Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

26 April 2019

By electronic submission

Re: Submission to the coordination of generation and transmission investment implementation – access and charging

Spark Infrastructure welcomes the opportunity to contribute to the Australian Energy Market Commission's (**AEMC's**) consultation regarding coordination of generation and transmission investment (**COAGTI**) implementation on access and charging.

Spark Infrastructure is a provider of long-term equity capital into energy infrastructure investments in the National Electricity Market (**NEM**) including TransGrid, the electricity transmission network in NSW. This network is critical to ensuring the lowest cost of energy for consumers in the NEM and for the most efficient (i.e. least cost) transition to renewable generation to meet climate policy targets.

Our submission to this phase of the review is that:

- The process and progress on reforms should minimise unnecessary uncertainty and risk;
- Pricing reform will support efficient investment when and where it is needed to deliver the lowest cost electricity system to customers;
- Access and pricing reforms must be subject to a robust cost benefit analysis and compared against a transparent assessment framework to ensure that the proposed solution delivers real savings to consumers and does not just transfer risk between market participants.

The continuing uncertainty associated with energy and climate policy and the multitude of reviews and reforms being undertaken by the ACCC, AEMC, AER, AEMO and the ESB has increased the risk and contributed to delays in much needed energy infrastructure investment. In the absence of a clear vision from the Federal Government on energy and emissions policy to guide these agencies and investors, we encourage the AEMC to establish a transparent framework for assessing different charging options and undertake a robust cost benefit analysis. This framework should include consideration of the phasing and implementation issues and costs of the reforms and be informed by experience elsewhere. Presenting this supporting analysis and information will enable stakeholders to respond more effectively to the proposed reforms and have confidence in the outcomes.

The Integrated System Plan (**ISP**) has identified the projects and investment required to maximise the savings to consumers by relieving congestion in the system and supporting low emission generators in renewable energy zones. This process has been accompanied by reforms to streamline regulatory processes and identified improvements that we expect will be embedded in to the 2020 ISP. Therefore, we consider there is benefit in sequencing the access and charging reforms so that the information and findings of the 2020 ISP process can inform the assessment of access and charging options.

We support addressing connection issues and signalling efficient investment through pricing mechanisms and the use of this information in planning processes. However, we have found it difficult to assess the implications of the proposed changes to enable generators to secure firm access through use of system charges given the limited information provided in the report and without a full assessment of impacts across all market participants in both the unregulated and regulated sectors.

Enabling generators to secure firm access through use of system charges could reduce risk to generators and stimulate investment in the transmission system to support additional generator connections. However, it could also increase the cost of connecting generators and the risk of overinvestment (in the regulated sector) - both of which would need to be ultimately borne by consumers. That is, mere risk transference between market participants does not add economic value (or reduce cost) to the energy system.

Therefore, we urge the AEMC to appropriately assess whether this proposal would merely transfer the risk (and hence cost) to consumers without reducing the whole of system cost to end users.

There has been previous debate about the need to reduce the regulated asset base of electricity networks where overinvestment is identified. Although this issue has been clearly linked to decisions of government and government ownership, there is continued speculation that where a regulated asset becomes underutilised as a result of new technology, innovation, increased DER or energy efficiency, investors should share this risk. However, introducing risk that the cost of investment that was efficient when it was incurred will not be recovered will increase the cost of, and reduce incentives for, future investment. This issue is likely to be exacerbated where regulated networks businesses are required to provide additional capacity to provide firm access to generators.

Network businesses must continue to have an opportunity to recover the efficient cost (including an efficient regulated return) of investment undertaken to fulfil obligations, whether they be new or existing, to connect and provide access, or to meet safety, reliability and security requirements. Continuing to accompany this commitment with strong incentives to pursue efficiency, productivity and innovation will ensure costs are as low as possible and greater benefits are passed on to consumers.

Adhering to these principles will maintain a low cost of capital across the energy supply system and ensure efficient investment is not withheld because of the risk that the cost of that investment will not be recovered. Ongoing investment is critical to delivering a low emission, reliable and secure energy system that supports the changing needs of customers at the lowest cost.

Please contact me on 0421 057 821 for further discussion regarding this submission.

Yours sincerely,

Sally McMahon
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