



ESB TRANSMISSION ACCESS REFORM DIRECTIONS PAPER

6 January 2023

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

Lodged by email to: info@esb.org.au

Cc Federal, State and Territory Energy Ministers

Dear Ms Collyer

The Smart Energy Council welcomes the opportunity to provide a submission to the Energy Security Board's Transmission Access Reform Directions Paper.

The Smart Energy Council is the peak independent body for Australia's smart energy industry, representing around 1000 residential, commercial and large-scale renewable generation and storage, smart transport companies, as well as the renewable hydrogen and ammonia industry.

The Smart Energy Council is fundamentally opposed to Locational Marginal Pricing. Australia will not achieve 82% renewables by 2030 with Locational Marginal Pricing. It is a recipe for roadblocks and inaction on renewables and climate change.

This is a threshold issue for the Smart Energy Council. Work on any reform which includes Locational Marginal Pricing needs to cease immediately.

The Smart Energy Council has repeatedly and consistently opposed the proposed Congestion Management Model, which includes Locational Marginal Pricing. It is extraordinarily disappointing that

THE INDEPENDENT BODY FOR THE SMART ENERGY INDUSTRY IN AUSTRALIA

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the Energy Security Board continues to ignore the renewable energy industry and continues to propose similar models that face fundamental opposition.

As with the much-hated Congestion Management Mechanism proposed by the Energy Security Board, the ESB has for years continued to pitch a version of Locational Marginal Pricing and the Congestion Management Mechanism, knowing there is no consensus on the approach, and knowing that it will produce no outcomes. This approach leads to genuine questions about the value of maintaining the Energy Security Board.

The Smart Energy Council recognises that each access reform option does come with at least some degree of complexity, inevitable trade-offs between an optimal build out of renewable energy and transmission, consumers and investors.

However, what has been made clear from the full range of our members, across solar, wind and various forms of storage is that any iteration of Locational Marginal Pricing, including the Congestion Management Model is so complex that it will stifle the development of the majority of new projects. The additional layer of complexity forced by any iteration of LMP is likely to halt projects such that it will raise an energy security risk. A slow buildout of new renewable energy projects over the coming decade will not match the outcoming retirement of coal fired power plants.

This point has been made very clear over a number of years, nonetheless, the Energy Security Board continues to ignore this repeated opposition from the renewables industry and other major stakeholders such as the Clean Energy Investor Group, the Smart Energy Council and the Clean Energy Council.

While congestion relief management operating on its own has merit worthy of continued investigation, alongside enhanced information, LMP cannot be a part of any successful transmission access reform. The rest of the submission will outline the key reasons why LMP should be extinguished from any future considerations for Transmission Access reform. We remain committed to working with governments to find alternative solutions.

THE CASE AGAINST ANY USE OF LMP

The focus of the submission is to state our opposition to Locational Marginal Pricing by itself, or in combination with any other reform for the following reasons:

- Approximately 90% of the submissions to the May Consultation Paper opposed LMP.
- The key issue requiring redress from this proposed reform is the location of new energy that is well aligned with transmission availability to better utilise renewable energy generators and storage;
LMP does nothing to address this --- by the ESB's own admission:
 - "This model [LMP] does not provide a signal to locate in places where the generator does not increase congestion." (p. 42 of the ESB's May Consultation Paper)

Project Financing

Project financing for new energy is clearly facing significant pressure in the current environment, as the Federal Government has stepped in with the Capacity Investment Scheme to provide investment security in new clean firming technologies. The industry cannot afford to have any additional investor uncertainty at such a crucial period in its buildout.

- Projects under LMP model will struggle to get project financing as banks are aware that projects will not necessarily earn the Regional Reference Price (RRP)
- Negotiating new offtake agreements will be much more complex as neither party will be able to accept, or have the capacity to manage, the risk that LMP raises.
- In the ESB May Consultation paper, p.42 it is stated that the ESB will work to design the congestion rebates to manage the difference between LMP and RRP. This discussion has continued for years, with still no equation or methodology for its operation, adding more uncertainty.
- Existing Offtakes: Will evolve into a lawyer's picnic as both sides try to reduce losses associated with LMP interference
- Future Offtake: will face the same complexity, making securing offtake a significantly harder to secure.
- LMP represents a massive disruption to the market that will delay new generation and storage commitments as projects try to come to terms with the value of future LMPs and any rebates

The inevitable result will be delayed investment and higher energy prices in return for no help with the key issue to be fixed.

ENHANCED INFORMATION: THE CASE FOR IMMEDIATE IMPLEMENTATION.

- Widely supported by our members who are market participants as a no regrets option to decrease congestion.
- Implementation should commence from the first meeting of 2023 to progress this option immediately, it should not be delayed to mid-year.
- The enhanced information reform needs to include information on all types of potential constraints including: Voltage stability, thermal limits, pre-contingent and system strength.
- Current congestion caused by exiting and committed projects should be provided along with forecast of constraints caused by 'likely' new generators.
- Some of this information is currently available; however it is insufficient and usually outdated beyond significant utility. Enhanced Information will be more important than set out by the ESB.

The Smart Energy Council would welcome the opportunity to work with Australian Governments on the development and implementation of an alternative approach to addressing these issues, with the intention of seeking consensus across all key stakeholders. This is the approach that we successfully adopted in relation to the Capacity Investment Scheme, which was strongly supported by the Smart Energy Council, the Clean Energy Investor Group and Climate Action Network Australia.

We stand ready to again work closely with Australian Governments and key stakeholders in resolving these critical issues.

Should you or your officials wish to discuss this further, please contact me on 0417 141 812 or at wayne@smartenergy.org.au

Yours Sincerely,

Wayne Smith
A/Chief Executive
Smart Energy Council