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Australian Energy Market Commission

6 June 2024

Transmission access reform

AGL Energy (AGL) welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) Transmission access reform (TAR) consultation paper.

About AGL

Proudly Australian for more than 186 years, AGL supplies around 4.3 million energy and telecommunications customer services. AGL is committed to providing our customers simple, fair and accessible essential services as they decarbonise and electrify the way they live, move and work.

AGL operates Australia's largest private electricity generation portfolio within the National Electricity Market, comprising coal and gas-fired generation, renewable energy sources such as wind, hydro and solar, batteries and other firming technology, and gas production and storage assets. We are building on our history as one of Australia's leading private investors in renewable energy to now lead the business of transition to a lower emissions, affordable and smart energy future in line with the goals of our Climate Transition Action Plan.

Overview

AGL suggests that Priority Access and the Congestion Relief Market (CRM) should be abandoned.

We expect Priority Access will undermine investment, distort dispatch, and slow the transition.

We expect the CRM will have limited participation and opportunities for trade, and we do not consider that its benefits will outweigh the likely high costs of implementation.

Our key points, which are outlined below, are as follows:

- The TAR goal to reduce generation investment by 20GW by 2040 will increase the cost and risk of generation investment and slow the transition
- Protecting REZs from freeriding must not come at the cost of slowing the transition
- AEMO's modelling that Priority Access will distort dispatch is very concerning
- The CIS, REZs, and Enhanced Information will resolve poorly located investment
- A robust cost benefit analysis on the CRM or Priority Access has not been completed
- We are concerned the CRM will not remain voluntary, despite commitments to the contrary
- CRM and Priority Access design has stalled due to insurmountable challenges

The TAR goal to reduce generation investment by 20GW by 2040 will increase the cost and risk of generation investment and slow the transition

The bold intention of TAR, as derived from the cost benefit analyses', is to reduce NEM generation investment by 20GW by 2040 without a reduction in generation output. The suggestion is that without TAR 20GW of mostly solar generation investment will be built and not increase generation output. AGL does not consider this is possible and expects that if TAR is implemented it will lead to a significant reduction in both generation investment and renewable output. We expect it will increase the cost and risk of generation investment and slow the transition. While the AEMC and ESB have occasionally briefly recognised this concern and dubbed it the solar stopper argument, it has not been given adequate consideration generally or in the modelling.

Priority Access is designed to protect incumbents, and AGL's existing generation fleet will benefit from that protection if TAR proceeds. However, AGL's Climate Transition Action Plan which includes a target of 12GW by 2036 is our key focus, and we are concerned that the Priority Access mechanism will make achieving this target more difficult.

We expect Priority Access will undermine investment in the following ways:

- Investment blocked by Priority Access may not occur elsewhere in the NEM, may occur on a smaller scale, or may occur at a later date.
- Priority Access makes congestion the primary factor in an investor's decision on where to locate, trumping other key locational factors such as availability of renewable resources, access to cheap land, social licence concerns, and synergies with existing plant or load. Priority Access can therefore undermine important locational signals and complicate the planning process, particularly when it leads to new investment having to relocate.
- Priority Access undermines investment even in areas which would be considered to have low congestion risk, since with Priority Access unexpected changes in congestion will be borne by the last entrant instead of being spread across other generators in the area.
- Priority Access will complicate development, financing, and connection by making competing for dispatch priority a key goal.
- Priority Access increases barriers to exit for incumbent generators, since to exit would mean forgoing the advantage of dispatch priority.

Protecting REZs from freeriding must not come at the cost of slowing the transition

Jurisdictional support for Priority Access is underpinned by the idea that it will reduce Renewable Energy Zone (REZ) freeriding. The consultation paper states that Priority Access will enable REZ developments and associated resources to be used effectively and minimise costs for consumers. There are three potential areas of concern in this regard, none of which justify slowing the transition as will occur under Priority Access.

First, there may be a concern that a generator locating just outside a REZ might benefit from the RIT-T funded TNSP investment targeted at improving transmission lines to that REZ. While this is true, it should not be a concern, as RIT-T funded TNSP investment is paid for by customers within the NEM region and therefore there is no consumer detriment or no freeriding if a non-REZ generator benefits from this investment.

Second, under the various jurisdictional REZ schemes state taxpayer funds will be used to build or improve transmission for REZs. However, this does not lead to any freeriding, or detriment to consumers, as the costs will be allocated to all taxpayers across the state and there is no advantage for consumers whether generation is sourced from a REZ or not.

Third, while a non-REZ generator might avoid paying REZ access fees, this is a minor issue that does not justify a gross intervention like Priority Access. Only NSW has determined if it will charge REZ access fees and it has set the fees at a minimum of $2300/MW p.a. i.e. $230K p.a. for a 100MW facility. The intention is that these access fees will go to community benefit such as health, housing, and First Nations projects, and employment. Access fees are not intended to pay for the cost of transmission build, just to benefit communities. Therefore, if a generator builds outside a REZ, and is therefore not required to pay the access fees, they are not freeriding on the REZ investment because the access fees are not part of the transmission investment.

