

Appendix A:

Submissions and comments

We have consulted with the Department of Energy, Environment and Climate Action and SEC Victoria, and we considered their views when reaching our audit conclusions. As required by the *Audit Act 1994*, we gave a draft copy of this report, or relevant extracts, to those agencies and asked for their submissions and comments.

Responsibility for the accuracy, fairness and balance of those comments rests solely with the relevant agency head.

Responses received

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Department of Energy, Environment and Climate Action	A-2
SEC Victoria	A-6



Department of Energy, Environment
and Climate Action

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SEC-251100189

Andrew Greaves
Auditor-General
Level 31 35 Collins Street Melbourne Victoria 3000
[REDACTED]

Dear Auditor-General

Proposed draft report – *Managing the transition to renewable energy*

Thank you for your invitation to comment on the proposed report for the performance engagement – *Managing the transition to renewable energy* – received 21 November 2025.

The Department of Energy, Environment and Climate Action (DEECA) recognises the need to effectively manage the energy transition to maintain reliable, affordable and secure energy supplies, and avert the risk of a disorderly transition.

The Department has an important and leading contribution to make in achieving significant State objectives, supported by other State agencies, and working in the context of national institutional arrangements which include formal, legal roles for a variety of market bodies and national market frameworks intended to incentivise timely efficient and effective market behaviour by participants.

DEECA accepts the 4 recommendations made in the report and commits to the actions outlined in the enclosed action plan.

While DEECA supports the findings of this report, DEECA does not accept one supporting finding for Key finding 3, that: *“Planning for Victoria’s energy transition has not adequately considered risks.”*

DEECA does not accept that this is a fair or reasonable characterisation of its approach over the last decade, where a complex energy market transition has been managed, driving renewable generation from 14% to 42% of Victoria’s supply, maintaining reliability above the national electricity market (NEM) reliability standard and delivering the lowest wholesale electricity prices in the NEM. These outcomes would not have come about had DEECA and its predecessor agencies not managed and advised the government on how to tackle the many emergent risks which have been confronted along the way.

Characterisation of uncertainties and risks to the reliability of the grid

DEECA’s advice on these matters is informed by the Australian Energy Market Operator’s (AEMO’s) industry best practice energy data collection, reliability modelling, and planning documents which provide the most robust available assessment of risks to reliability. DEECA has routinely used energy market modelling based on AEMO analysis and data, which specifically factors in variable weather conditions, demand, and generation availability in the way that reliability risks are simulated, as is standard industry practice. This modelling, along with other forms of analysis, has been used to advise governments on crucial policy decisions based on DEECA’s understanding of risks to the transition, to reliability and to energy affordability. This has been based on the best information available at the time of each of these decisions, but continues to be updated as new information arises.



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AEMO reliability assessments use sophisticated stochastic reliability modelling which simulates reliability risks across thousands of plausible scenarios testing various contingencies. AEMO's methodology for such assessments is thoroughly documented, publicly available and industry backed. It is this analysis that VAGO should defer to when discussing risks to reliability in the proposed report. However, unfortunately VAGO does not do so in undertaking its analysis and drawing its conclusions. DEECA has regularly raised concerns regarding this during the audit process, and we understand AEMO has expressed to VAGO that there is merit in DEECA's position.

VAGO's report suggests that there are risks of electricity shortfalls immediately after the Yallourn power station closes which would require intervention by AEMO to address. It should be noted, as is acknowledged in the report, that AEMO's latest Electricity Statement of Opportunities (ESOO) report does not forecast firm capacity gaps or reliability breaches immediately following Yallourn closure in both its 'Committed and Anticipated Developments' and 'Government Schemes and Actionable Developments' scenarios. AEMO also does not recommend the use of actions to address reliability in Victoria such as the Retailer Reliability Obligation (RRO).

VAGO's own analysis of reliability risks

DEECA notes VAGO's case study which highlights the obvious challenges that are posed to a high-renewables electricity system by cold, dark and still conditions and growing demand. However, DEECA does not consider that VAGO's approach is an appropriate way of assessing these risks when industry best-practice reliability modelling is available from AEMO. AEMO analyses such weather examples in a systematic way, assessing multiple scenarios with data from 23 different weather reference years, in a market model alongside various assumptions regarding peak demand, generation capacity and availability, demand side response and network limits.

VAGO's analysis is a simplistic, static approach that does not take into account market responses to electricity prices, either on the demand or supply side. Further, the analysis disregards likely firm capacity that will be available in such a situation.

VAGO claims that DEECA did not provide analysis of reliability outcomes in cold, dark and still weather conditions. However, DEECA has consistently advised VAGO that, as with other jurisdictions in the NEM, it relies on the comprehensive reliability assessments of AEMO which do take into account the weather conditions that VAGO refers to.

VAGO's assessment of Yallourn Power Station advice

DEECA also notes that VAGO's assessment of DEECA analysis that informed decision-making associated with the Yallourn Power Station Structured Transition Agreement is not correct. DEECA commissioned best-practice stochastic reliability modelling to inform decision making in 2021 which included various scenarios of contingencies associated with the Yallourn Battery, VNI-West, generator outage patterns, weather conditions and peak demand.

