18 October 2018

Ms Suzanne Falvi
Executive General Manager
Australian Energy Market Commission
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Working for your business.
Working for South Australia

Dear Ms Falvi

I write in response to the AEMC's request for submissions to its options paper for Coordination of Generation and Transmission Investment. This is provided subsequent to Business SA's submissions to your discussion paper and AEMO's Integrated System Plan (ISP) consultation.

Executive Summary

- Business SA remains supportive of the AEMC's work to develop the Finkel Review proposal of renewable energy zones (REZ) to ensure that as a nation, we build the renewables where they are best placed to generate power within the bounds of having to be supported by cost-effective transmission infrastructure, including new interconnectors
- If AEMO are to move towards a more decision-making role as national transmission planner, espoused by some of your papers' options, then that exercise must run in conjunction with a new national approach of cost allocation for new infrastructure required to facilitate REZs
- Business SA recognises ElectaNet's work to engage with consumers in relation to its major project plans and we would expect AEMO to take a similar approach should it be given additional powers in transmission planning to enable REZ across the NEM
- A means to provide for contributions from renewable generator proponents towards REZ transmission infrastructure should not be considered entirely on the basis of whether or not firm access can be provided, but should be judged based on the probability of access from pre-existing data with charges adjusted accordingly

Should you require any further information or have questions, please contact
Andrew McKenna, Senior Policy Adviser, on (08) 8300 0000 or andrewm@business-sa.com.

Yours sincerely,

Anthony Penney

Executive Director, Industry and Government Engagement

Why this matter is important to South Australian businesses

As South Australia's Chamber of Commerce and Industry, with a history dating back to 1839, Business SA is the peak business membership organisation in the State. Our 3,200 members are affected by this matter in the following ways:

- The increase in electricity prices, particularly over the last two years, has had a material impact on South Australian businesses with major spikes for both small and large market customers; and while the most acute price impacts have somewhat eased, South Australian prices remain the highest in the nation and well above historical averages
- South Australian businesses recognise the need to do their share of carbon reduction in accordance with Australia's national target but cannot afford to go beyond that when price constrained against their interstate and overseas based competitors, particularly when South Australia has already achieved 50% renewable penetration
- If future interconnection can open more possibilities for firm hedging between NEM regions, the well documented issues around concentration of competition in South Australia can be mitigated against

Key Policy Points

1. While Business SA recognises there would be a material change in market dynamics to implement some of your proposed options, particularly where AEMO has greater decision-making power in planning over transmission infrastructure across the entire NEM, we are mindful that AEMO already directs transmission investments in Victoria. While we are not aware of any material concerns related to how the transmission planning system works in Victoria, we think your consultation would benefit from a more specific focus on AEMO's performance there.

   Notwithstanding, we are cognisant that any change in market function for AEMO, particularly of the magnitude discussed in your options paper, would need to entail a shift in culture to one which is much more consultative with consumers, including their representative groups. While AEMO's role to date has been largely at the technical end and focused on keeping the lights on, if it were to take on a much broader transmission planning role, it would need to be mindful of the need to consult consumers for any major proposed expenditures they are ultimately paying for.

   While consulting consumers always needs to be relative to the benefits gained from doing it, and Business SA recognises the associated costs and does not advocate for unnecessary and costly consultation, we are mindful that existing transmission networks like ElectraNet do a good job of consulting with consumers and we would not want to lose that ability to feed into major decisions on transmission infrastructure. Having the right people accessible to consumers can also form part of a cost-effective approach to consultation, as is proactively communicating on matters with material impacts.

In any case, Business SA would still want to see AEMO work very closely with transmission network service providers (TNSP) like ElectraNet to ensure their practical experience of operating the transmission network is adequately accounted for in any planning requirements across the NEM, and that their expertise can be leveraged to make the best decisions in the long-term interests of consumers.

2. Business SA acknowledges that Engie have floated a suggestion for TNSPs to issue transmission bonds to underwrite transmission infrastructure projects; which would enable generator project proponents to choose which projects they would like to underwrite.

   While this idea could have merit, in effect generator project proponents would still have to come up with finance to purchase the bonds and may not bill willing to do so without a sufficient guarantee of firm access to the network.

   Business SA acknowledges this conundrum has stalled network reform proposals in the past but we do not believe a lack of firm access should necessarily inhibit renewable generator proponents from contributing towards new infrastructure to facilitate REZ.

