21 December 2022

Ms Anna Collyer
Chair
Energy Security Board

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

Dear Ms Collyer

Stanwell Corporation Limited Response to
Directions Paper – Transmission Access Reform

Stanwell Corporation Limited (Stanwell) welcomes the opportunity to respond to the Energy Security Board's (ESB) *Transmission Access Reform Directions Paper* (the Directions Paper).

Stanwell is a major provider of electricity to Queensland, the National Electricity Market (NEM) and large energy users throughout Australia. We own and operate two coal-fired power stations, providing reliable and affordable energy, with a pipeline of renewable generation and storage technologies to reduce our emissions intensity and create future opportunities for our people and communities.

This submission contains the views of Stanwell in relation to the Directions Paper and should not be construed as being indicative or representative of Queensland Government policy.

Regulatory solutions to manage congestion in the NEM have been the subject of multiple reviews conducted by market bodies, including the Australian Energy Market Commission (AEMC) (*Optional Firm Access* and the *Co-ordination of Generation and Transmission Investment*) and the ESB (*Transmission Access Reform*). These iterative reviews have purported to address a range of issues, including decreasing marginal loss factors, generator revenue uncertainty, the lack of locational price signals and adverse operational incentives for generators and storage such as disorderly bidding.

In general, reform proposals have presented costly, complex and disproportionate approaches to achieving incremental gains in dispatch efficiency. To date there has been no detailed modelling or cost benefit analysis (CBA) that has been presented to stakeholders that justifies the scale of reform proposed, nor demonstrates the net benefit to market participants or energy customers. As a result, on each occasion, Stanwell and the majority of stakeholders have rightly questioned the need for the continued development of these reforms.

Despite this history, and no new supporting evidence, the ESB is continuing to pursue its transmission access reforms without having made a sufficient case to demonstrate:

- that reform on a systematic NEM-wide basis is necessary, and
- its proposed approach is the best way of delivering economic benefits.

Stanwell is concerned that, as with previous consultation papers, the models set out in the ESB's Directions Paper lack sufficient detail to enable stakeholders to make an informed decision as to their relative merits. Given the complexity of the reforms proposed and their wide-ranging implications, it is incumbent upon the ESB to explain its reform proposals comprehensively and provide sufficient detail for stakeholders to be able to prosecute the proposed solution. However, the divergent views and confusion amongst stakeholders as to how the proposed transmission access framework would operate is evidence that the ESB has failed in this endeavour. While the models are theoretical and high level in nature, the lack of detail or any published modelling on their practical implications adds to the confusion and characterises the lack of transparency in this review.

Moreover, the proposed reform fails to effectively consider broader regulatory imperatives and national initiatives that are currently under development, including but not limited to:

- the operational security mechanism and the establishment of markets to deliver essential system services, and
- the Australian Government's $20 billion *Rewiring the Nation* programme which seeks to bring forward projects in AEMO's Integrated System Plan and has the potential to alleviate congestion in the NEM.

There is an apparent lack of co-ordination between reforms and initiatives that interact with each other, and would likely impact on potential congestion in the network going forward. There is a strong potential that other priority reform initiatives could result in the proposed transmission access reform not being necessary at this time. In this context, rather than making a hastened decision with wide-ranging implications based on incomplete information, the ESB should be advising the Energy Ministers that this initiative should be paused while these other reforms and initiatives run their course.

Throughout the ESB's review process, stakeholders have consistently called for a robust CBA to establish the materiality of any congestion problem and the net benefits of alternative remedial models. Such an analysis should form the centrepiece of the ESB's rationale for supporting specific reform option(s) and be a reference point to guide subsequent stakeholder assessment. However, despite multiple rounds of consultation, the ESB has failed to undertake a CBA, and its omission has limited the capacity for stakeholders to make informed comment on the expected benefits of such a major reform.

Most recently, the ESB indicated it will release a CBA of its different models in the first quarter of 2023 to inform recommendations to the Energy Ministers.[1] To the extent that this information is to be published well after the current consultation closure and after draft recommendations have already been provided to Energy Ministers, is at best evidence of a poorly-executed policy development process and, at worst, disingenuous. It also lends weight to the view that, in general, the ESB's transmission reform work to this point has

[1] Energy Security Board 2022, *FAQ Paper*.

been subjective and reflects predisposed views rather than being based on evidence of efficient market and customer outcomes.

Accordingly, Stanwell continues to maintain the view that the ESB has not provided sufficient evidence to support the progression of transmission access reform.

Stanwell has previously advocated for the provision of greater information to assist potential investors make investment decisions.[2] Currently, there are a range of locational signals already available to potential investors, including:

- published marginal loss factors, which provide investors with an incentive to connect new generation close to the regional reference node or other major load centre and leverage efficiencies in the transport of energy across the network,
- AEMO's generation information page which provides data on the capacity of existing, withdrawn, committed and proposed generation projects, and
- AEMO's Congestion Information Resource which contains a consolidated source of data relating to transmission congestion in the NEM.

The additional initiatives proposed in the Directions Paper, which will increase the availability of data and conveniently present it alongside existing information resources to support investment decision-making, are welcome and represent a 'no regrets' option.

To this end, Stanwell believes that the ESB should focus on enhancing the flow of relevant information to the market in the first instance and assess the merits of the outcomes in light of the other on-going market reforms and government initiatives before committing to substantial reform of the NEM's transmission access arrangements.

Conclusion

On its establishment, the NEM introduced competition in the wholesale electricity sector, decentralising operational and investment decision-making to commercial entities that are best-placed to bear the costs and manage the risks of those decisions. Greater regulatory intervention may result in unintended consequences, distorting market signals and impairing the capacity of market participants to respond efficiently to them.

Change is desirable where the benefits of that change demonstrably outweigh the costs, when considered across a range of plausible future scenarios. Any proposed change should also be transparently measured against alternative approaches which achieve the same or similar goals to determine the efficient path forward.

In the absence of a comprehensive CBA and detailed modelling being provided to participants for comment, the ESB's proposals for transmission access reform do not pass these tests. Rather, they constitute the development of an overly-complex theoretical solution to a problem that has been only generally-defined at best.

[2] See, for example, Stanwell 2020, *Response to AEMC Interim Report: Updated Technical Specifications and Cost Benefit Analysis*, pp. 4-5.

Stanwell is strongly of the view that the information provision reforms be progressed as a no regrets action, and that the overly complex and costly transmission access reform proposals be shelved until other priority reforms have been completed and implemented. Only at that point will it be clear if there is a demonstrated congestion issue that needs to be addressed and, if so, an appropriate solution can be developed that considers the market conditions and design at that time.

Stanwell welcomes the opportunity to further discuss the matters outlined in this submission. Please refer any questions to Steve Williams, Market Regulations Senior Advisor, on 0409870998, or email at Stephen.Williams@stanwell.com.

Yours sincerely

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