

8 November 2019

Tom Walker
AEMC
Lodged via AEMC website
Project Reference Code EPR0073

Dear Mr Walker,

RE: Discussion Paper, COGATI Proposed Access Model dated 14 October 2019

Brickworks Limited (“Brickworks”) welcomes the opportunity to comment on the Discussion Paper for the Coordination of Generation and Transmission Infrastructure (“COGATI”) Proposed Access Model (“Discussion Paper”).

Brickworks is a domestic manufacturer of building products and a large electricity consumer consuming over 90 GWh per annum in the National Electricity Market (“NEM”).

Brickworks does not support the introduction of dynamic pricing nor any change to the wholesale pool price mechanism to address physical limitations with existing transmission capacity. The dynamic pricing and transmissions right mechanisms outlined in the Discussion Paper represents a major change to the financial operation of the NEM which we believe will have an unpredictable impact on contractual arrangements between market participants and between market participants and large electricity consumers. We believe that the proposed change from regional reference prices to dynamic locational pricing for most generators and a new single reference price for most customer load would significantly increase the financial risk to market participants and create unnecessary uncertainty at a time when the market needs policy certainty above all else. Any increased financial risk to market participants will inevitably lead to higher risk premiums being added to prices offered to large electricity consumers by retailers.

Brickworks notes that many large electricity consumers have entered into Power Purchase Agreements (PPAs) and we are concerned that a significant change to the operation of the NEM pool price may lead to large electricity consumers incurring a financial loss if dynamic pricing is introduced. It is unclear how PPAs, and other derivatives and complex agreements between parties, will financially settle should the existing regional reference price be effectively split into two separate prices. We believe that this could cause widespread disputes between parties, and even worse, may lead to a halt in day to day trading between market participants. If such market disruption was to occur, this would have a negative impact on retailers being able to price large electricity consumers.

Brickworks is also of the view, that dynamic pricing and transmission rights as proposed in the Discussion Paper do not actually address the underlying issue that led to renewable generators being built at locations where there is insufficient transmission capacity. A significant cause of the economically illogical outcome of investing in generation assets at locations where generation revenue is reduced because of transmission congestion, was due to a lack of publicly available information on transmission capacity at the location, the intentions of other parties to install additional generation near the location, and the residual capacity that

would be available if planned generation projects were built. Even if dynamic locational pricing was introduced, it can only ever signal the current status of transmission congestion within a node and provides no information on the future congestion status should there be planned transmission upgrades or, in the case of end of life generation assets, existing generators were to close. We are therefore, doubtful that the AEMC proposed solution to introduce dynamic pricing to solve physical limitations on transmission capacity is fit for purpose.

We support the development of detailed modelling on the financial impact on market participants if dynamic pricing was introduced which would assist with validating the qualitative benefits outlined in the Discussion Paper. Detailed modelling should include scenario simulations to assess how changed bidding behaviours would affect financial outcomes due to market participants changing their bidding strategies to optimise their financial outcome under the new environment. Potential financial outcomes should then be assessed on how this may impact the costs paid by energy consumers.

Brickworks recommends delaying any proposed change to introduce dynamic pricing until a more fulsome review occurs under the COAG Post 2025 Market Review which will consider a broad range of issues impacting the electricity market.

Brickworks is not a market participant and therefore has not responded to the specific questions contained in the Discussion Paper.

Brickworks supports the submission of the Energy User Association Australia on the Discussion Paper and we welcome further discussion with the AEMC on our submission.

Yours sincerely,



Melissa Perrow
General Manager Energy