   In compiling a business case to build anywhere on the grid, a renewable or any other generator proponent must make an assessment about the degree to which they will be able to operate within the existing market. While a business case to build in a REZ may involve an additional cost of infrastructure, no differently a generator proponent would still need to make an assessment about the degree to which they are likely to actually generate. Accordingly, there is no reason why renewable generator proponents cannot make a proportionate contribution to new transmission infrastructure costs required for a REZ based on an AEMO pre-determined likelihood of the degree to which they will be physically able to supply the market. While in practice, this could mean a renewable generator might for arguments sake only pay 50 percent of their pro-rata REZ costs, it would still help to significantly reduce the risk on consumers from footing the entire bill for new REZ infrastructure.

   Considering the rapidly declining cost of renewable energy, it is not unreasonable to expect that proponents of new renewable generators in REZs to be in a position to make a fair contribution towards any new infrastructure costs, particularly expensive new interconnectors.

   To assist renewable energy generator proponents to make contributions towards REZ costs, the Clean Energy Finance Corporation(CEFC)'s remit could be extended to providing long-term debt finance to strictly vetted applicants to facilitate up-front REZ infrastructure contributions. The CEFC already has established structures in place to prudently finance the renewable generation sector and would seem the best placed vehicle to enable REZ finance.

   The CEFC is likely to deliver $100 million in financing support for the South Australian Government's home battery scheme and it would be a logical step for the CEFC to assist renewable generator proponents in proposed REZ to contribute towards additional infrastructure costs, taking some of the risk and cost off consumers.

3. Grid-scale storage has now become a permanent fixture in South Australia and is also helping to provide grid security services across the NEM. The 100 MW (129 MWh) battery at the Hornsdale Wind Farm in South Australia's Mid-North and 30 MW (8 MWh) battery at the Dalrymple substation on the Yorke Peninsula are both substantial investments, delivered with Government funding and built in response to concerns about electricity security and reliability where there is a high penetration of intermittent renewables.

   There is every chance that more grid-scale storage will enter the market and akin to our argument that renewable generator proponents should contribute towards any new REZ infrastructure needs, there is no fundamental reason why batteries should not pay something for access to the network, even if that cost is relative to their actual ability to contribute electricity related services. Now that AEMO will be building a database of how often batteries are being relied upon in the market, if new batteries are proposed in REZs, some relative contribution towards new electricity infrastructure costs can be worked out for the proponents of these batteries. Like consumers, they rely on 'receiving' electricity from the grid and should contribute toward Transmission Use of System (TUOS) costs. Again, such costs could be financed through vehicles such as the CEFC so grid-scale battery proponents would not face unreasonable hurdles to delivering desirable projects.

4. In terms of all the options, Option 3 is likely to provide the best balance between AEMO's involvement in national transmission planning and the incentives imposed on mostly private transmission businesses to make prudent investment decisions on behalf of their shareholders, and in the interests of consumers.

5. Business SA has long highlighted our members' frustrations at being told we have a national energy market when in effect the NEM operates as a series of partly connected state-based markets, with state governments retaining power over their specific jurisdictions. Over the last few years in particular, consumers have suffered because of a lack of political agreement on energy policy, which is not a real surprise when the whole system operates through agreement between all eight state/territory governments and the federal government, which invariably have a mix of political leanings.

   While the new South Australian State Government is working constructively with other governments, the long-term goal should still be harmonised control of a national market such as exists for telecommunications, a point Business SA previously espoused in our 2017 Finkel Review submission. In the interim, any move towards national decision making for transmission infrastructure investments needs to account for the fact that pricing outcomes are still practically determined at a state level.

6. Business SA has repeatedly made the point that at a conceptual level, renewable generation should be situated where it is best placed to generate, within the bounds of the efficient capital costs required to build REZ transmission infrastructure to facilitate such generation. Subsequently, costs of REZ should be distributed on some per unit measure of NEM consumption to reflect that any new associated infrastructure is only being constructed to meet a national objective, being Australia's carbon reduction target. The long-standing TUoS model will not adequately distribute any additional REZ infrastructure costs to consumers based on the logic that the entire country has to meet Australia's Paris Commitment, and not just the consumers in the jurisdictions where the infrastructure is physically located and which are more likely to consume its renewable output. This is particularly relevant for South Australian consumers who already live in a NEM jurisdiction which generates nearly three times its pro-rata share of the national renewable energy generation target.