



APA submission

Energy Security Board

Transmission access reform
consultation paper

May 2023





Ms Anna Bligh
Chair
Energy Security Board

Lodged via email: info@esb.org.au

26 May 2023

RE: APA Submission to Transmission Access Reform Consultation Paper

Dear Ms Bligh

Thank you for the opportunity to comment on the Energy Security Board's (ESB) Transmission Access Reform Consultation Paper (Consultation Paper). We appreciate the opportunity to comment on the design of new market arrangements to encourage efficient investment in energy infrastructure.

APA is an ASX listed owner, operator, and developer of energy infrastructure assets across Australia. As well as an extensive network of natural gas pipelines, we own or have interests in gas storage and generation facilities, electricity transmission networks, and 681 MW of renewable generation. We recently completed the acquisition of Basslink Pty Ltd, the only Market Network Service Provider (MNSP) in the National Electricity Market (NEM).

As the only MNSP in the NEM, reforms to the way MNSPs are settled in the market will only impact Basslink. Given the unique settlement approach that applies to MNSPs, it is important that there are no unintended consequences from the proposed changes.

Our submission below addresses several issues raised in the Consultation Paper. Given the significant investment required to facilitate the energy transition, it is essential that any proposed reforms promote investor certainty. This will ensure that the energy transition can be undertaken at least cost to consumers.

If you wish to discuss our submission in further detail, please contact John Skinner on 02 9693 0009 or john.skinner2@apa.com.au.

Regards,

A handwritten signature in black ink that reads "Beth Griggs".

Beth Griggs
General Manager
Economic Regulation and External Policy

1 Submission

Key points

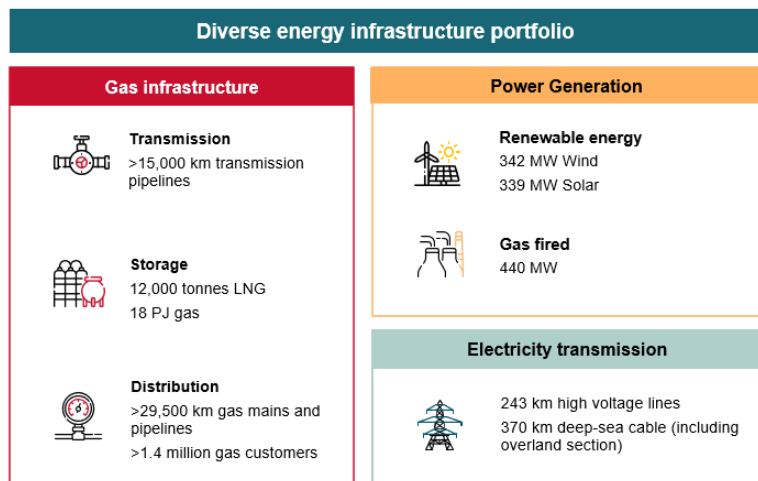
- Basslink is the only MNSP in the NEM. Given the unique settlement approach that currently applies to MSNPs, it is important that there are no unintended consequences from the proposed changes.
- APA is supportive of the proposed settlement approach for MNSPs. It means that MNSPs continue to be treated as a generator for settlement purposes and the allocation of revenues and inter-regional revenues that arise due to price differentials and energy flow between regions is maintained.
- Promoting investor certainty will ensure that low cost capital can be attracted to future investment in renewable generation. For this reason, we recommend that existing market participants should not be penalised under any proposed reforms.
- More proactive stakeholder engagement is essential to ensure that any concerns raised by the 500 market participants across the NEM are resolved during the design of any reforms.

1.1 Introduction

APA is a leading Australian Securities Exchange (ASX) listed energy infrastructure business. Consistent with our purpose to strengthen communities through responsible energy, our diverse portfolio of energy infrastructure delivers energy to customers in every state and territory.

Our 15,000 kilometres of natural gas pipelines connect sources of supply and markets across mainland Australia. We operate and maintain gas networks connecting 1.4 million Australian homes and businesses to the benefits of natural gas. And we own or have interests in gas storage facilities and gas-fired and renewable generation power stations.

Figure 1



We also operate and have interests in 681 MW of renewable generation infrastructure. Our asset portfolio also includes high voltage electricity transmission assets that connect Victoria with South Australia, New South Wales with Queensland and Tasmania with Victoria.

In August 2022, APA published its inaugural Climate Transition Plan which outlines our commitments to support Australia's energy transition and pathway to achieve net zero operations emissions by 2050.

In October 2022, we completed the acquisition of Basslink Pty Ltd, which owns and operates the 370km high voltage direct current electricity interconnector between Victoria and Tasmania. The acquisition adds a third electricity interconnector to APA's energy infrastructure portfolio and is consistent with our strategy to play a leading role in the energy transition.

As the only MNSP in the NEM, reforms to the way MNSPs are settled will only impact Basslink. Our intention is for Basslink to soon become a Transmission Network Service Provider (TNSP) and we are engaging with both the Australian Energy Regulator (AER) and consumers about its conversion. Despite this, it is important that there are no unintended consequences for Basslink from any eventual reforms. Our submission below provides views on the proposal put forward in the Consultation Paper.

