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2 August 2019

COGATI Access Reform Directions Paper

Delta Electricity welcomes the opportunity to contribute to the AEMC's deliberations on the coordination of generation and transmission access as detailed in the Directions Paper of 27 June 2019. Delta owns and operates the 1320MW Vales Point power station in NSW and has a retail licence to sell electricity to large customers. Delta has operated coal and gas fired generating plant in the National Electricity Market (NEM) since its start in 1998 and is an active participant in both the electricity and gas trading markets.

Benefit of Access Reform

The Directions Paper states that transmission access reform is needed due to the limitations of the existing transmission and generation frameworks to manage an unprecedented level of generators seeking to connect to the power system. The AEMC contends that limited locational signals, and speed of connection, is resulting in investors planning to connect in locations with limited transmission access. Delta contends that the easily accessible information from transmission network service providers on transmission access, provides a very strong locational signal. The open access regime means new generators take transmission congestion risk and it is therefore incumbent on the investor to understand this risk and chose sites that that provide suitable access. This may involve cost to the investor of purchasing more expensive land (closer to the main network) or locating in a less than optimal resource area to obtain less congested access. Over time, as generation patterns shift, new regulated transmission will be economically built (e.g. SA-NSW interconnection) that will open up new opportunities for low risk access. The existing issues of falling MLFs and constraints affecting large scale renewable generation will be dealt with by the application of the RIT-T and it is unclear exactly what net benefits will flow from the proposed reform given that the current framework remains functional.

The Directions Paper appears to have exaggerated the magnitude of the transmission access issues when it states that 50GW of generation is foreshadowed for connection over the next 10 years. AEMO's 2018 ISP projects 12GW of generation with Snowy 2.0 through to 2028. Most of this generation capacity is already committed or is highly likely to be built before any new transmission access framework will influence locational decisions. Beyond 2022, State based renewable subsidy schemes may still incentivise new generation capacity but there is no evidence of any lack of suitable sites close to the main backbone of the grid. At this time the case for change is yet to be properly developed.

Alignment with ESB 2025 Market Frameworks Review

Delta reiterates its view that the CoGaTi work be linked, or even integrated, with the ESB's Post 2025 Market Framework review. It is understood that the ESB's internal working group will liaise with AEMC on CoGaTi, but there is no explicit requirement for the ESB to consider AEMC's work. It is



possible that the AEMC progresses a major transmission framework reform that is inconsistent with the ESB's market framework blueprint

The timeframe for implementing the proposed access reform immediately follows the implementation of 5-minute settlement. It is highly likely that interactions between reforms will clash and require additional changes to ensure the efficiency of the market is maintained.

Reform Risks

The implementation of the proposed dynamic regional pricing and transmission hedges presents some specific risks to the efficient operation of the physical and contract electricity markets. As explained by James Flexman from Mercury at the July CoGaTI forum, New Zealand has experienced market power issues. Market power, as articulated in the Directions Paper, could arise in relation to transmission hedges if there is potential for generators to induce congestion through their bidding in order to increase the size of residues and if market participants stockpile hedging products or use them to manipulate market prices. Such market power concerns warrant a thorough assessment of the nature of market power under a dynamic pricing and transmission hedging regime and whether the risks presented are too great for the unique characteristics of the grid.

The electricity market is reliant on an efficient and liquid electricity contracts market. The regional reference node structure generally works well for participants contracting within a region as intra-regional congestion is generally not problematic and inter-regional contracting is possible, but limited by the effectiveness of SRA's. Whilst difficult to quantify, moving to regional dynamic pricing will impact the contracts market. It will be critical for generators located in a constrained part of the market to acquire transmission hedges. The effectiveness of these hedges will need to be assessed for the level of firmness and cost. Whilst it can be argued that transmission hedges may in theory support contracting, that will be dependent upon generators being able to afford and acquire these hedges.

Timetable and Transition

The Directions Paper includes a very ambitious timetable given the amount of work still to be done on assessing net benefits, finalising designs and implementing arrangements. Sufficient time needs to be allocated to ensure there are no unintended consequences or risk to the efficient functioning of the NEM. For example, Appendix C of the Directions Paper highlights the range of complex settlement issues to be resolved.

Of particular concern is the lack of clarity at this stage as to how the proceeds of the sale of transmission hedges would facilitate the timely and economic development of new transmission infrastructure. There is no modelling on the potential size of the funds and how those funds will be allocated, and how this aspect of the proposed reform will integrate with the RIT-T.

Grandfathering of access

Under the current open access regime, existing and new generators accept the risk of congestion and in return do not pay Transmission Use of System charges. Consumers have the benefit of network reliability standards and as networks have been developed to economically transfer electricity from a relatively small number of large generators in set locations, it is reasonable that consumers pay for the development of the shared network.



The rationale for reform is a lack of locational signals in the transmission framework and investors are planning to place their new generation in parts of the network subject to congestion. The reform is driven by the prospect of a very large number of small generators and it is proposed for the purpose of a smoother transition that existing generators be grandfathered a level of access commensurate with their existing access. This is an equitable approach that will effectively recognise the cost of congestion that may already been incurred by the generators located in congested parts of the network. This approach also deals with the complexity and potential exercising of market power, if transmission hedge auctions commenced for all existing generation locations.

Renewable Energy Zones

As noted in the Directions Paper, more work needs to be done on how amendments to the transmission frameworks could reduce the overall cost of generation and transmission integration in the NEM. It is unclear how an 'open season' under Option 1 could work in practice given high levels of uncertainty around whether any or all proposals would progress to investment. Option 2, where there is sharing of costs between consumers, generators and network service providers, is worthy of further assessment but ultimately consumer will be exposed to a large portion of risk arising from very long lived, high cost, transmission assets that becomes stranded or heavily underutilised.

Summary

Delta recommends the AEMC give due consideration to:

1. undertaking a detailed assessment of the risks presented by this reform to ascertain if there are clear net benefits to consumers;
2. integrate or formally align CoGaTi with the ESB's Post 2025 Market Frameworks review to avoid a potential mis-match in outcomes or a less than optimal market framework proposal;
3. include a grandfathering of access for existing generators as part of the reform blueprint to avoid unnecessary complexity and risk associated with an all-inclusive approach;
4. review the development timetable to ensure sufficient time is allocated to design, consultation assessment and risk analysis; and
5. provide a clearer picture of the how the proceeds of transmission hedges will actually facilitate economic development of transmission that is in the best interest of the consumer.

Delta is a member of the Australian Energy Council (AEC) and supports its submission to this consultation. In particular, Delta would like to draw the AEMC's attention to the responses the AEC has provided to the specific Directions Paper questions.

Delta looks forward to a continuing engagement with the AEMC on developing the details of the access regime. To discuss any questions arising from this submission, my contact details are m:0408488961 and email tony.callan@de.com.au.

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