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Dear Board Members



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Transmission Access Reform – Consultation Paper – 26 May 2023

EnergyAustralia (EA) is one of Australia's largest energy companies with around 2.4million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We own, contract, and operate a diversified energy generation portfolio spanning coal, gas, battery storage, demand response, solar, and wind assets. Combined, these assets comprise over 4.5GW of generation capacity.

We welcome the opportunity to comment on the Energy Security Board's (ESB's) Consultation Paper on the Transmission Access Reform (TAR) in the National Electricity Market (NEM). Reform to address perceived growing congestion¹ and associated investment decision-making has long been considered by policymakers as a critical issue for a number of years. We are appreciative of the ESB's collaborative efforts over this period to identify, develop and detail many different proposals over this time. EA has been a long term supporter of the ESB's willingness to adjust its positioning, taking into account broader industry engagement and to explore a range of industry led-proposals in this space.

We recognise that the Consultation Paper represents a significant junction point for Energy Ministers and that the expectation is that key decisions on transmission access reform are likely to be taken shortly. With this in mind, EA has summarised our position to the Consultation Paper in the following bullets:

1. Rushed decisions on critical structural policy, specifically the Priority Access model, which alter current market arrangements does not instil confidence in the market. Stakeholders require more time to digest and clarify policy and operational details on the proposal before being asked to endorse it.

¹ It is unclear how and where congestion will build across the NEM, and whether ISP identified projects, once built will address this risk. We note that it is possible that built ISP projects significantly lower congestion levels and that this consideration should factor into ESB's policy. EA also encourages ESB to work with AEMO to analysis congestion risk – separating out economic curtailment from transmission congestion.

2. At this stage, we do not support the Hybrid Model, specifically the Priority Access option as currently described. There appear too many unanswered design questions, and significant risk is placed on new developments.
3. The investment and operational model options must deliver standalone benefits and the Congestion Relief Market (CRM) must remain voluntary to market participants. Further detailed modelling, market testing and targeted trials are necessary before the CRM is operationalised.
4. The Enhanced Information reform and a voluntary CRM should be implemented as the 'revised hybrid model' as soon as possible.
5. Details on an additional feedback loop and a pathway to implementation requires clarification prior to Energy Ministers decision. Addressing these key governance elements will provide industry stakeholders with confidence in the broader transmission reform process and the policy settings themselves.

These points are elaborated below.

Rushed decisions do not instill stakeholder confidence

From its inception as an AEMC Market Review², Transmission Access Reform (TAR) and its other previous variants, have all proposed significant changes to the NEM and the open access transmission framework. These policy changes have set out a fundamental shift in the way participants operate and earn revenue in the market and TAR is no exception.

The proposed hybrid model set out in the Consultation Paper, comprising an investment and an operational model outlines a complex reform. It seeks to modify investment decisions to minimise future congestion risk and address dispatch inefficiencies. While EA in-principle supports these objectives, given the nature and impact that the proposed reform could have on the market and market participants, sufficient time is necessary to ensure that industry understand and have confidence in the proposals. However, participants have only been given the opportunity to review and digest the hybrid model once before Energy Ministers are expected to take a decision.

EA is very concerned with this approach – policy decisions, particularly structural reform should not be rushed and must include adequate consultation to bring stakeholders onboard. Without a comprehensive and considerate process, rushing the reform risks severely undermining the benefits of other existing reforms on foot, will likely increase the costs and inefficiency of the model and may introduce material unintended consequences to the NEM, ultimately at the cost of consumers.

EA notes that the Priority Access model options have not previously been seen by stakeholders, and we believe in its current format will create an untenable perverse incentive for new development, which could risk investment in the NEM at a point in time when it is most needed. While we acknowledge the significant engagement by the ESB throughout the stakeholder consultation process, it is clear that a number of critical

² [Coordination of generation and transmission investment implementation – access and charging | AEMC](#)

policy design questions, broad operational concerns and implementation uncertainty remain to be addressed.

We strongly encourage the ESB to reconsider its current timelines and push back on the Ministers timetable, to enable a more robust focus on developing an appropriate hybrid model which will best support the energy transformation.

EA believes that changes to the current open access regime are necessary to accommodate the shift from thermal to renewable generation and storage. These changes should be reflective of a balanced shift in risk between existing and new generators, consumers and networks. We have devoted considerable resources to analysing and suggesting refinements to the different options being explored by the ESB and its predecessors and remain happy to assist.

The Hybrid Model as described will not support the energy transformation

As above, EA does not believe the hybrid model, specifically the Priority Access (PA) model is workable. We have strong concerns that implementing either PA option will damage the investability of the NEM.

