Government of South Australia
Department for Energy and Mining

F2018/003582

26 September 2019

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Coordination of Generation and Transmission Investment Implementation – Access and Charging (EPR0073)

Dear Mr Pierce

The Energy and Technical Regulation Division (the Division) of the Department for Energy and Mining, South Australia welcomes the opportunity to comment on the Directions Paper (the Paper) for Coordination of Generation and Transmission Investment (CoGaTI) in relation to implementation of access and charging.

South Australia's submissions to the AEMC on CoGaTI and the AEMC's previous review of transmission frameworks and optional firm access, have outlined our long held concerns that the existing National Electricity Market (NEM) design does not adequately deal with the impacts of congestion on market participants.

The locational decisions made by generators in the past have led to historically high levels of congestion in South Australia. This has particularly been the case in the mid-north and south-east of the state due to wind generation investment.

Despite the south-east and mid-north regions of South Australia historically suffering from constraint issues, there is an ongoing possibility that a new renewable generator may connect to these regions due to the optimal renewable resources that exist in these areas.

The incentive therefore exists for these generators to connect to these areas even though they may not be the best locations for network performance.

As such the Division considers that access and congestion management issues need to be addressed with urgency.

It is therefore encouraging that the AEMC's Direction's Paper acknowledges there is a strong case for transmission access reform and that the existing regime needs to evolve to incentivise generators to locate in stronger, lower cost parts of the transmission network.

We also note that the Paper acknowledges that reform is needed sooner rather than later and that the AEMC is seeking to commence dynamic regional pricing and transmission hedging in July 2022. The Division supports the AEMC progressing under this new proposed timeframe.

Dynamic Regional Pricing

The Division supports the AEMC developing dynamic regional pricing for implementation. The Division agrees with the AEMC's view that dynamic regions introduce a price signal to generators that better reflects the short-run costs of using the network and in operational time-scales should remove the current incentives for "race to the floor" bidding when there is congestion.

In relation to investment time-scales, dynamic regional pricing should provide more appropriate price signals to generators to inform their locational decisions.

Recognising the need for timely reform and the benefits that are likely to be realised the Division supports concurrent implementation of dynamic regional pricing and transmission hedging.

In relation to the allocation of surplus settlement residues, where the transmission capacity is greater than the amount of hedges that are held in a particular part of the network, the Division generally agrees with the AEMC's assessment of the advantages and disadvantages identified in relation to the different approaches.

The Division considers that where possible these should be used to minimise TUOS charges for customers, recognising that the existing transmission system has been funded by consumers. Preferably this would be done through a direct allocation of the surpluses to the relevant TNSP to reduce TUOS.

In relation to distributional considerations, the Division considers it preferable that load continue to face a common regional price rather than customers potentially facing different prices depending on their location, e.g. rural and urban customers facing different prices.

Further, the Division does have some concern that in regions where market power exists and generators are able to obtain a share of settlement residues, there may be incentive for generators to induce congestion through their bidding in order to increase the size of the residues. An alternative regional price such as load aggregation pricing may assist in reducing this incentive. However, there are likely to be additional costs associated with the complexity of such an approach and the impacts on the amount of settlement residue and the forward contracts market are not clear.

Alternatively, the incentive for generators to use their market power cold be reduced by limiting their share of settlement residues by allocating surplus settlement residues to customers. The Division supports the AEMC further considering issues in relation to potential generator market power and options to address it.

The Division notes the AEMC's analysis in relation to the advantages and disadvantages of allowing different categories of market participant to be settled at locational marginal prices. Given the need for timely reform and the current limitations

of the NEM dispatch engine we support the AEMC's view that the scheduled/non-scheduled distinction offers a sensible basis for determining which parties should face local or regional pricing.

Transmission Hedging

It is important that with a change in wholesale electricity pricing generators are able to manage the risk of local prices diverging from the regional reference price when there is congestion. The Division therefore supports the AEMC's proposal to introduce transmission hedges and agrees that this should improve investment certainty for prospective generators and may reduce the cost of capital for generation investment in the longer term.

Given the significant role that the Integrated System Plan (ISP) will play in transmission planning and investment in the NEM, it is important that access reform and the ISP should be integrated. For this to occur it is critical that there is transparency around the purchase of transmission hedges and effective consultation is undertaken when preparing the ISP.

In relation to hedging products, the Division notes that the metric of hedging products would likely be in megawatts but would encourage the AEMC to consider other metrics for hedges that could manage the risks raised by system security constraints. With the increase in system security and stability constraints in recent years, particularly in South Australia, access reform should provide a mechanism to help generators manage the risks associated with such constraints, not just thermal constraints.

As noted by the AEMC, given the large number of connection requests currently being pursued by prospective generators, auctioning of access products is likely the most efficient mechanism to ensure access rights are allocated to those that value them the most. The Division also support the AEMC addressing the risk of market power by including in the design limitations the amount of hedges purchased, for example capping at the generators capacity.

Renewable Energy Zones

The South Australian Government supports renewable energy zones being operationalised in the NEM.

The Division agrees that a key consideration when determining arrangements for renewable energy zones is who is best placed to manage the risk, and that any model chosen should avoid placing all the risk on consumers who are least able to manage the risk.

In relation to the two options presented in the AEMC's Directions paper the Division considers that a hybrid of these may offer a further alternative to consider. Such a framework would entail:

- The determination of renewable energy zones through AEMO's ISP;
- Once identified the TNSP would establish a period (an 'open season') during which connection applications would be accepted but not processed;
- At the end of the period the TNSP would then assess all applications received up to that point as a group;

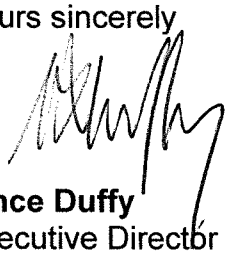
- This process would identify the required capacity level for the particular REZ and reduce the risk of underutilised assets;
- Costs would then be shared between parties:
  - Some fixed proportion from consumers in a manner similar to how transmission network service providers currently recover shared network costs; and
  - A further proportion recovered from generators who would pay a connection charge to connect to the renewable energy zone based on nameplate capacity and how early they connect.

Such a model would incorporate the benefits from both proposed options. It would utilise the ISP to identify appropriate renewable energy zones, provide for the grouping of connection applications to reduce the risk that renewable energy zones and related assets are underutilised, discover the required capacity level through the application process rather than determined by the ISP and provide for sharing of risks and costs between consumers and generators.

The Division looks forward to the Commission's further consideration of these important matters over the remainder of the review.

Should you wish to discuss the submission in further detail, please contact Mark Pedler, Principal Policy Officer, on (08) 8429 3361.

Yours sincerely



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