition to project value, that determine the merits of contestability in each project's individual circumstances.

The paper sets out access scheme options and supports a NEM-wide access solution, which is currently being progressed by the Energy Security Board. The paper notes uncertainty about the final design and timing of the national arrangements and that a physical access model may suit the circumstances in Victoria. We recognise that this aspect of the Framework will help to give investors certainty regarding the level of access that they can expect to achieve within a renewable energy zone. Physical access regimes could be a sensible and proportionate interim solution within a renewable energy zone, which we understand is VicGrid's intent.

We look forward to working with VicGrid on the Framework's detailed design and implementation. To discuss any matter raised in this submission, please contact Kami Kaur 02 9230 9163.

Yours sincerely



Clare Savage
Chair, Australian Energy Regulator

Sent by email on: 16.08.2022

¹ AEMC, Transmission planning and investment - Contestability, 07 July 2022