Under the current investment environment, developers seeking to build new generation and/or storage consider a range of inputs and input operating assumptions when selecting a site location. These decisions feed into the business case for development and can include considerations such as fuel source, political goodwill, financial support, simpler planning and licensing frameworks, existing land holding and/or plant ownership, and social license etc.

We note that both PA model options seek to introduce a new, additional variable which would overlay on top of the inputs into a developer's commercial decision to build an investment. The model options, while attempting to influence a development's location, will also introduce new regulatory risks associated with the priority number assigned. How fast or slow the developer progresses its business case on commercial merit, is now influenced significantly by this regulatory risk which has critical impacts on connection, dispatch, contracting and financial support – all of which can render the proposed investment unviable.

Exploring each of these related impacts in turn:

- Connection – as acknowledge by the Consultation Paper, the introduction of a priority model in place of the open access framework may result in a rush by participants³ to secure the lowest priority number possible and available to them. It is likely this rush to reach the nominated connection status in a finalised priority model would put additional pressures on TNSPs and AEMOs connections framework, which is already severely strained.

While EA supports the ESB's suggestion of complementary policy such as 'use it or lose it' to weaken the likelihood of speculative projects seeking access and a best priority position as a 'placeholder', this will not resolve the administrative risks raised above.

³ ESB Transmission Access Reform – Consultation Paper, May 2023; page 29

In addition, new developers face competition from REZ coordinators – although an analogous process to assign a priority number is anticipated, we believe it would be difficult to design such a process fairly and free from biases. Comparing non-REZ generators with REZ coordinators is akin to comparing apples with oranges.

As a result, we are concerned that viable projects that intend to connect and build will face an increased degree of complexity and risk when designing their projects, and ultimately may not result in its most efficient version. Or even worse, may not connect in the NEM at all.

Further, project proponents may decide to forego additional project capabilities such as the provision of security services, in order to secure lower (more valuable) priority access. The cumulative result of this decision by multiple projects in weak areas of the grid may actually result in more system related constraints binding, ultimately penalising these projects in dispatch over and over again.

- Dispatch – access to dispatch and therefore revenue generation is a fundamental consideration for developers. It is well known that congestion risk, including competition risk (i.e. another developer connecting in front of an incumbent) can limit the commercial value of incumbent generation plant. To combat this risk, developers seek to undertake due diligence and forecast modelling to assess these risks (among others) before taking a final investment decision.

EA strongly believes that the proposed Enhanced Information reforms will greatly assist in this important commercial development decision by increasing the potential magnitude and breadth of available information and decreasing the information asymmetry experienced in today's environment. Much more emphasis should be placed on uncovering the risks of congestion and the value of modifying access arrangements by AEMO's ISP studies. This work program should identify trends in congestion impact under the optimal development paths versus the counterfactual case, to inform the policy approach and benefits of access reform.

While the PA model seeks to influence locational signals, it also places unbalanced risk on new developments through the allocation of 'high' priority dispatch numbers. The nature of the proposal under either priority access option would therefore limit the dispatchability of new generation during congested periods, when compared to existing incumbents. EA believes this limitation can be improved by correctly implementing grandfathering provisions which balances hard/high access over the life of the asset for incumbents, with a suitable glide path to take into account new supply expected in a region. Ideally, grandfathering should be designed to protect dispatch by balancing the need for new investment with the operational costs of incumbents. We consider that the ISP and announced REZ could be used to develop this assessment, implemented by the AER.

However, the introduction of a priority model may also, as set out in the paper, “result in even less efficient energy dispatch than today”⁴. This infers that the CRM will be needed to correct these inefficiencies, otherwise the objective of PA is not met, and the policy no longer as has merit. EA is concerned that the investment and operational models are not being designed as mutually exclusive but complementary – it was not the intention of the original CRM design for mandatory participation by stealth.

Earlier this year, the CRM was being designed as a sequential, voluntary market akin to existing ancillary service markets. This approach had broad industry support because it enabled participants to determine if the value in the CRM made it worthwhile to offer a service. However, the reliance of PA on CRM participation in the consultation paper appears to move the CRM from opt-in status to effectively compulsory participation as the means to correcting efficient generator dispatch and therefore revenue adjustment. Ultimately, this change to dispatch could result in material revenue impacts for generators, introducing risks which cannot be managed. We encourage the ESB to explore this issue in further detail, including clarifying how generator dispatch in other key reforms such as the system strength framework (e.g. where the participant is providing a system strength service to a TNSP) or the proposed Operational Security Mechanism, would work alongside the PA model.

- Contracting – generators enter into commercial agreements as a way to protect their investment and generate a return. Typically, power purchase agreements will either be volume or price based, setting specific targets and operating conditions for the generator and its counterparty. EA is concerned that the increased complexity associated with the introduction of PA could result in less flexibility or increased overall operating risk being placed on a generator, particularly where a less favourable priority number has been assigned.

