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Australian Energy Market Commission
Sydney NSW 2000
By online submission

Transmission Access Reform – Consultation Paper

Alinta Energy welcomes the opportunity to provide feedback to the AEMC's consultation paper on Transmission Access Reform. depress

Alinta Energy notes the difficult history of transmission reform in the NEM and acknowledges that the underlying reform objectives described in the consultation paper are seeking to address genuine and material shortcomings of the NEM design that, unmitigated, could contribute to increased costs for consumers in the long run.

Alinta Energy remains of the view, expressed in its submission of May last year to the Energy Security Board, that the proposed hybrid model is an improvement on previous iterations of transmission access reform. However, we also continue to have reservations about the practicability of the model, particularly the more complex options associated with the congestion relief market and note that the proposed timeline for providing a recommendation to the Energy Ministers is likely to constrain assessment of some of the options outlined in the consultation paper. As such, Alinta Energy considers that the AEMC should consider an extension of time to further consider such options. In doing so, it would be appropriate to consider other Federal and state reforms already underway, possible impacts from future reform programs such as the anticipated 'NEM 2030' program and simpler alternatives such as jurisdictional control over connections in the NEM.

Our responses to the consultation paper's questions are contained in the attachment.

If you would like to discuss this further, please contact me at hugh.ridgway@alintaenergy.com.au.

Yours sincerely,

Hugh Ridgway
Wholesale Regulation Manager

ATTACHMENT

Question 1: What are stakeholder views on the cost-benefit analysis?

Noting that the AEMC has decided against undertaking a new cost-benefit analysis, the AEMC should ensure that the following caveats of the analysis form part of the eventual recommendations to Energy Ministers:

1. It is apparent that most of the benefit of the hybrid model is attributed to priority access, while most of the complexity in design, implementation and operation is associated with the congestion relief market. A 'soft' version of priority access is likely to provide sufficient locational signal to investors without severely impacting the efficiency of dispatch - even in the absence of a congestion relief market.
2. The cost benefit analysis does not consider a counterfactual which has a simpler and cheaper solution to managing cannibalisation of transmission capacity and locational investment signals, which is to simply have jurisdictions exercise control over access to the NEM. It is also worth noting that initiatives such as the Capacity Investment Scheme (CIS) effectively already allow jurisdictional control of the location of investment in the NEM since the location of a project is a merit criterion in the CIS. If such initiatives are to accelerate the transition to net zero they will need to extend well past 2030 and for the duration of the transition; or be replaced with something similar.

Question 2: What are stakeholder views on the result of the prototyping analysis? Is there any additional analysis that would be useful?

No comment.

Question 3: Noting that this work is still being completed, do stakeholders have any initial views on how modelling priority access would impact investment decisions?

No comment.

Question 4: Each priority access allocation model option outlined in this section addresses the problem and reform objectives to different degrees. Which model option do you prefer and why?

We consider that 'option 1: grouping by time-window' is the best model for the following reasons:

1. Option 1 is the simplest of the four options and is likely to be both easier to implement and less likely to lead to emergent, unanticipated outcomes.
2. As noted in the response to question 1 above, 'hard' priority is not necessary to achieve the reform objectives. A soft priority access is also less likely to run counter to other important locational signals. As a general principle, investors should also not locate in areas where they are likely to be constrained off due to their connection point being subject to poor constraint coefficient outcomes, because this represents inefficiency in dispatch. This needs to be balanced against the objective of avoiding cannibalisation of transmission capacity.
3. Options 2 and 3 create an unnecessary special rule for REZs and risk undermining the core goal of this reform by excluding generators in REZs from being subject to the intended locational signal for investment. There are more direct means for jurisdictions to support REZs that do not compromise NEM design.
4. Option 4 presumably relies on pre-dispatch inputs which are unreliable indicators of dispatch outcomes and represents a significant variation in the design of priority access as demonstrated in AEMO modelling to date. It is unlikely that exploration of this option will be feasible given the aggressive timeframe for the AEMC to make its recommendation to Energy Ministers.

Question 5: Assessment of CRM implementation approaches. What are the relative advantages and disadvantages of each design? Do stakeholders have a preferred design and if so, why?

