



Hon Lily D'Ambrosio MP

Minister for Climate Action
Minister for Energy and Resources
Minister for the State Electricity Commission

8 Nicholson Street
East Melbourne, Victoria 3002
Telephone: 03 9637 9504

MBR-251201327

Clare Savage
Chair
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Clare Savage

Victorian Government Submission – Response to AER Issues Paper for AusNet’s electricity transmission determination 2027–32

Thank you for the opportunity to provide a submission to the Australian Energy Regulator’s (AER) issues paper on AusNet’s electricity transmission determination for the 2027–32 regulatory control period. As this is the first stage of the determination process, the Victorian Government considers it is important to indicate the areas we believe the AER should focus its attention as the process proceeds to a final decision in January 2027.

Victoria’s energy system is undergoing an unprecedented transformation, and a safe, secure, reliable and affordable transmission system is a central feature in supporting and enabling this transformation. We welcome the AER’s efforts to ensure prudent and efficient expenditure during this time of significant challenge for the system as it faces the energy transition.

The Victorian Government remains committed to working collaboratively with the AER and AusNet to ensure that the 2027–32 period delivers a resilient, reliable, and future-ready transmission system that supports Victoria’s clean energy objectives and net-zero targets.

In summary, the Victorian Government considers the key areas that the AER to focus on in its determination process are:

- **Affordability** – ensuring that consumers only pay for efficient and necessary expenditure while being mindful of the cumulative transmission investment pressures in Victoria.
- **Demand Forecasts** – rigorously testing demand forecasts to reduce cost risk to consumers, while ensuring the transmission system is appropriately positioned to accommodate material large load growth.
- **Network remediation and forward investment** – making sure that capex programs are fully justified, time-critical, efficiently costed and that all investment options have been considered. In addition, determining if and how programs support the future operation of the transmission system.
- **Deliverability** – confirming the scale and scope of AusNet’s proposal so that is capable of being delivered over the 2027-32 period and adjusting that scope and scale if necessary.
- **Compliance and resilience** – scrutinising the rationale and justification for proposed expenditure and whether it is proportional to address compliance requirements and the security environment AusNet faces.

The attached submission provides further detail on these key issues for the Victorian Government in this context.

The Victorian Government looks forward to ongoing engagement with the AER and AusNet as the determination process progresses throughout 2026.

Yours sincerely

Hon Lily D'Ambrosio MP
Minister for Climate Action
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17 / 03 / 2026

Encl.

Victorian Government Submission – Response to AER Issues Paper AusNet Services electricity transmission determination 2027–32

The Victorian Government appreciates the opportunity to provide feedback on the Australian Energy Regulator's (AER) issues paper on AusNet's electricity transmission determination for the 2027–32 regulatory control period.

We acknowledge that AusNet's draft proposal reflects a transition from a historically low-cost transmission network to a higher-investment phase driven by ageing assets, increased operational complexity, and heightened safety and resilience expectations. However, acceptance of this transition is conditional on robust regulatory assurance that proposed expenditure reflects efficient, forward-looking investment, rather than a 'catch-up' on historical maintenance gaps or retrospective remediation.

Noting that the issues paper is the first stage in the AER's consultation on AusNet's transmission determination, the Victorian Government would like to take this opportunity to highlight key areas of interest as the process progresses to a final decision in January 2027.

Affordability

Firstly, there is the impact on electricity network costs from the investment being proposed by AusNet.

The Victorian Government notes that while a significant proportion of the proposed increase in revenue over the 2027-32 period is driven by updates to inflationary forecasts, the forecast increase in the Regulatory Asset Base (RAB) over this 5 year period is driven by new capital expenditure (capex) with the value of the RAB having a significant impact on the prices that customers pay for transmission services.

The Victorian Government supports the AER focusing on the prudence and efficiency of AusNet's proposed capex program. It is crucial that capex spending be as efficient as possible, whilst also meeting AusNet's obligations for a safe, reliable and secure network, noting even with current regulatory controls in place (i.e. VDO), total network costs, including transmission are already contributing to energy bills that many Victorians cannot afford.

It is noted that AusNet estimates that over the period between 2026-27 and 2031-32 the impact of its proposed expenditure will be a \$42 increase (nominal) for the transmission network component of an average residential bill. While for small business customers the proposal will result in a \$106 increase (nominal) in the transmission component of the average bill.

The Victorian Government notes that those estimated impacts do not include the impacts of transmission developments outside of AusNet's transmission determination, including those identified in the Victorian Transmission Plan (VTP).¹ Additional development of the transmission system has flow on effects to the prices Victorian electricity consumers face, making it even more important that expenditure proposals are fully scrutinised to ensure they are totally justified and cost effective.

