Meridian Energy Australia Pty Ltd
Level 15, 357 Collins Street
Melbourne VIC 3000

8 November 2019

Australian Energy Market Commission
Attention: Mr Tom Walker
PO Box A2449
Sydney South NSW 1235

Reference: EPR0073

Dear Mr Walker

Coordination of Generation and Transmission Infrastructure Proposed Access Model

Meridian Energy Australia Pty Ltd and Powershop Australia Pty Ltd (MEA Group or Powershop) thanks the Australian Energy Market Commission (AEMC) for the opportunity to provide comments on the AEMC's Coordination of Generation and Transmission Infrastructure (CoGATI) Proposed Access Model Discussion Paper (the Paper).

Background on the MEA Group

MEA Group is a vertically integrated generator and retailer focused entirely on renewable generation. We opened our portfolio of generation assets with the Mt Millar Wind Farm in South Australia, followed by the Mt Mercer Wind Farm in Victoria. In early 2018 we acquired the Hume, Burrinjuck and Keepit hydroelectric power stations, further expanding our modes of generation. We have supplemented our asset portfolio by entering into a number of power purchase agreements with other renewable generators, and through this investment in new generation we have continued to support Australia's transition to renewable energy.

Powershop is an innovative retailer committed to providing lower prices for customers and which recognises the benefits to customers in transitioning to a more distributed and renewable-based energy system. Over the last five years, Powershop has introduced a number of significant, innovative and customer-centric initiatives into the Victorian market, including the first mobile app that allows customers to monitor their usage, a peer-to-peer solar trading trial and a successful customer-led demand response program. Powershop has also been active in supporting community energy initiatives, including providing operational and market services for the community-owned Hepburn Wind Farm, supporting the Warburton hydro project, and funding a large range of community and social enterprise energy projects through our Your Community Energy program.

MEA Group Summary

MEA Group is supportive of changes that result in clear market benefits flowing through to consumers – either through a reduction in their energy costs, efficiencies that are likely to result in increased competition and reduced complexity, or through changes that are likely to result in a more secure and reliable energy system. Considering the limited detail provided in respect of the COGATI reform process, it is not evident that the proposed reforms will result in a material improvement for consumers, or for generators (in this case the intended beneficiaries of the reform package).

The COGATI reform process endeavoured to coordinate investment in both transmission and generation assets. Unfortunately, the reform proposal now being presented by the AEMC no longer seeks to achieve this aim, with transmission investment now the responsibility of the Energy Security Board (ESB) through its role in actioning the Integrated System Plan (ISP).

The reform process seeks to provide a locational signal to the market about where to invest in generation assets. MEA Group believes this has already been achieved through the Marginal Loss Factors (MLF) regime which has provided a crude, but effective locational signal to generators regarding where they should invest. This has been demonstrated by the drop in the number of proposed large-scale renewable projects across the National Electricity Market (NEM) since the 2018/2019 MLF figures were released.

This outcome aligns with the AEMCs first objective of the reform which is to provide an effective locational signal for generators. We note that the MLF regime is currently the subject of numerous rule changes which aim for a more effective and realistic representation of power flows across the system. Although one solution to the MLF (transmission losses) issue would be the introduction of a dynamic regional price, calculated every 5 minutes and applied to the settled energy at each transmission node for each generator, MEA Group believes the costs associated with the reform are unlikely to outweigh the benefit of a transition to dynamically calculated losses.

The AEMC also seeks to use dynamic regional pricing to highlight those areas of the grid where congestion is an issue. We believe that is already abundantly clear which areas of the grid are congested from information and data available to participants and consumers, including but not limited to AEMOs Congestion Information Resource website page.

As this reform continues it is becoming increasingly clear that the chosen timeframes (implementation of Dynamic Regional Pricing (DRP) by 2020) are no longer achievable (ASX contracts are already trading beyond 2022 along with SRAs). It is also unclear when the AEMC expects the auction process for the Financial Transmission Rights (FTRs) to commence, while allowing sufficient lead time for the FTRs to be acquired by the generators ahead of the DRP introduction. With these timing issues MEA Group believe it is becoming abundantly clear that any significant market re-design, such as the proposed COGATI reform, should be undertaken as part of the ESBs Post 2025 Market Design program.

MEA Group supports the submissions of the Australian Energy Council (AEC) and the Clean Energy Council (CEC) in respect of the comments and feedback regarding the COGATI reform process. Given the membership base of the AEC and CEC, the generator and retailer market broadly does not support the proposal in its current form and strongly encourage the AEMC to pause the reform in its current state.

MEA Group supports change that results in clear market benefits that will flow through to consumers. We strongly believe in the transition to a low carbon economy and energy system, on the basis that it results in material, ongoing benefits for consumers. To allow the transition from a centralised high emission energy system to a de-centralised low carbon energy system, the industry must address the issues that either delay or are likely to lead to inefficient outcomes.

