Level 15, 222 Exhibition Street T: +61 3 9929 4100
Melbourne VIC 3000 F: +61 3 9929 4101
Australia E: info@cleanenergycouncil.org.au
cleanenergycouncil.org.au
ABN: 84 127 102 443

2 August 2019

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

Lodged online: www.aemc.gov.au

Dear Mr Pierce,

COORDINATION OF GENERATION AND TRANSMISSION INVESTMENT – ACCESS REFORM (EPR0073): DIRECTIONS PAPER

The Clean Energy Council (CEC) is the peak body for the clean energy industry in Australia. We represent and work with hundreds of leading businesses operating in renewable energy and energy storage along with more than 6,000 solar and battery installers. We are committed to accelerating the transformation of Australia's energy system to one that is smarter and cleaner.

The CEC welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC's) directions paper in relation to access reforms as part of the Coordination of Generation and Transmission Investment (CoGaTi) work program. There is a significant market transformation underway. The pace at which the nature of electricity generation is changing has been rapid but the transmission network is not keeping pace with this change. Given this, the CEC supports reviews of the market frameworks to ensure they remain fit for purpose for the transformation, particularly to better coordinate generation and transmission investment for the benefit of consumers.

Industry support requires more detail and analysis

The clean energy industry sees a need for reform to ensure an efficient coordination of generation and transmission investment but does not consider the current proposal has been sufficiently justified. In response to the AEMC's earlier consultation paper, the CEC urged the AEMC to provide greater analysis of the underlying problem around congestion and access and a fulsome exploration and analysis of potential options to address the problem. We are disappointed that the directions paper has not included this analysis. This has resulted in a lack of confidence in the AEMC's proposed reform across the clean energy industry as we believe the AEMC has not outlined a compelling case for its proposed reform nor robustly explored the range of possible options.

Despite this, the AEMC has progressed its model. The directions paper describes three elements to access reform that will be implemented concurrently in July 2022: generators would receive a dynamic regional price that more accurately represents the marginal cost of supply electricity at their location on the network; generators would be able to purchase transmission hedges to better manage the risk of congestion; and the purchase of these

transmission hedges would inform transmission planning. The directions paper largely focuses on dynamic regional pricing, with the AEMC indicating that its September draft report will provide greater detail on the transmission hedging, planning and operational aspects of the proposed reform.

This approach has further deepened the clean energy industry's lack of confidence in the proposed reform. The proposed reform is inherently complex and at this stage it is difficult for market participants to develop an informed position and provide reasonable feedback on the information presented to date. In the absence of a clear picture of what the National Electricity Market (NEM) will look like with the full reform in place, the CEC cannot support this proposal in its current form and lack of development. Notably, the CEC is unclear on how transmission hedges could be used as a tool to inform transmission planning. Given the principal objective of the CoGaTi work program is to co-optimise transmission and generation investment, this is particularly concerning as without this important link between dynamic regional pricing, transmission hedges and transmission planning, the complexity of the proposed reform will likely outweigh any potential benefits.

On the concepts of dynamic regional pricing and transmission hedges to better manage the risk of congestion alone, the CEC cannot support the proposed reform. Dynamic regional pricing is a significant reconfiguration of the NEM design. This appears to be aimed largely at addressing disorderly bidding and the clean energy industry is concerned that this arrangement adds substantial and currently unjustified complexity without commensurate benefits. Even with the availability of transmission hedges to hedge against price differentials that may arise during constraints, we are concerned that this may not result in a sufficient residual to allow a complete hedge for generators. The CEC urges the AEMC to explore other options that are not premised on changes to the wholesale market pricing arrangements.

If the fundamental link between transmission hedges and transmission planning can be clarified and analytically evidenced and the AEMC can overcome industry concerns about dynamic regional pricing and transmission hedges, there are significant details and complexities associated with the proposed reform that need to be worked through and overcome, such as transmission hedge product specifications, procurement arrangements, transitional arrangements that preserve market fairness and competitive neutrality, and concerns around market power and transmission hedge misuse.

The pricing process for the transmission hedges appears to be particularly problematic as was the case under the Optional Firm Access (OFA) proposal. While the directions paper does provide some description of possible pricing methodologies, these are too high-level to provide any assurance that the issues with the pricing model identified in the OFA process can be sufficiently addressed under the current proposed reform.

This links to our earlier mentioned concern around how transmission hedges can inform transmission planning as the hedge price must be sufficiently balanced so that the hedges are not cost prohibitive to access but also not so low that they cannot meaningfully assist transmission development. Similarly, the product duration must address the timing mismatch between generation and transmission development. The clean energy industry believes there is a low likelihood that generators, in particular smaller generators, would purchase transmission hedges a number of years ahead of when they can generate and for a period of time that reflects the life of a transmission asset. To this extent, the AEMC must articulate how transmission hedges will operate alongside the Regulated Investment

Test for Transmission (RIT-T) process. The CEC cautions that a complex pricing process with an uncertain outcome will not contribute to investment certainty for either developers or networks.