The AER should be cognisant of the need for, and the timing of, additional transmission infrastructure as referenced in AusNet's transmission determination proposal during its deliberations to determine AusNet's revenue for the 2027-32 period.

Demand forecasts

The Victorian Government notes that bill impact estimates are sensitive to the forecast energy demand over the 2027–32 period, with the risk of lower or higher tariffs resulting from actual demand ultimately borne by consumers. Accordingly, the Victorian Government emphasises the importance of the AER rigorously testing and validating demand forecasts throughout the determination process.

AusNet's draft proposal relies on the 2025 Electricity Statement of Opportunities (ESOO) and assumes "steady" growth in electricity consumption through to 2030, including "gradual" increases from data centres, large industrial loads and electrification. While this provides an appropriate reference point, the

¹ AusNet's proposal references the 2025 Victorian Transmission Plan and 7 transmission network upgrades including 4 new transmission projects: a second radial line and tie in loop in Gippsland to facilitate offshore wind, a new line between Sydenham and Tarrone, a new line between Truganina and Deer Park and an additional short line between Hazelwood and Yallourn. Those 7 programs are over and above existing transmission projects already under development - Marinus Link Stage 1, Victoria to New South Wales Interconnector West, Western Renewables Link and the transmission infrastructure required for the first 2GW of offshore wind in Gippsland.

Victorian Government notes material uncertainty around the scale, timing and connection pathways of large new loads, particularly data centres, which are not yet well reflected in consolidated demand intelligence.

In particular, both distribution-level and transmission-level data centre connections are expected, with some distribution-connected facilities likely to transition to transmission over time. However, there is currently limited visibility on the mix, timing and scale of these connections. The Victorian Government also notes that transmission infrastructure is expected to increasingly support data centre load, including not only customer connection assets but also upstream transmission augmentations required to host additional data centre demand at the distribution level.

While the policy intent is that data centres should bear the full cost of infrastructure required to support their load, current regulatory arrangements may result in a portion of transmission augmentation costs being recovered from broader consumers rather than from the connection applicants driving the need for investment. This creates uncertainty regarding future cost allocation outcomes. I note that Energy Ministers agreed to a program of work to address this issue at the December 2025 meeting of the Energy and Climate Change Ministerial Council. This work includes the AER reviewing its Connection Charge Guidelines for distribution and collaborating with the AEMC and jurisdictions to “identify reform opportunities to minimise the risk that other customers unduly subsidise the costs of transmission network upgrades or augmentation due to the impact of large loads such as data centres”.

Given the potential for data centre growth to occur in a more clustered or step-change manner than implied by steady demand trajectories, the Victorian Government considers it appropriate for the AER to closely scrutinise demand assumptions and associated delivery and cost-allocation. This is particularly relevant in the context of AusNet’s significant replacement and major station program, where higher-than-anticipated large-load connections could compound delivery pressures over the regulatory period.

Network remediation and future investment

AusNet’s proposal emphasises the replacement of ageing and deteriorating assets. This raises questions as to whether consumers are to be asked to fund costs in the next regulatory period that should reasonably have been addressed in prior regulatory periods.

Further, the emphasis on asset replacement raises questions as to how the proposed expenditure positions the transmission system to support the energy transition and the challenges that confront its operation.

A case in point is AusNet’s proposed major station replacement program. This is a significant component of AusNet’s’ capex requirements over the 2027-32 period. The AER should focus on determining whether projects proposed under this program are fully justified, efficiently costed and that there has been full and thorough consideration of all alternative options. In addition, further scrutiny of those major stations program would be welcomed to determine if and how that program will support the future operation of the transmission system within the context of the energy transition.

The Victorian Government notes the system challenges that AusNet is facing with respect to electrification, the diversification of generation location, and the shifting patterns of demand (including minimum system demand and the emerging challenges of higher demand forecasts driving by electrification and the connection of data centres), with the flow on impacts to system strength.

To address a disconnect between replacement and future network needs the sequencing of replacement works should be more aligned with the broader system transformation that is planned by VicGrid through the VTP framework.

The Victorian Government therefore welcomes the AER focussing on how AusNet’s capex proposals address and manage the system risks that the transmission system is facing and the impacts of the capex program on the meeting the needs of a system undergoing transformation.

Deliverability

The Victorian Government notes the challenges facing AusNet concerning competition for and access to labour, capital and supply chains. These challenges are not unique to Victoria, as transmission utilities worldwide face supply chain constraints for key equipment. Further, while transmission

expenditure across the globe is rising, cost escalations in equipment and labour are leading causes of the higher spend that does not automatically translate into more grid capacity being delivered.²

Given the breadth and level of transmission investment required in Victoria which is identified in the Integrated System Plan (ISP) and the VTP³ it is important that the AER is conscious of whether the entire system can sustain the volume of work in assessing AusNet's proposed capex. The risk is that consumers may pay for capital allowances that cannot be executed within the period due to workforce, supply chain or other constraints.