There is insufficient evidence as to the practicability of co-optimised dispatch to support it at this stage and, as for the dynamic grouping option for priority access, the timelines of this reform make further exploration of this option likely infeasible.

Question 6: What are stakeholder views on the observations and AEMC initial views regarding impacts of the hybrid model on PPAs?

We agree that so long as the congestion relief market remains opt-in and existing and committed generation is grandfathered under priority access, the impact to existing PPAs is not a material concern.

Question 7: What are stakeholder views on the impacts of the hybrid model on financial markets? Specifically:

- **How the proposed access model, or particular aspect(s) of the model, may impact their ability to manage price risk in the market?**
- **The subsequent impact that a reduced ability to manage price risk may then have on participants' hedging costs**

Anything that adds complexity and risk to the physical and spot market (which the congestion relief market does) is likely to change participants' risk appetite and desire to sell firm contracts (such firm contracts are required by retailers and large customers to hedge their price risk). Consequently, there is a risk that the complexity represented by this reform (and particularly the congestion relief market) reduces the supply of such contracts, increasing costs to consumers.

Question 8: Feedback on wide-reaching constraints Do stakeholders consider that priority access could increase investment risk due to wide-reaching constraints? Do stakeholders consider that there is value in implementing the dynamic grouping option for priority access to mitigate this concern?

It is difficult to assess what impact the combination of wide-reaching constraints and priority access may have on investment risk considering the full technical or commercial life of an asset. It would be expected to increase risk for the early life of an asset and decrease it later - as the asset is granted priority over subsequent projects and older, high-priority generation retires. However, as stated in our response to question 4, while there may be some theoretical advantages to dynamic grouping, we doubt that there is adequate time for the AEMC to define requirements, AEMO to develop the requisite algorithms, test, and consult with participants to determine feasibility within the AEMC's timeframes.

Question 9: Feedback on detailed priority access design choices What are stakeholder views on the detailed priority access design questions and the AEMC's preferred positions?

Duration of prioritisation:
The AEMC's preferred position does not consider how a life-extending maintenance or augmentation (which may be efficient) should be treated under this regime. If an asset owner invests in such a way that the effective life of the asset is extended, this should be recognised by the framework. We recommend that the AEMC consider 'bookmarking' an asset when a life-extending investment is made and re-evaluate the life of the asset at that point in time. This bookmark can be used to determine the asset's priority after the asset's initial technical life has expired.

For example: Generator A, with a ten-year commercial life is given priority one for ten years. At year seven, an investment is made which extends the commercial life of Generator A for another five years (to year fifteen). Generator B is built in year seven and is given a priority of seven at the time and a priority of four at year ten. At year ten, Generator A would lose its priority one and drop back to priority four (same as Generator B) for that year and treated the same as Generator B for the following five years of its extended life.

Legacy generators:
We support the AEMC's preferred position that legacy generators should be grandfathered as described in consultation paper, with the notable adjustment to the prioritisation duration proposed above.

Options for the timing of allocation of priority to generators
We support the AEMC's preferred position on both REZ and non-REZ generators. A criteria-based approach appears sensible.

Quantity of generation capacity linked to a priority level
We support the AEMC's preferred position.

Question 10: Feedback on detailed CRM design choices Do stakeholders have further views on the detailed design choices for the CRM that were explored by the ESB? Are these views related to a preference for a two-step or co-optimised implementation approach discussed in chapter 5? What are stakeholder views on tethering, including the relative advantages and disadvantages of each design and any preference?

Tethering:
We acknowledge AEMO's concerns around an untethered approach for access dispatch; however, we disagree with the statement that the benefits for the hybrid model would 'only be slightly lower than those estimated in the cost-benefit analysis as a result of tethering dispatches'. If access dispatch is tethered to physical dispatch in the manner proposed, units that cannot ramp to full output within a trading interval (including most thermal units, wind farms, pumped hydro etc) with high priority would never accept a physical dispatch below their maximum availability minus their maximum ramp up rate over a trading interval, since this would preclude them benefitting from their priority in access dispatch in the following trading interval. This would severely limit their participation in the congestion relief market.

We also note for accuracy that NER 3.8.3A provides for a minimum ramp rate that does not generally allow generators to bid in zero ramp rates and therefore a participant would not be able to lock in a dispatch target permanently under an untethered dispatch.