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Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Via electronic lodgement

Dear John

Discussion Paper: Coordination of generation and transmission Investment Implementation – Access and Charging (Ref EPR0073)

AusNet Services welcomes the opportunity to make this submission into the Commission's consultation on implementation of reformed generator access and network charging arrangements.

AusNet Services owns and operates Victoria's electricity transmission network, responsible for transporting electricity from where it is generated into Victoria's five lower-voltage distribution networks and to directly connected end users. We do this via 55 terminal stations, 13,000 transmission towers and 6,600 kilometres of high-voltage transmission powerlines.

Accordingly, AusNet Services has a significant interest in the proposed generator access reforms, and wishes to encourage best practice and integrated arrangements that both respond to the energy sector transformation and provide an effective and robust operating framework for the evolution of the NEM.

Access design and strategic planning must be complementary

Consistent with the intention described in the AEMC's Coordination of Generation and Transmission Investment Review (COGATI) Report in December 2018, the 2019 COGATI Discussion Paper presents an implementation plan for major reform to transmission access arrangements. The 2018 COGATI Report presented these reforms as facilitating and complementing the strategic planning approach that is just being established through an actionable Integrated System Plan (ISP).

The establishment of a NEM strategic planning approach has been the first priority in ensuring coordination of generation and transmission development as Australia transitions to renewable energy sources. This will facilitate development of the most efficient NEM power system to meet consumer needs, and is consistent with the view of AusNet Services and many other contributors to the previous phase review, that the market led transmission investment cannot coordinate to achieve the necessary scale efficient power system design necessary to connect significant new generation in a timely manner, if at all.

Nevertheless, approaches that provide improved locational pricing signals and access certainty may be complementary to the strategic planning approach, and would also be facilitated by the ISP. The additional support provided by access reform may give greater confidence to generators and financial backers in making investment decisions, including confidence in, and potentially their contribution to, the necessary transmission infrastructure to get their energy to the market. In turn, well informed generator investment plans are an important input to the strategic planning process, and the ISPs objective of delivering an efficient and reliable power system.

However, consideration internationally over a long period suggests that efficient transmission system development cannot be achieved through market-based approaches, even where wholesale market pricing and access arrangements design is optimised to facilitate this. Key reasons are that there are barriers to market based investment achieving the very strong economies of scale that are inherent in transmission (which we have discussed in submissions into the 2017/18 review), and that the theoretical cost of congestion, over a sustained period, i.e. the investment price signal, does not appear in practice due to the way the market is operated. This is not to say the value of congestion rental (or financial transmission rights) could not contribute a lesser percentage to transmission system development.

The 2019 COGATI work should accordingly have an explicit objective of integrating with and complementing the benefits of strategic planning via the ISP. This should be a criterion for the work program as it progresses.

Program timeframe

The issues being addressed via the 2019 COGATI review are important, but complex, and represent significant changes in the NEM framework for participants. Further, there are alternatives to the approaches proposed in the Consultation Paper for implementation, some of which are discussed later in our submission. Consideration of options, reflecting the learnings from energy and related market experiences globally, and providing for understanding to develop amongst stakeholders at a detailed level, are essential. Consideration of how this would translate into the National Electricity Rules would follow. There is risk the short timeframe set out by the AEMC may not provide for this level of consideration.

In addition, we note the ESB work proceeding in parallel, on a NEM market design to be implemented by 2025. The AEMC has advised of its intention to coordinate its COGATI work with the ESB program. It is important that the timeframe provides every opportunity for access reforms to be formulated as an integral part of the overall market design, and not tacked on, resulting in the requirement for further changes in the near term to properly integrate with broader reform.

Ideally, a combined ‘future market design’ & ‘access reform’ work program should be prepared. This may identify points where potential for no-regrets elements of the access reform work could be put in place early, or elements trialled to inform the ultimate design.

Generator access reform options

As noted above, the AEMC has set out a reasoned case on the need for access reform. AusNet Services has supported previous exploration of generator access options, and is once again open to their review. However, as well as delivering market design benefits, change in the risk position of NEM participants must be accounted for in arriving at best-practice design. When assigning accountabilities, these must be practical and non-contentious in implementation.

This suggests that generator access right and charging options should be presented to a level of granularity where these implications can be observed and duly assessed by stakeholders. The review should neither be at a high level, which would risk detailed design only appearing in the formulation of Rules, or restrictive of the alternatives considered.

We note, for example, that the AEMC has not canvassed other options in the consultation. These include the transmission bonds approach proposed by Engie in the 2017/18 review. However, we note that the ESB's ISP Action Plan, which is being progressed to report the AEMC review, includes the examination of establishing a fund to extend transmission assets to Renewable Energy Zones, which could potentially apply similar principles.

Another option is locational nodal pricing. It is possible that stakeholders, including AusNet Services, would support such an option once the relative merits are fully revealed, particularly as we note that it is an approach that appears very likely to effectively support fair and transparent solution to the connection point marginal loss factor issues. Previously, when OFA was proposed, loss factor issues were not as significant as they appear now, and so the design chosen as optimal then, may not be optimal now. With the changed environment there is a need for the review to take a fresh look at the alternatives.

Our broad conclusion is that the important issues raised by the AEMC in the Consultation Paper warrant a broader examination of alternative reform approaches, and clear integration into the NEM market design work that is proceeding in parallel. Whilst this may require more time than envisaged in the AEMCs timeline, it should not unduly delay the reforms. We look forward to engaging further in this work as it progresses.

Please contact Kelvin Gebert, our Manager Regulatory Frameworks, if we can assist with any queries in relation to this submission.

Yours sincerely,

Tom Hallam
General Manager Regulation and Network Strategy