Jessie Foran
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

Lodged through online portal

6 June 2024

Dear Ms Foran,

Transmission access reform – Consultation paper

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Australian Energy Market Commission ("the Commission") in response to the Consultation paper on transmission access reform ("the Consultation").

The ENGIE Group is a global energy operator in the businesses of electricity, natural gas, and energy services. In Australia, ENGIE has interests in generation, renewable energy development, and energy services. ENGIE also provides electricity and gas to retail customers across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

The context for this reform has changed significantly in recent years

While ENGIE has long been an in-principle supporter of transmission access reform, we have always been cognisant that there is a good deal of uncertainty regarding the implications of different access reform models and that our support has not been widely shared by other industry stakeholders. Accordingly, we have preferred pragmatic, incremental reforms to more radical and fundamental reforms on the basis that they are more likely achievable and minimise the risk of material unanticipated consequences. Our views on access reform were also shaped by the market-driven investment model that prevailed in the NEM in its early years.

More recently, access reform issues have been somewhat overtaken by government interventions with a view to driving the pace of the energy transition in order to meet emissions reduction goals. To that end, most jurisdictional governments within the NEM have adopted the Renewable Energy Zone (REZ) model of infrastructure development. While the details of REZ policy differ between jurisdictions, they typically entail some or all of:

- A clearly defined area where transmission infrastructure will be developed to host (primarily) renewable energy generation.
- A means to allocate access amongst generators within the REZ.

- Sterilisation of the area outside the REZ to avoid the risk of new generation outside a REZ causing congestion and constraining off REZ-based assets.

These policy design choices effectively do much of the work of access reform in terms of locational signals for new generation, leaving less to be gained by introducing generic NEM-wide access reform (which would; however, have the merit of being consistent across the market).

The role of access reform is further constrained by the federal government's Capacity Investment Scheme (CIS), which is scoped in such a way that it is expected to be the major driver of new investment for the period to 2030, at least. The primary merit criterion for CIS bids takes account of congestion impact, and accordingly, reduces the incremental benefits of access reform.

ENGIE is not asserting that these policies will definitively optimise transmission and generation, rather we are acknowledging that the Commission's proposals are not designed to override these government policy decisions and that accordingly such policies are treated as a fait accompli.

Given these limitations on what can be achieved by access reform, ENGIE's general preferences for access design is to favour soft priority over hard priority options and to maintain opt-in for the proposed congestion relief market.

While the REZ model appears likely to be the main determinant of locational decisions for new entrants, and thus it would be dysfunctional for access reform to undermine REZs, design choices should not overly favour intra-REZ assets. To the extent that there are efficient locations outside of REZs for new generation and storage to connect, access reform should not disincentivise such locations. In considering the balance of incentives, the Commission should bear in mind that developments are not especially mobile. A developer will typically spend several years scoping out a location to confirm the quality of the resource, understand geographical challenges, and consult with the local community to ensure social licence. They cannot therefore, simply opportunistically, move the project to a different location to take advantage of any benefit from being either inside or outside a REZ.

We have provided further responses to the specific questions in the Consultation in the attached template.

Should you have any queries in relation to this submission please do not hesitate to contact me on, telephone, 0477 299 827.

Yours sincerely,

Jamie Lowe
Head of Regulation,
Compliance, and Sustainability

AEMC

Transmission access reform

Stakeholder feedback template

The template below has been developed to enable stakeholders to provide their feedback on the questions posed in the consultation paper and any other issues that they would like to provide feedback on. The AEMC encourages stakeholders to use this template to assist it to consider the views expressed by stakeholders on each issue. Stakeholders should not feel obliged to answer each question, but rather address those issues of particular interest or concern. Further context for the questions can be found in the consultation paper.