Given that AusNet's proposed capital expenditure is about 2.2 times higher than the current regulatory period, the Victorian Government considers that deliverability, rather than technical need alone, should be a key determinant of allowed expenditure.

While the AER should focus on how the challenges are being mitigated by AusNet through its deliverability strategy to ensure that its proposed level of expenditure can be effectively delivered over the 2027-32 period, consideration should be given to applying a 'deliverability ceiling' or similar, whereby capital allowances are tightly conditioned on demonstrated workforce capacity, outage availability, and supply chain readiness. Where deliverability cannot be substantiated, expenditure should be reduced or shifted into contingent projects to protect consumers from paying for capital that cannot be delivered within the regulatory period.

Compliance and Resilience

The Victorian Government notes that AusNet is proposing to spend \$282.7 million in capex on compliance and resilience. The AER should continue to focus on whether the proposed expenditure is justified by the regulatory and external drivers as stated by AusNet and that the proposed expenditure is efficient and has been fully considered the options to address the identified problems.

Specifically, AusNet is proposing \$63.1 million in capex for cyber security and \$78.3 million in capex for physical security over the 2027-32 period, both which represent a material increase in expenditure relative to the current period.⁴

The Victorian Government would support the AER scrutinising the underlying rationale and justification regarding AusNet's proposed uplift in expenditure on cyber security and whether it is proportional to address the additional compliance requirements and security environment that AusNet faces.

In addition, the Victorian Government notes the tower strengthening program proposed by AusNet for the 2027-32 period. The capability of towers to withstand potentially damaging high winds is important to ensure the transmission system remains operational and that risk is reduced as far as practicable.

The Victorian Government would welcome further clarity as to the reason why AusNet has elected to strengthen towers to the standard proposed in its submission, with clear information provided to stakeholders and customers whether all towers under the proposed program are to be strengthened to the standard proposed, and if there are divergences from that proposed standard the reasoning and evidence supporting any such divergences.

Importantly, should AusNet's capex allowance be approved, there will be a strong expectation from the Victorian Government that the program be delivered in full by the close of the 2027-32 period.

Network Outage Review

² Bloomberg New Energy Finance's (BNEF) 'Grid Investment Outlook 2025' subscriber report, December 2025.

³ AusNet's Transmission Revenue Reset 2027-32 – Revenue Proposal states that Transmission Use of System (TUOS) charges that include costs associated with the Integrated System Plan (ISP), the Victorian Transmission Plan (VTP), and other planning responsibilities with total Victorian transmission revenues, including these broader costs, expected to increase by 113% over 2027-32, and by 171% over 2027–37. Further, AusNet's proposal states that the VTP's 7 programs and 21 projects to upgrade the transmission network, total approximately \$7.9 billion in investment over 2025-2040, with the ISP identifying \$11.1 billion of investments over 2025-2050.

⁴ The Victorian Government notes that there is operating expenditure (opex) proposed in relation to the cyber security and Advanced Energy Management System programs. That opex forms part of the \$62.1m that AusNet is proposing as a step change in its revenue proposal.

The Victorian Government welcomes AusNet's engagement in the implementation of the Network Outage Review's recommendations and the work that AusNet has undertaken which has significantly improved AusNet's emergency preparedness, response and recovery capability and capacity.

While AusNet references the Network Outage Review recommendations 1, 4, 10 and 19, the proposal itself does not explicitly link the \$2.4 billion capex to the specific emergency risk management requirements needed for these recommendations. It would be beneficial for stakeholders to understand where there is a direct relationship between proposed expenditure and the implementation of those recommendations that this be quantified by AusNet.

Cost pass through proposal

Another area of interest to the Victorian Government is AusNet's proposed cost pass through event nomination relating to directions issued by VicGrid under section of the *National Electricity (Victoria) Act 2005* (NEVA).

While the Victorian Government recognises that AusNet does not control network planning, there is a risk that an overly broad pass-through mechanism could have unintentional consequences in dampening incentives for efficient expenditure and engaging in efficient joint planning with cost implications for consumers.

The Victorian Government strongly supports the AER thoroughly scrutinising the need scope and application of any such cost pass through mechanism with a clear focus on ensuring that such a mechanism is narrowly defined so that it only covers truly unforeseeable directions and is not used to pass costs to consumers for works that should have been reasonably anticipated through the VTP and integrated planning processes