Statements regarding cost escalation of offshore wind

DEECA also notes that VAGO's characterisation of offshore wind costs increasing "4 to 5 fold" contains a methodological error. VAGO compared early stage estimates that were not developed under a High Value High Risk (HVHR) methodology, which:

- were based upon a scope that excluded risk and cost escalation;
- used a discount rate of 4% in real terms;

- did not reflect a bottom-up capex build with reference to a reference project; and
- covered a 15-year contract term.

This is not comparable to the 2025 Business Case which was required to follow HVHR methodology and:

- was based upon a detailed bottom-up project costs with updated capex and opex costs and reference project data;
- included risk and cost escalation;
- used a discount rate of 7.17% to determine nominal payments; and
- spanned 20 years which is the expected tenor of the OSW support package.

It is therefore unreasonable to compare the two figures and conclude that costs have increased sevenfold. A fairer assessment on a like-for-like basis, accounting for differences in contract structure and payment terms, would result in an increase of around 2.5 times.

DEECA's actions arising from the engagement

Notwithstanding the points of disagreement set out above, DEECA recognises the value of striving to improve its risk identification, assessment and management approaches. DEECA has accepted VAGO's recommendation that it works with DTF to ensure its approach is consistent with relevant DTF guidelines and looks forward to a productive working relationship with DTF on this.

DEECA recognises its responsibility to provide timely, realistic and balanced advice to government on the energy transition and to find ways of ensuring that the transition remains on track, while maintaining a reliable system and keeping energy affordable for consumers. The current *NEM Wholesale Market Settings Review* offers an opportunity to address the investment problems that have challenged the transition over the last decade, which should materially improve market outcomes in the 2030s if it is successful.

I appreciate the opportunity to provide this feedback.

Yours sincerely



Kate Houghton
Secretary

Department of Energy, Environment and Climate Action - action plan in response to VAGO's recommendations – Managing the transition to renewable energy

No.	VAGO recommendation	Acceptance	Agreed management actions	Target completion date
1	Collaborate with the Victorian transmission planner to facilitate the development of enough transmission capacity to connect Capacity Investment Scheme projects to the grid and enable Victoria to achieve its 2030 renewable energy and storage targets (see Section 3).	☒ Yes ☐ No ☐ In part ☐ In principle	DEECA will establish a collaborative approach with VicGrid to facilitate the development of enough transmission capacity to connect Capacity Investment Scheme projects to the grid and enable Victoria to achieve its 2030 renewable energy and storage target.	Complete
2	Monitor and advise government on an ongoing basis whether there is likely to be enough electricity to meet future daily needs under different peak demand, weather and project delivery scenarios (see Section 4).	☒ Yes ☐ No ☐ In part ☐ In principle	DEECA will review the adequacy of its existing approach to monitoring and advising government on an ongoing basis on whether there is likely to be enough electricity to meet future demand.	November 30 2026
3	Strengthen the application of Department of Treasury and Finance guidance on planning under risk and uncertainty to Victoria's renewable energy transition over the short and medium term. This includes planning to avoid worst-case scenarios and factoring risks and uncertainties into option analysis (see Section 5).	☒ Yes ☐ No ☐ In part ☐ In principle	DEECA will, in consultation with DTF, review the appropriateness of its application of DTF's guidance on planning under risk and uncertainty to Victoria's renewable energy transition over the short and medium term.	By June 2026
4	Take steps to address forecast firm energy gaps and maintain a reliable electricity supply as coal-fired power stations close, factoring in risks and uncertainties in line with Department of Treasury and Finance guidance (see Section 5).	☒ Yes ☐ No ☐ In part ☐ In principle	DEECA will review the adequacy of its approach to address energy gaps and maintain a reliable electricity supply as coal-fired power stations close, factoring in risks and uncertainties in line with DTF's guidance.	November 30 2026



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02 October 2025

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Victorian Auditor-General's Office
Level 31, 35 Collins Street, Melbourne VIC 3000

Dear ██████████,

Thank you for sharing the Victorian Auditor-General's Office (VAGO) proposed report *Managing the transition to renewable energy*. We appreciate the opportunity to provide comment and respond to the report's recommendations.

We note that the proposed report contains one recommendation directed to SEC, as well as the Department of Environment, Energy and Climate Action (DEECA), and have attached SEC's response to the recommendation using the provided action plan template.

Yours sincerely,



Chris Miller
Chief Executive Officer

Att. Agency Action Plan - SEC

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SEC action plan to address recommendations from *Managing the transition to renewable energy*

No.	VAGO recommendation	Acceptance	Agreed management actions	Target completion date
1	SEC and DEECA to take steps to address forecast firm energy gaps and maintain a reliable electricity supply as coal-fired power stations close, factoring in risks and uncertainties in line with Department of Treasury and Finance guidance (see Section 5).	☒ Yes ☐ No ☐ In part ☐ In principle	SEC remains committed to delivering on its ten-year Strategic Plan, which outlines a clear pathway for investing in renewable energy and storage projects that support Victoria's energy transition. As set out in SEC's Strategic Plan, through targeted investment and working with industry, SEC will continue to play a leading role in supporting the energy transition as coal-fired power stations close.	SEC's Strategic Plan outlines direction and priorities through to 2035.

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