It is hard to assess the impact of PA on contracting at this early stage, however we consider a few scenarios could play out. Firstly, generators with volume targets may decide to ignore their priority number and bid to the floor. In this instance, the CRM is of no additional benefit to them, and a priority number has not adjusted their bidding strategy. Secondly, generators with price risk and a high dispatch priority are severely penalised, such that they cannot meet their contractual obligations and their project (and possibly company) collapse. The risk outlined in the second scenario is likely to be more probabilistic and the scenario itself may also act to deter investment by impacting the bankability of new projects where the threat of similar actions is deemed even conservatively possible. This outcome would not help to bring on new investment nor would its collective impact serve to meet political interests and existing government targets.

- Financial support – as outlined in the section on contracting above, priority access has the ability to increase the level of complexity and regulatory risks associated with the development of new investments. In today’s inflationary climate, financiers are already taking more conservative steps to protect their

⁴ ESB Transmission Access Reform – Consultation Paper, May 2023; page 17

financial investments. EA is concerned that a high priority number assigned to a new development could equate to more stringent financial conditions being placed by an underwriter, and that this risk could increase the costs of capital. This could mean that ordinarily viable projects are no longer bankable, pushing up the capital costs of future investments, and ultimately making the energy transformation more expensive for consumers.

The CRM must remain voluntary, viable standalone market

The CRM was initially progressed as a voluntary market which would become 'live' during periods of congestion. At such time, participants with energy market bids (buyers and sellers of congestion relief) could access this market where they saw mutual benefit. EA continues to support this version of the CRM. We do not support any direct or indirect step which facilitates mandatory CRM participation.

EA is comfortable with the broad operating design of the CRM as captured in the Consultation Paper. To continue to provide industry with confidence that the CRM market will be liquid, well governed and efficient, we support further detailed design work by AEMO and ESB's consultants, particularly publication of the CRM prototype. The prototype is an important tool to build industry awareness on the operational structure of this new market service. Implementation of the CRM should provide industry with long lead in times for testing, assurance and broad market readiness.

With respect to CRM settlement residue, bidding structures and interactions with FCAS markets, EA supports the Australian Energy Council's position.

A revised 'hybrid model' provides an immediate pathway forward

EA understands the urgency placed on the TAR reform by ESB and Energy Ministers. We agree that early action in this space will minimise the risks of congestion in the future. However, the proposed investment model crosses over the boundary into risks that should be commercially managed. In the current open access framework, these risks are inherent in any project development business case and well understood by developers. Contingencies (such as contracting, underwriting or discounting etc.) or conservative forecasting should be implemented by the developer where final decisions are taken.

To better assist developers, EA strongly encourages the ESB to reconsider the hybrid model, by parking priority access for the foreseeable future. Instead, a revised hybrid model should be presented to Energy Ministers as enhanced information and the CRM.

Enhanced information provides an immediate workable solution to the investment timeframe objective, without creating significant regulatory risk which cannot be managed in a similar manner by all market participants. Enhanced information also complements the ISP and has the ability to enhance the viability of existing REZ connections as well as efficient non-REZ projects. Similarly, the reform enhances the bankability of projects in the eyes of financiers, and also helps developers consider the appropriate cost-to-value of additional system capability – this is good for their project and the grid.

To ensure the revised hybrid model has met the TAR reform objectives, EA encourages the ESB to build a market review mechanism into the forthcoming AEMC rule change.

This process, conducted at a minimum 24 months post implementation, would enable the appropriate regulatory body to assess and determine if additional investment and/or operational time period reforms (in conjunction with other NEM-wide market settings and proposed reforms at such time), is necessary.

Another feedback loop and clarity on implementation required

As noted above, the PA model and other key elements of CRM design have been published for the first time in this Consultation Paper. The relatively short amount of time vs the proposed market impacts rendered indicate that another feedback loop is necessary to update stakeholders on a final proposal to Ministers before a decision is taken. EA believes that a short summary document and public workshop would sufficiently address this issue, while also enabling ESB to report back to Ministers in their allocated timeframe.

Irrespective of the final policy, the reform, once implemented will have significant financial, operational and system impacts. Implementing this as a package, in addition to other NEM reforms would place significant HR and cost constraints on AEMO and the industry. Instead, a consideration of a stepped approach would be more palatable to all participants. This would better:

- highlight the costs and benefits of the proposed hybrid model;
- balance deliverables, improve implementation transparency and provide AEMO more time to get critical operation systems working (i.e. NEMDE);
- provide participants with a suitable testing and production environment;
- align with AEMO's NEM Reform timetable; and
- spread implementation costs across financial years.

If you would like to discuss this submission, please contact me on 0422 399 181 or Dan.Mascarenhas@energyaustralia.com.au.

Regards

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