



Ms Anna Collyer
Chair, Energy Security Board
Level 15, 60 Castlereagh St
Sydney NSW 2000

By email: info@esb.org.au

21 December 2022

Dear Ms Collyer,

Transmission Access Reform – Directions Paper

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Energy Security Board (“the ESB”) in response to the Transmission Access Reform – Directions Paper (“the Directions Paper”).

The ENGIE Group is a global energy operator in the businesses of electricity, natural gas and energy services. In Australia, ENGIE has interests in generation, renewable energy development, and energy services. ENGIE also owns Simply Energy which provides electricity and gas to retail customer accounts across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

As ENGIE is both an operator of existing generation assets and a developer of new generation and storage assets, we are able to take multiple perspectives on the issues relating to transmission access reform, an area where ENGIE has long been an advocate for change.

Reform of transmission access is timely, but should not be rushed

ENGIE has been one of the few market participants to consistently advocate in favour of sensible access reform over a decade of reviews and reform proposals. We note that previous attempts at reform have floundered due to excessive complexity and inability to garner stakeholder support. In this light, we strongly support the ESB’s attempts to work constructively with industry participants to develop a potentially workable set of reforms. We caution, however; that complexity could yet undermine reform attempts, especially given the balance of power now lies with state governments who are developing their own intra-REZ arrangements.

In this respect, we note that much work remains to be done before final recommendations in 2023. In particular the modelling supporting the Directions Paper has yet to be released, which limits stakeholders’ ability to make a fully informed evaluation of all the options. Realistically, further consultation will be required and it’s more important to take the time to ensure good design of any reforms to be implemented than to meet arbitrary deadlines. Given that reforms arising from this workstream are intended to apply outside REZs, any delay does not impinge on state governments’ ability to progress intra-REZ arrangements.

Operational timeframe congestion management

ENGIE supports the ESB's work to explore how the congestion relief market (CRM) can be made effective. Importantly, given the limited support of many market participants for reform, the current design retains an opt-out clause. This is an important risk-management tool for market participants.

With this in mind, other design features should disturb existing dispatch and settlement processes as little as possible. This in turn will protect the integrity of hedge contracts, which is important at a time, when - in other contexts – energy market bodies are expressing concerns with respect to contract liquidity. In that light, ENGIE's preference for the management of disorderly bidding is option 1. This also avoids introducing a new paradigm into the NEM where the rules attempt to determine SRMC for individual generators to decide whether they have bid out-of-merit or not. ENGIE is confident that the existing market surveillance powers of the AER allow them to identify any egregious bidding should it occur.

For similar reasons, ENGIE also prefers the regional reference price (RRP) to be determined based on the energy market rather than the CRM and for settlement to be based on the RRP rather than the locational marginal price (LMP).

ENGIE agrees that non-scheduled generation and storage will not practicably be able to be brought into scope for the CRM.

ENGIE does not consider there is sufficient merit to justify treating storage differently from load (when charging) and generation (when discharging).

The Directions Paper states that "if it becomes apparent that the CRM does not provide additional benefits that are commensurate with the additional complexity and cost, the ESB proposes to revert to CMM"¹. Undertaking cost-benefit analysis on reform options is good practice, but care should be taken not to be unduly determinative. As different options (including the status quo) will impact generator risks, they will in theory lead to a higher or lower cost of capital for new projects. But it is extremely challenging to convert qualitative changes in risk into quantitative discounts or premia to the cost of capital in order to generate a net benefit. The analysis will also be sensitive to the level of opt out of CRM. In this respect, the ESB and their modellers should assume that incentives are effective, i.e., that if participants have the opportunity to profit from participating in the CRM, then they will do so.

ENGIE also notes that if the CRM is considered to result in a net cost and so not be worth progressing than the CMM should be tested using consistent input assumptions for whether it will deliver a net benefit.

Investment timeframe congestion management

ENGIE considers that the congestion fee model remains highly unclear in terms of what the likely level of fees to be charged could be. There is also concern that allowing jurisdictions to determine fee methodologies may result in a bias towards projects that participate in jurisdictional schemes in order to demonstrate the effectiveness of those schemes.

¹ Directions Paper, p11

In this light, ENGIE is currently leaning towards priority access as the preferable approach to investment timeframe congestion management. Providing priority access based on a “first in best-dressed” approach provides modest incentives to accelerate potential new developments, which is useful in the context of the requirement to ensure adequate new capacity in time to replace retiring thermal generation. To that end, greater granularity of queue position allocation would be preferable, however; ENGIE appreciates that individual queue positions may prove excessively complex to integrate into the dispatch engine.

In preferencing a first come first served basis, ENGIE does not seek to rule out the use of auctions in combination with queue allocation. However, further detail of the potential auction mechanism would be required to offer a more definitive view.

ENGIE is supportive of a long duration for access rights granted both to new generators under the queueing system and to incumbent generation. To the extent that it is not feasible to allocate rights for the full length of the asset, the minimum duration should be ten years to provide some certainty to new generators. Following expiry of the initial queue position, the access rights should degrade gradually rather than abruptly, i.e., they should not be sent straight to the back of the queue. How this would be managed would depend on the granularity of the queueing system, but some form of glide path would be required.

Other issues

ENGIE is supportive in principle of enhanced information provision and agrees that this is a low regrets reform that is compatible with all other options. High level indicators of network sub-regions with surplus hosting capacity could serve as useful market signals for attractive areas to connect to the network. This could be complemented by making more detailed data available from prospective developments to model in more detail. The suggestion to use ISP sub-regions appears a practical approach. Zonal hosting capacities would provide broad information on hosting capacity whilst being clearly different from modelled outcomes at an individual connection point – which project developers will still need to do their own due diligence on. This avoids the issue highlighted in the Directions Paper where AEMO/TNSP modelling provides different results to project modelling and financiers require the two to be reconciled.

Avoid second guessing market outcomes

ENGIE reiterates its comment in its submission to the Transmission Access Reform consultation paper that there are many factors that can impact choice of location for storage assets. While the example given in Figure 8² implies that storage is better located inside a REZ rather than outside because it can help to alleviate congestion on the transmission line connecting the REZ to the rest of the grid, this should be considered an illustrative example only. Storage is expected to earn revenue by value stacking across multiple markets/revenue streams, and so even with effective location signals in place, participants may also see value in repowering old thermal generation sites with big batteries. Governments are likely to design REZ arrangements that incorporate incentives for storage to locate inside the REZ in any case. In

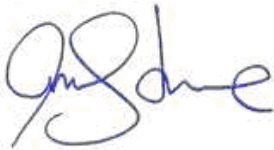
² Directions Paper, p24

practice there is likely to be room in the market for both and the ESB should refrain from second-guessing the optimal location for all assets on the NEM.

Similarly, there are examples given of issues arising where market participants with higher short-run marginal costs (SRMC) get dispatched ahead of those with lower SRMC. While ENGIE agrees that design choices should generally seek to avoid perverse outcomes, the ESB should be mindful that the NEM is not designed around cost-based bidding. Economic imperatives are likely in practice to drive bids that reflect SRMC to some degree, but cost is far from the only driver in determining bids.

Should you have any queries in relation to this submission please do not hesitate to contact me on, telephone, 0477 299 827.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'J Lowe', is positioned below the closing text.

Jamie Lowe

Head of Regulation,
Compliance, and Sustainability