The proposed reforms outlined in the Consultation Paper would represent the most significant changes to the NEM since it was established. Given the magnitude of the proposed changes to the NEM, our submission also stresses the importance of proactive stakeholder engagement as a key ingredient in any successful reform outcomes.

1.2 Investor certainty

The NEM is a wholesale electricity market that has been operating on the east coast of Australia since 1998.¹ The NEM operates on one of the longest interconnected power systems in the world, incorporating around 40,000km of electricity transmission lines.²

Since its commencement, the NEM has grown significantly. There are now over 500 registered participants and around \$11 billion was traded in the NEM in FY2020-21.

These large numbers demonstrate the important role played by the NEM in providing an essential service to over 10.5 million customers.³ As coal power stations retire, many billions of dollars of investment are required to provide the new infrastructure needed to supply the NEM with renewable energy.

For this reason, any proposed changes to the way the NEM operates should aim to promote investor certainty. 'Investor certainty' is not currently one of the assessment criteria being used by the ESB to assess any design choices, and we recommend that it be added.⁴ Promoting investor certainty will ensure that low cost capital can be attracted to future investment in renewable generation. Any reforms which create uncertainty for current or future investors will increase risk and should be avoided.

¹ The NEM commenced operation in December 2018

² AEMO, *The National Electricity Market* Fact Sheet, accessed 22 May 2023

³ AER, DNSP operational performance report, 2021, Customer numbers

⁴ ESB, Consultation Paper, May 2023, p12

We recommend that existing market participants should not be penalised under any proposed reforms. Grandfathering arrangements should be implemented as part of any rule changes to ensure that the playing field isn't modified for any existing participants.

1.3 Treatment of MNSPs

At present, Basslink is the only MNSP operating in the NEM. Basslink currently earns revenue through differences in Regional Reference Prices (RRP) between regions and is currently considered as a pseudo generator and load for market settlement purposes. This approach accounts for the physical export and import at either end of the link.

In addition, inter-regional residue payments are allocated directly to Basslink as MSNP. This is different to the process for regulated inter-connectors where TNSPs receive revenues that arise through the Settlements Residue Auction.

The introduction of a Congestion Relief Market (CRM) will introduce another layer in the settlement and dispatch process. The ESB has proposed that MSNPs will:

- be directly allocated Inter-Regional Settlements Residue payments that arise over the CRM, similar to how they are paid today for Energy Market outcomes; and
- receive a CRM payment – based on their CRM prices settled inter-regionally– similar to the settlement of scheduled generators and loads.⁵

In practice, this means that MNSPs will continue to be settled analogous to a generator-load pair, equivalent to their treatment in the current market design.

APA is supportive of the proposed settlement approach. It means that MNSPs continue to be treated as a generator-load pair for settlement purposes and the allocation of the EN, CRM and any inter-regional revenues that arise due to price differentials and energy flow between regions is maintained.

It is important that the rules drafting and implementation in AEMO dispatch and settlement systems reflects this intent. This will avoid any unintended consequences from the introduction of various features of the ESB's changes, including priority dispatch that are mechanisms not relevant for MNSPs.

Two other issues relating to MSNPs need clarifying in further stages of the development process:

- participation in the CRM is proposed to be via opt-in arrangements. If MNSPs such as Basslink do not opt-in will the CRM market still operate inter-regionally?
- counter price flows can arise over MNSPs in certain situations driven by interactions between the Frequency Control Ancillary Services and EN outcomes, directions or during market intervention periods. Market design should limit MNSP exposure to negative prices analogous to other market participants. Clamping⁶ and Market Floor

⁵ ESB, *Consultation Paper*, May 2023, p59

⁶ ESB, *Consultation Paper*, May 2023, p54

Price (MFP) are market design concepts that already exist and should equally apply to MNSPs

1.4 Renewable Energy Zones

Significant work is being undertaken across the NEM to implement Renewable Energy Zones (REZs), with many of the proposed REZs expected to have their own access schemes. The NSW Government, for example, has been consulting on access schemes as part of the development of its first REZs. The purpose of the access schemes is to ensure the efficient investment in generation, storage and transmission in REZs across NSW.⁷

The Consultation Paper does not make explicitly clear how national Transmission Access Reform will interact with access schemes at the jurisdictional level. Any reforms that the ESB proposes to take forward must be carefully evaluated to ensure they are fully compatible with jurisdictional REZ access schemes. In turn, stakeholders must be educated as to how this interaction will work in practice.

1.5 Stakeholder engagement critical for success

The changes being proposed by the ESB will be the most significant changes to the NEM in its 25 year history. It is essential that all stakeholders are 'brought on the journey' and that potential concerns are addressed as part of the design process.

Given there are over 500 market participants in the NEM, it is concerning that less than 10 percent of those participants made submissions to the November 2022 consultation process. The ESB needs to be more proactive in contacting participants and explaining these reforms to stakeholders.

We also recommend that the potential costs and benefits of these reforms be carefully considered. The recent changes to 5 minute settlement took around four years to implement following completion of the rule change process in 2017 and are estimated to have cost the market between \$500 million and \$2.5 billion.⁸

⁷ EnergyCo, <https://www.energyco.nsw.gov.au/industry/access-schemes>, accessed 23 May 2023

⁸ <https://whatswatt.com.au/what-is-five-minute-settlement-why-does-it-matter/>



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