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Transmission access reform

AGL Energy (AGL) welcomes the opportunity to comment on the Energy Security Board (ESB) Transmission access reform consultation paper.

About AGL

AGL is a leading integrated essential service provider, with a proud 185-year history of innovation and a passionate belief in progress – human and technological. We deliver 4.3 million energy and telecommunications services to our residential, small, and large business, and wholesale customers across Australia. We operate Australia's largest electricity generation portfolio, with an operated generation capacity of 10,330 MW, which accounts for approximately 20% of the total generation capacity within Australia's National Electricity Market.

Introduction

AGL supports the decision of the Energy and Climate Change Ministerial Council to immediately implement enhanced information reforms to provide better information on the optimal location for new generation and storage, and the decision not to further develop or consider the congestion management model and congestion fee options, or any models using locational marginal pricing.

AGL supports open access. We do not consider that an adequate cost benefit analysis has been completed which justifies the considerable cost required to implement any of the proposed access schemes being considered for the NEM. We also consider that all access schemes have the risk of reducing network utilisation and causing overall detriment to consumers. Electricity generation investors are sophisticated and will avoid investments that will be prone to congestion where possible. While some congestion investment occurs under open access this is a normal part of the entry and exit cycle of supply and necessary for the market to evolve. Access schemes risk dissuading new investment and locking in inefficient investment to the detriment of consumers.

While some investment in the NEM has been poorly located in the past there is no evidence that this is likely to be a significant problem going forward for numerous reasons. First, most generation in the NEM going forward will be in Renewable Energy Zones (REZs) and subject to Long-term Energy Service Agreements (LTESAs) and other instruments which already control access to some extent. Second, investment in the NEM is increasingly being driven by government initiatives such as the Federal Government initiatives to support batteries and offshore wind for which an access regime would be largely irrelevant. Third, increased transparency of new generation and transmission investments through the Integrated System Plan, the Transparency of new projects rule change, and enhanced information are likely to greatly reduce the risk of poorly located generation investment. Fourth, the new mechanisms for the efficient management of system strength should lessen the likelihood that unexpected system strength shortfalls will cause congestion or delay the connection of new renewables.

The ESB has proposed three discrete reforms: enhanced information, the congestion relief market (CRM), and priority access. We suggest that each should be implemented separately and in turn so that the impact on the market can be assessed prior to deciding if the next reform is required. We suggest that enhanced information alone may prove to be adequate, and if not, CRM should be implemented on its own before priority access is considered for implementation. Although we note our strong preference is that priority access does not proceed for the reasons discussed below.

Congestion relief market

If transmission access reform is deemed necessary, then AGL is not opposed to the CRM if it passes a robust cost benefit analysis and is subject to further stakeholder engagement. We favour the CRM over other mechanisms as it is a voluntary mechanism and because it uses market forces to determine a price for congestion relief. We do not consider that the 2023 NERA modelling provides an adequate assessment of the costs and benefits of implementing the CRM. We consider the modelling over-estimates the incidence of disorderly bidding in the NEM, overestimates the likely level of congestion in the market if CRM were not implemented, and is not realistic in presuming all bidding will be at short-run marginal cost under the reform option as this ignores scarcity pricing and market floor bidding for legitimate reasons. It is also not clear that the modelling adequately considers the fact that most future investment in the NEM will be either in a REZ or otherwise subject to some other State or Federal government scheme which will influence access to some extent.

We expect the CRM will create significant complexity, especially for traders, since each participating generator or load will need to submit a separate congestion relief bid on each transmission line, regardless of whether they are located by that line or not. This will be particularly complex since all dispatchable generators or loads impact the congestion on each line at different levels.

AGL is concerned that if CRM is implemented it will not in practice be voluntary even though the ESB has indicated that it will commence as an opt-in mechanism. We are concerned that if after it is enacted there is inadequate liquidity in the CRM there may be a push to change the rules to make participation an obligation. This is of particular concern if priority access is also implemented since the distortionary impacts on dispatch caused by priority access will only be able to be managed by a liquid CRM. The consultation paper also indicates that once a generator opts in for CRM they cannot opt-out again, which seems inconsistent with the intention that CRM will be a fully voluntary mechanism.

The consultation paper indicates that post-implementation monitoring of market participant behaviour and bidding incentives created by the CRM will be important, and it seems that the ESB has an expectation that participants will bid at their short-run marginal cost. We note that the short-run marginal cost of generators is not static and will vary based on cost and opportunity cost changes including fuel prices, weather patterns, contract positions, plant entry, exit, outages, wear and tear, and the cost to restart. Bidding at the market floor is for example often consistent with the short-run marginal cost of a generator in that price interval.

