

18 April 2019

John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Via online submission

Dear Mr Pierce

John

Coordination of Generation and Transmission Investment – Access and Charging (EPR0073)

Hydro Tasmania welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) *Coordination of Generation and Transmission Investment (COGATI) – Access and Charging* consultation paper.

The National Electricity Market (NEM) is undergoing significant transformation through the rapid uptake of renewable energy sources and the retirement of ageing thermal generation. This transformation is leading energy market bodies and participants to rethink the way that the NEM operates.

It is integral that market frameworks are appropriately set to manage this transformation, and deliver the necessary investment in generation and transmission assets for the future energy market, and in the interest of consumers. To achieve this imperative, Hydro Tasmania considers it essential that there is a holistic and coordinated approach to market reform. This includes ensuring that there is coordination between AEMO's Integrated System Plan, ESB's Post 2025 Market Design review and the AEMC's COGATI review. Appropriate coordination and development of market frameworks can underpin the confidence of energy market participants to deliver the required investments.

The AEMC's COGATI review is: (1) assessing potential reforms to the NEM's "open access regime"; and (2) considering the ongoing appropriateness of the Transmissions use of System (TUOS) and inter-regional TUOS (IR-TUOS) charges. Hydro Tasmania is supportive of the AEMC's intent to review TUOS and IR-TUOS settings to ensure these remain fit-for-purpose in the transition of the NEM. However, we do have concerns regarding the AEMC's assessment of access reforms. Our comments on the proposed access reforms are captured in attachment A of this submission.

Hydro Tasmania looks forward to ongoing engagement with the AEMC as this consultation process continues. If you would like further information on any aspect of this submission, please contact John Cooper (john.cooper@hydro.com.au or (03) 6230 5313).

Yours sincerely



Steve Davy
CEO

Attachment A – Hydro Tasmania’s comments on potential reforms to the NEM’s access regime

As part of this review, the AEMC have proposed a three-staged reform to amend the NEM’s open access regime. The three stages of the reforms are:

1. **Implement Dynamic Regional Pricing** by July 2022 to establish a new methodology to determine prices payable to generators at a time of congestion on the grid.
2. **Utilise information from Dynamic Regional Pricing to enhance planning processes** in the NEM.
3. **Implement “Firm Access Arrangements”** by July 2023, allowing generators to purchase some form of firm access, which would underwrite required network investments.

The AEMC have proposed that the COGATI reforms are necessary as there are a number of issues emerging which are ‘... symptomatic of how generators access the network.’ Issues and difficulties identified in the Consultation Paper include: managing and alleviating grid congestion; coordinating grid outages; managing year-on-year fluctuations in marginal loss factors; declining system strength; disincentivising disorderly bidding behind congestion points; managing the quantity of connection enquiries; and ensuring costs are shared between generators to efficiently connect renewable energy zones.

Hydro Tasmania recognises that the energy sector is clearly facing a number of challenges. On this basis, Hydro Tasmania appreciates the AEMC’s motivation to address the concerns identified in the COGATI process. There is a risk, however, that the proposed COGATI reforms may be used as a “fix all” to address various existing and emerging issues. We therefore encourage the AEMC to firmly establish which issues the COGATI reforms are seeking to resolve and which issues may be better considered through other parallel processes or through incremental changes.

- Issues related to implementing firm access arrangements, for example, may be better considered as a part of the Energy Security Board’s (ESB) broader post 2025 market design review.
- Incremental changes to existing frameworks may be a more efficient way to resolve specific issues while other broader market reviews are underway. For instance, the thermal constraint issues that this reform is seeking to address have been efficiently resolved in Tasmania through the use of generator tripping schemes. Similar schemes to those enacted in the Tasmanian region could be implemented in other renewable energy zones around the NEM. In the event that over-development occurs, leading to constraints in specific areas of the network, generator tripping schemes can respond rapidly to system events to ensure the grid remains in a stable and secure operating state. If implemented correctly, generator tripping schemes can effectively double the capacity of transmission corridors, and address issues associated with thermal constraints in the NEM.

Hydro Tasmania suggests that there is benefit in outlining a list of principles to guide the AEMC’s assessment process for the proposed reforms. These principles could include the following:

1. **Provide a demonstrable and enduring net benefit to consumers** through a comprehensive cost benefit assessment process.
2. **Seek to enhance (or at least not hinder) market efficiency.** This should include ensuring that existing transmission is used in the most efficient manner, as well as ensuring that changes will not result in unintended consequences, such as dampening contract market liquidity.

3. **Deliver appropriate new investment in transmission infrastructure.** The role of the grid is fundamentally changing as market participants invest to capitalise on resource rich areas, often at the edge of the grid. It is paramount that proposed reforms will facilitate efficient grid transformation.
4. **Be part of a holistic plan to reform the NEM.** There are a variety of other current market processes and reforms either under consideration (i.e. Actioning the ISP, ESB's post-2025 market design review), or in a stage of implementation (i.e. Five Minute Settlements). This review should thoroughly consider these concurrent processes to understand potential implications under future operating regimes.
5. **Minimise barriers for prospective connecting generators to access the NEM.** Substantial investment in generation assets will be required in the coming years to replace ageing thermal generators. It will be important to ensure that proposed reforms do not create barriers to efficient investment.
6. **Avoid inefficient reallocation of risks between market participants and TNSPs.** It is integral that risks associated with large-scale investments are allocated to those parties best placed to manage that risk. Should proposed reforms result in a reallocation of risks, Hydro Tasmania considers it critical that there is evidence to demonstrate that the party allocated that risk is best placed to manage that risk.
7. **Minimise the impact on investments made under current market frameworks.** The Australian energy sector has seen a significant wave of investment over several years. It is essential that, where possible, any proposed reform to the NEM's access regime avoids undermining these investments made in good faith under existing market frameworks.
8. **Ensure market participants are afforded sufficient lead time to adapt to proposed changes.** Hydro Tasmania considers this would be particularly important to allow for adjustment and/or renegotiation of financial contracts under an amended access and dispatch regime.

Implementing "Firm Access Arrangements"

While details will be developed in the coming months, it appears that the proposed reforms to implement "firm access" are conceptually similar to the AEMC's 2015 proposal for Optional Firm Access (OFA). Noting the similarities between these proposals, Hydro Tasmania considers it may be appropriate to revisit key issues highlighted in the OFA assessment process as part of this review, and to highlight differences where appropriate.

For instance, the OFA process revealed a number of issues and complexities associated with implementing the proposed scheme in the Tasmanian region. In particular, the OFA process identified significant difficulties in managing stability, voltage and Frequency Control Ancillary Service (FCAS) constraints in Tasmania. This nuance of the Tasmanian energy system (alongside other identified issues) ultimately lead the AEMC to conclude that, if implemented, '*...Tasmania would be excluded from the Optional Firm Access model in the first instance...*'¹ Hydro Tasmania notes that these market complexities persist in the Tasmanian region, and are likely to be present in other areas of the NEM where material quantities of asynchronous generation have connected since the OFA process. We consider that this is a key issue for which there is no apparent or ready-made solution, and should be carefully considered as part of the COGATI review. We would welcome the opportunity to discuss these issues further with the AEMC.

¹ Optional Firm Access, Design and Testing – Final Report Volume 1, page 113.