One key issue is congestion in the grid. This issue was most acute in 2018/2019 where 46 new renewable projects attempted to connect to the grid (totalling 4,500 MW of new capacity) compared to a historical average of approximately 3 to 4 projects per annum. Exacerbating this issue, many of these projects attempted to connect in areas of the transmission system not designed to accommodate such a significant quantity of generation. However, these projects and others like them are being positioned in areas where there is sufficient resource/fuel, far enough from local load centres so as to be amenable to the general population. This trend is unlikely to change, although we believe the pace of the transition may significantly slow as generators await the outcome of numerous reform processes (including the COGATI reform process) and to ascertain whether a post 2030 Renewable Energy Target, or emissions abatement scheme is likely.

MEA Group believes industry should focus on reform that unlocks those areas where low carbon technologies can be developed. These areas have been identified as renewable energy zones under the Australian Energy Market Operator's (AEMO) ISP. We are comfortable with the proposal for a centralised planning regime for transmission planning and feel that this is the reform process that the AEMC should focus on.

The table below attempts to summarise the costs and benefits associated with the reform based on the information and limited modelling provided.

COGATI Benefit	COGATI Cost/Risk
Dynamically calculated loss factor is more representative of the actual power system than the current TLF regime.	Complex reform process – the COGATI reform proposal is extremely complex and will likely impose a significant administrative burden and cost on almost every generator in the NEM irrespective of their size or scale. Costs will include an initial education phase followed by an ongoing regulatory and trading function to ensure the generator remains sufficiently hedged against any dynamic regional price impacts.
	Far reaching implications for many other areas of the NEM such as: • Settlement Residue Auctions (SRAs); • ESBs Post 2025 Market Design program; • Transmission Loss Factor rule change proposals; and • ASX hedge contracts beyond FY2022
	The proposal for Financial Transmission Rights (FTRs) are only of short duration (circa 3 years in tenor). This timeframe is significantly less than the 25 to 50 year design life of a power station asset and unlikely to be sufficient to build a business case as it cannot provide a firm commitment in relation to a generators ability to be dispatched over the medium and longer term.
	Grandfathering of FTRs to existing generators remains unclear and unresolved – this is a major aspect of the reform and the AEMC should provide as part of the initial design phase visibility to the industry on this important aspect to allow open and meaningful consultation.
	The implementation costs are likely to be high – particularly for small retailers which ultimately leads to higher costs and less competition – this would be a poor outcome for consumers.
	The proposal in its current form does not lead to more transmission being built and congestion being unlocked – that is now the responsibility of the ESB and the ISP process. The reform does not provide an immediate or quick mechanism to resolve the grid congestion issues that are at the centre of the problem and are preventing the energy transition from continuing in a stable and controlled manner.
	Whilst we acknowledge that a dynamic regional price will provide an effective locational signal to generators, we consider that in the context of this reform package this is ultimately a cost to the industry and to consumers. We believe that whilst it is sometimes crude and is not an accurate representation of actual power flows across the system, the Transmission Loss Factor regime has been an effective locational signal and whilst it could be improved (and we are supportive of this) we don’t think it warrants replacement with the proposed complex reform package.
	The introduction of the reform will likely trigger change of law clauses across most (if not all) existing offtake and hedge contracts currently in effect. We also note that the possibility of such a major reform package being introduced, is having a significant impact on generators, retailers and financiers who are looking to commit to new generation projects as it is almost impossible to ascertain how the risk of price and dispatch should be allocated between the parties.

	It will be almost impossible for retailers to contract and hedge with generators where they are unable to clearly identify where the price for generation will be settled at (the transmission node or the regional reference price). Furthermore, the AEMC has sought to address the issue of losses and congestion as part of its single nodal price. Whilst the intention is clear it is likely to lead to a significant level of complexity that may prove difficult to overcome.
	The most recent proposal put forward by the AEMC no longer achieves the stated goal of the original reform, which was to coordinate transmission and generation investment. The ESB is now responsible for transmission planning and investment (actioning the ISP) and the coordination aspect of the reform is no longer evident (noting that the FTR auction results will feed into the ISP, we don't think this is a sufficient benefit to proceed with the reform or capture it as a benefit).
	The reform will also require a material change to the NEMDE which we see as overly complex with potential costs that far outweigh the benefits of a more efficient dispatch system.

MEA Group has attempted to assess the benefits and costs associated with the proposed reform. We believe there are few significant benefits that will flow to consumers if the reform progresses in its current state and on that basis, we do not support the commitment by the AEMC to provide a final report with recommendations for rule changes to COAG in December.

We acknowledge that a significant amount of the AEMC's resources have been spent developing the COGATI reform proposal. Despite this, we believe it is important to ensure that any reform is in the best interests of consumers and meets the objectives of the NEO. We do not believe the proposed reform achieves either of these.

If you have any queries or would like to discuss any aspect of this submission please do not hesitate to contact me.

Yours sincerely,

Angus Holcombe
Head of Asset Development
Powershop Australia Pty Ltd
Meridian Energy Australia Pty Ltd