SUBMITTER DETAILS

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PROJECT DETAILS

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CONSULTATION QUESTIONS

Testing and modelling the hybrid model

Question 1: Feedback on cost benefit analysis conducted in 2023 What are stakeholder views on the assumptions used in the CBA?	In general ENGIE is supportive of the Commission undertaking cost benefit analysis to test the value of any proposed reform. However, we recognise that robust quantification of major market reforms is challenging, and this instance is a case in point. To the extent that the reforms result in better locational decisions by new entrants and less congestion, then these benefits will almost certainly greatly exceed the implementation costs. But there is uncertainty as to how much if any impact the reforms will have, in the context of: a) the major locational decisions and access allocations will be taking place via REZs and this means that the priority queue will have limited impact and b) the opt in nature of the Congestion Relief Market CRM. There is also a material risk of other impacts that impose a net cost. The CBA is predicated on results of studies from other markets being applicable in the NEM. It is far from clear that one can assume this to be the case. As a counterexample, Simshauser and Newberry (2023)[1] models priority access in a REZ versus the status quo and finds that it results in lower entry of new generation. While this analysis is not inherently superior to the ESB's modelling it serves as an example of why the benefits of this reform are not clear cut. Accordingly, ENGIE cannot share the Commission's confidence in its statement that the "the high level analysis that has been undertaken provides clear, directional benefits".
Question 2: Feedback on prototyping What are stakeholder views on the result of the prototyping analysis? Is there any additional analysis that would be useful?	The incidence of large changes in the RRP in some of the prototyping analysis runs is a cause for concern and indicates that there is a material risk that the proposed hybrid model could deliver worse outcomes for consumers rather than better ones.
Question 3: Feedback on modelling the hybrid model Noting that this work is still being completed, do stakeholders have any initial views on how modelling priority access would impact investment decisions?	Modelling priority access will likely have some modest benefits in terms of informing investors about the implications of different locational decisions. The primary value will be an illustration of how the reforms are expected to work in practice. Given the scale of most proposed developments, due diligence will require new entrants to undertake their own modelling in any case.

[1] Non-Firm vs Priority Access: on the Long Run Average and Marginal Cost of Renewables in Australia, Simshauser and Newberry, December 2023

Assessment of key model options

Question 4: Assessment of priority access allocation models Each model option outlined in this section addresses the problem and reform objectives to different degrees. Which model option do you prefer and why?	Option 1 is preferred. Option 2 exposes market participants to the impacts of government decisions to declare a new REZ. As discussed in our cover letter, there is no justification to prioritise REZs to this degree, and if the underlying premise is that REZs trump all other locations then access reform is superfluous. For similar reasons, we do not support option 3 either. Option 4 requires further analysis to be able to evaluate its merits vis a vis option 1.
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?	Given the co-optimised approach appears to have a risk of disorderly bidding this undermines the value of such an approach. A key rationale of access reform is to avoid disorderly bidding. ENGIE agrees with the views of some other stakeholders that the co-optimised approach also violates the key principle that CRM should be opt-in.

Key stakeholder concerns

Question 6: Feedback on impact of the hybrid model on PPAs? What are stakeholder views on the observations and AEMC initial views regarding impacts of the hybrid model on PPAs?	As the Consultation notes, any of the CRM designs could be interpreted as changing the regional reference price (RRP) and thus could possibly be construed as triggering contract reopeners. However, ENGIE considers that the co-optimised approach is more likely to be capable of such interpretation as compared to the two-dispatch approach, given that assets under contract can elect not to participate in the CRM and thus not be directly exposed to access dispatch outcomes. For priority access, the impacts on existing PPAs and other contractual arrangements will be minimised by grandfathering existing assets into the highest priority for the life of the asset.
Question 7: Feedback on impacts of the hybrid model on financial markets 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.	The CRM may introduce basis risk for opt-in participants, and this is one reason the opt-in principle is so important. Even though the Commission expects that over time more and more generators will opt in, such an approach at least allows the market time to develop appropriate risk management approaches. ENGIE notes that broader trends, such as the shift to variable renewables and the extent of government underwriting (notwithstanding the intent of some of these policies to complement existing hedging strategies rather than replace them) are likely to have a bigger impact on liquidity than well-implemented access reform.

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?	ENGIE agrees priority access could increase investment risk due to wide-reaching constraints. Arguably locational signals to invest in an area with better system strength rather than worse are relevant, but outage impacts are not predictable. This issue illustrates the limitations of an approach to transmission access reform that eschews any incentivisation on TNSPs to minimise constraints and their impacts on efficient dispatch. However, ENGIE does not agree that this issue in itself is sufficient reason to implement dynamic grouping.

Detailed design questions

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?	ENGIE's preferences are for: • soft priority over hard priority, thus minimising the risk of unanticipated consequences; • operational lifetime priority duration over economic life , which is unduly dependent on bureaucratic decision-making (and effectively circular in logic)[2]; • The same approach to priority duration to be applied to both legacy and new generators; and • late stage criteria for both REZ and non-REZ investments to minimise the risk of gaming the queue.
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?	The issues AEMO has raised re ramp rates merit further investigation to determine the relative pros and cons of tethering versus non-tethering.

Other comments

Information on additional issues	N/a

[2] Additionally, a regulatory assessment of economic life may result in a conflict with governments' coal exit management strategies.