The CEC advises that transmission hedges must be simple and practical as there are practical implications related to a significantly revised market framework. Generation development is already a complicated process requiring that a new project must line up a number of factors in a fairly short period of time, such as land, generation and connection assets, financing, offtake arrangements and planning and environmental approvals. Introducing transmission hedging arrangements into this mix introduces further complexity that could undermine a development's business case. The complexity of the hedging arrangements is likely to increase the costs of financing and could easily result in financiers declining to provide financing or refinancing on the basis that a generator has not secured transmission hedges.

It is imperative that the detail in the draft report must be supported by a comprehensive cost-benefit analysis that demonstrates that the proposed reform is a cost-effective approach to solve the problem it is intended to solve around thermal constraints. In addition, the cost-benefit analysis must identify and evaluate implementation and ongoing costs as well as the potential costs of unintended consequences, such as decreasing competition. Only through such an analysis can the clean energy industry fully understand and assess the proposed reform and have confidence that such a fundamental change to the NEM achieves the National Electricity Objective.

Timing remains a concern

The CEC's submission to the consultation paper questioned whether the proposed timeline allowed adequate time for the rigorous development of the access model. Given the significant amount of detail still to be developed and assessed and the need for robust quantitative analysis, we are concerned that the December 2019 timeframe to develop the final report including proposed changes to the rules is insufficient. We should not hurry into a solution that has not been properly assessed. Taking a bit more time for a fulsome cost-benefit analysis allows an opportunity to find and refine solutions that better address the identified problem and improve industry confidence in the proposed reform. In the meantime, the AEMC has the opportunity to make some incremental but immediate reforms in the areas of loss factors and transparency, for example through better long-term forecasting of congestion at connection points.

In addition, the CEC urges the AEMC to consider whether a July 2022 implementation timeframe is appropriate given the multiple concurrent reforms around this time, namely five-minute settlements from July 2021, the wholesale demand response mechanism from July 2022 and potential wholistic reforms that could come out of the Energy Security Board's post-2025 market design review. Multiple reforms place significant pressures and risks on existing business systems and processes but also create high levels of complexity and uncertainty for businesses looking to develop new assets.

Access reform must complement the Integrated System Plan and Renewable Energy Zones and should support rather than slow down the transition

A strategic approach is required to develop an integrated transmission network that supports a changing electricity generation mix. The Australian Energy Market Operator's

Integrated System Plan (ISP) outlines a strategic pathway for transmission network development. Its effective actioning is likely to address many of the congestion and coordination issues raised by the AEMC. The CEC suggests any reform of the current access arrangements must be compatible with the ISP framework and must not jeopardise or undermine the network investments that will be progressed through the actioning of the ISP. To this effect it is important that an actioned ISP is included in the quantitative analysis of the proposed access reform.

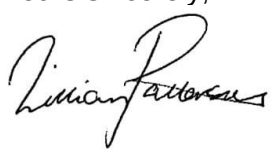
The directions paper suggests that Renewable Energy Zones (REZs) can be used to transition to access reform by enhancing coordination between generators in order for efficiencies of scale and scope for connection assets. The CEC is concerned that this narrow view could undermine the identification, prioritisation and facilitation of REZs as envisaged in the ISP. It is critical to the energy transition that this does not occur.

The AEMC suggests an option to allow transmission network service providers to establish an open season in order to group and then assess connection applications. The CEC does not support this approach. Grid connection has been recognised as the biggest issue for CEC members given it is leading to increased costs and time for connecting generators. Moving to an open season approach would only further increase the connection time for new generators. This is clearly not an arrangement that supports the energy transition as it would slow down the ability for new lower cost generation to enter the market to meet reliability concerns and put downward pressure on wholesale prices. In addition, this proposal appears to target transmission-connected generators so could have unintended consequences for distribution-connected generators.

The CEC does see merit to further considering a risk sharing arrangement for REZs as proposed by the Public Industry Advocacy Centre (PIAC). In the first instance, the clean energy industry needs a detailed presentation of the model in order to understand the model and provide feedback. This has been organised for early August. However, our initial understanding was that PIAC intends that its risk sharing model would apply to shared network assets so we seek clarification on whether the AEMC intends that it would apply only to connection assets as suggested in the directions paper or the broader shared network. Further development of a risk sharing arrangement must recognise the need for flexibility in its application across different REZs and consider the potential to create incentives for generators to connect just outside a REZ in order to take advantage of REZ benefits without sharing the cost.

Thank you for the opportunity to comment on this consultation. If you would like to discuss any of the issues raised in this submission, please contact me on the details below.

Yours sincerely,



Lillian Patterson
Director Energy Transformation
lpatterson@cleanenergycouncil.org.au
(03) 9929 4142