AEMO's modelling that Priority Access will distort dispatch is very concerning

AEMO's Priority Access proof of concept modelling results, which looked at how dispatch outcomes would have changed if higher bid price floors were given to certain generators, showed unintended consequences on dispatch and the regional reference price (RRP). Dispatch was decreased for high priority generators (or increased for low priority generators) for one generator in 30% of case studies. While the RRP was shown to increase in at least one NEM region greater than 5% in 31% of cases and greater than 25% in 13% of cases. We are concerned by both the frequency and magnitude of these unintended outcomes.

The Energy Advisory Panel indicated that Priority Access will lead to less efficient dispatch because generators with higher coefficients (i.e. those that use more of the allowable flow on a transmission network) will be given priority over generators with lower coefficients so more energy will need to be sourced from unconstrained generators. While the CRM will remedy this dispatch inefficiency, the CRM is untested, and it is unclear that it will have enough participation to remedy this issue.

AGL does not expect that the unintended consequences, and impacts on the efficiency of dispatch, caused by Priority Access will be able to be resolved.

The CIS, REZs, and Enhanced Information will resolve poorly located investment

With the Capacity Investment scheme target of 32GW, most investment out to 2030 is expected to be under the CIS. This means that the location of most new NEM investment out to 2030 will already be subject to government review, as the potential impact on network congestion and the effect on other projects connected to the network is a key component of merit criteria 1 of the CIS.[1] As a result, there would be very little benefit to implementing the TAR prior to that, and therefore there is no urgency to proceed with TAR at this time. Regardless, most new generation in the NEM going forward will be in a REZ and subject to long-term energy service agreements supported by government and other instruments which already control access to some extent. The risk of poorly

[1] CIS Tender Guidelines, page 22. https://aemoservices.com.au/-/media/services/files/cis/cis-gen-nem/cis-tender-1-nem-generation-guidelines.pdf?la=en

located generation investment has also already been greatly reduced in recent years due to the increased transparency of new generation and transmission investments through Enhanced Information, the Integrated System Plan, and the Transparency of new projects rule change. In addition, the new mechanisms for the efficient management of system strength should lessen the likelihood that unexpected system strength shortfalls will cause congestion or delay the connection of new renewables.

A robust cost benefit analysis on the CRM or Priority Access has not been completed

AGL does not consider that a robust cost benefit analysis (CBA) has been completed on Priority Access and the Congestion Relief Market. The CBA completed in February 2023 was based on the design of these mechanisms as they existed 16 months ago when the extent to which Priority Access will distort dispatch, including raising the regional reference price, was not known. AEMO has indicated that Priority Access may significantly increase the RRP. We consider this raises the possibility that the expected benefits may be greatly reduced by the RRP increase. In addition, the benefits of the 2023 CBA were based on the time adjusted benefits of a 2020 NERA CBA which assessed the benefits of introducing Locational Marginal Pricing and Financial Transmission Rights which is a significantly more sophisticated and proven method for managing transmission access. On this basis, we consider the February 2023 CBA to no longer be relevant.

Even when completed, the February 2023 CBA was highly flawed. The modelling over-estimated the incidence of disorderly bidding in the NEM and was not realistic in presuming all bidding would be at short-run marginal cost under the reform option, as this ignores scarcity pricing and market floor bidding for legitimate reasons. The modelling overestimated the likely level of congestion in the market if CRM were not implemented, ignoring the sophistication of investors, and assuming they would not learn from poor past locational decisions or that they will not take advantage of enhanced information to drive their location decisions. The modelling also did not adequately consider the fact that most future investment in the NEM will be either in a REZ or otherwise subject to some State or Federal government scheme which will influence locational decisions, as has now occurred with the implementation of the CIS.

We are concerned the CRM will not remain voluntary, despite commitments to the contrary

The AEMC has insisted that CRM participation will be voluntary, however we understand that AEMO considers contracted participants may need to participate in the CRM. It is also likely that the distortion created by Priority Access may only be manageable if there is adequate participation in the CRM. We are concerned that opting out of the CRM may not in reality end up being a viable option, in which case small players will have a significant disadvantage as they will struggle to participate effectively. We expect the CRM will create significant complexity, especially for traders, since each participating generator or load will need to submit a separate congestion relief bid on each transmission line, regardless of whether they are located by that line or not. This will be particularly complex since all dispatchable generators or loads impact the congestion on each line at different levels.

CRM and Priority Access design has stalled due to insurmountable challenges

AGL appreciates the AEMC's efforts in drafting the consultation paper, which was the first public consultation paper on TAR in over a year. While the paper proposes various design options for

both the CRM and Priority Access, the new options presented are unfortunately even less viable than those presented in consultation sessions by the ESB last year. Of the four Priority Access allocation models proposed, grouping by time windows is the least problematic, although for the reasons outlined above still highly problematic. Regarding CRM implementation, we consider the original two stage approach is more viable than co-optimisation which will undermine the fundamentals of dispatch. We suggest that AEMO's significant concerns regarding co-optimisation should justify the abandonment of this option.

We do not consider that the consultation paper advances the design of the CRM and Priority Access or that it resolves any of the many serious concerns which industry hold with the two mechanisms, particularly the levels of increased costs it is likely to drive. We therefore suggest that both the CRM and Priority Access should be abandoned.

If you have any queries re this submission, please contact me at aking6@agl.com.au.

Yours sincerely,

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