Priority access

AGL does not support either the queue or centrally determined tiers model of priority access. We are particularly concerned by the proposed centrally determined tier model which will undermine the impact of market forces on the locational decisions of investors to an even greater degree than the queue model.

Priority access will raise barriers to entry in the NEM by giving incumbent generators an advantage over new entrant generators. While the intent is to merely dissuade entry in locations that will be prone to congestion, AGL is concerned that priority access will raise barriers to entry more broadly reducing competition and the supply of generation in the NEM. Under priority access it will be necessary to give incumbent generators and REZs a priority position. This means that in most areas of the grid new entrants will be at a disadvantage. We consider that there is a very high likelihood that investment that is dissuaded or blocked by priority

access will either not occur at all in the NEM, will occur on a smaller scale, or occur at a later date slowing the transition and reducing supply in the NEM to the detriment of consumers. This is particularly concerning given the very significant volume of new generation investment which is needed in the NEM.

Even if the level of congestion in a given location is expected to be low, priority access will mean that all the risk of new congestion will be borne by new entrants. So what might be a location of low overall congestion risk under open access, and therefore an efficient location for new investment based on the level of congestion, may become unviable for a new entrant who must alone bear the congestion risk. We expect that this will lead under-utilisation of network assets in the NEM to the detriment of consumers.

Priority access seeks to ensure that new generators are located efficiently by dissuading or blocking new entrants in congested areas. But the level of congestion is only one factor which will impact the efficiency of a given location. Availability of renewable resources, access to cheap land, social licence concerns, synergies with existing plant or load are all examples of other factors which may impact whether generation investment in a particular location will be efficient. However under priority access all these factors will be trumped by the impact on congestion undermining the ability of these market drivers to signal the efficient level of investment.

While priority access is being proposed as a mechanism which will ensure that REZs do not face unreasonable congestion, we consider the REZ specific access regimes are an adequate mechanism for this objective. Certainly we do not expect any under investment in REZs since the REZ LTESAs should provide adequate incentives for investment.

Even if the ESB is confident that the barriers to entry created by priority access will block inefficient investment and lead to other investment in areas of low congestion risk, this will not necessarily outweigh the detriment caused by increased barriers to exit created by priority access. The favourable queue or tier position provided to incumbent generators under priority access will act as a barrier to exit since they create a valuable advantage which generators will forgo if they exit the market. This will undermine the normal ability of the market to replace inefficient investments to the detriment of the market and ultimately consumers. This is particularly concerning given the pace of the transition, including the rapid technological developments that are likely to occur.

There remain numerous unresolved complications to the priority access design. The ESB have indicated that priority access is expected to lead to dispatch inefficiency, but that the CRM will resolve these challenges, however this is not certain and will depend on adequate CRM participation. The timing of when a generator is granted priority access is also particularly challenging with the potential for applicants applying for the rights when they are not ready creating the risk that when projects (including REZs) that are given priority access prior to completion are delayed there will be short and potentially long-term network underutilization and the blocking of other projects which are ready to proceed. It is also not clear how priority access will interact with the need for generators that provide system services to be given priority when required. Obtaining a system strength contract may for example be seen as a de facto way to ensure priority access. Only once these complications are resolved, should a decision be made to implement priority access, and then only if it is clearly shown to be of benefit over other reforms.

The consultation paper considers whether priority access should persist for the life of an asset, the life of the connection, a proportion of an asset's technical life, a fixed duration, or a fixed duration which lessens over time. Given we do not support priority access, we suggest it should persist for as short a duration as possible, which would reduce the likelihood that priority access will dissuade investment and lock in inefficient investment. Likewise, in regard to whether priority access should be hard or soft on the basis of the extent to which the priority will overcome constraint coefficients, we suggest it should be soft, so that the risk that it undermines existing dispatch efficiency is minimised.

Timing and implementation

Transmission access reform is not a time critical reform, however it is a reform with high potential cost, and we therefore suggest that the time be taken to ensure that the reform is warranted and designed optimally. Priority access in particular is a major change to the functioning of the NEM which has not been subject to significant consultation. We therefore suggest the ESB proceed with enhanced information and continue consultation on the CRM, and either abandon priority access or continue consultation so that the many risks of this reform can be given proper consideration.

If you have any queries about this submission, please contact Anton King on (03) 8633 6102 or aking6@agl.com.au.

Yours sincerely,

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