APA submission

Australian Energy Market Commission

Consultation paper

Transmission access reform

June 2024

APA Infrastructure Limited ACN 091 344 704
Level 25, 580 George Street, Sydney NSW 2000
PO Box R41, Royal Exchange NSW 1225
P: +61 2 9693 0000 | F: +61 2 9693 0093
APA Group | apa.com.au

Ms Anna Collyer
Chair
Australian Energy Market Commission

Lodged online

12 June 2024

RE: APA Submission to Transmission Access Reform Consultation Paper

Dear Ms Collyer

Thank you for the opportunity to comment on the Australian Energy Market Commission's (AEMC) Transmission Access Reform Consultation Paper (Consultation Paper). We appreciate the opportunity to comment on the design of new market arrangements to encourage efficient investment in energy infrastructure.

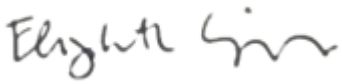
APA is an ASX listed owner, operator, and developer of energy infrastructure assets across Australia. As well as an extensive network of natural gas pipelines, we own or have interests in gas storage and generation facilities, electricity transmission networks, and 692 MW of renewable generation and battery storage.

APA owns and operates the Basslink interconnector, the only Market Network Service Provider (MNSP) in the National Electricity Market (NEM). While we have applied to the AER to have Basslink converted to a Transmission Network Service Provider (TNSP), any reforms to the way MNSPs are settled in the market could have an impact on Basslink. Given the unique settlement approach that applies to MSNPs, it is important that there are no unintended consequences from the proposed changes.

Our submission below addresses several issues raised in the Consultation Paper. Given the significant investment required to facilitate the energy transition, it is essential that any proposed reforms promote investor certainty. This will ensure that the energy transition can be undertaken at least cost to consumers.

If you wish to discuss our submission in further detail, please contact John Skinner on 02 9693 0009 or john.skinner2@apa.com.au.

Regards,



Beth Griggs
General Manager
Economic Regulation and External Policy

1 Submission

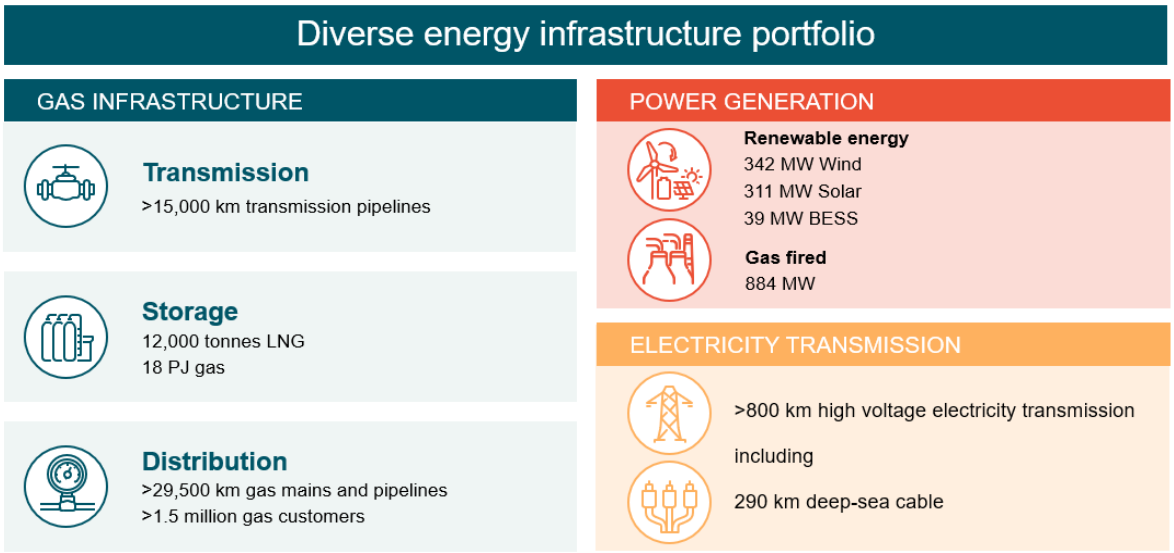
Key points

- Basslink is currently the only MNSP in the NEM. While we have applied to the AER to have Basslink converted to a TNSP, it is important that there are no unintended consequences from the proposed changes.
- Promoting investor certainty will ensure that low cost capital can be attracted to future investment in renewable generation. For this reason, we recommend that existing market participants should not be penalised under any proposed reforms.
- Transmission access reform is taking place concurrently with other significant reform processes across the NEM. It is essential that the various reform processes are aligned and result in a stable, predictable regulatory environment for investors.

1.1 Introduction

APA is a leading Australian Securities Exchange (ASX) listed energy infrastructure business. Consistent with our purpose to strengthen communities through responsible energy, our diverse portfolio of energy infrastructure delivers energy to customers in every Australian state and territory.

Figure 1: APA's portfolio



Our 15,000 kilometres of natural gas pipelines connect sources of supply and markets across mainland Australia. We operate and maintain networks connecting 1.5 million Australian homes and businesses to the benefits of natural gas. And we own or have interests in gas storage facilities and gas-fired generation.

We also operate and have interests in 692 MW of renewable generation and battery storage infrastructure, while our high voltage electricity transmission assets connect Victoria with South Australia, New South Wales with Queensland and Tasmania with Victoria.

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APA actively supports the transition to a lower carbon future. In August 2022, we published our inaugural Climate Transition Plan which outlines our commitments to support Australia's energy transition and pathway to achieve net zero operations emissions by 2050. In September 2023 we released our first Climate Report disclosing our progress against our Climate Transition Plan.

In early 2023, APA established an Electricity Transmission business unit with a focus on electricity transmission infrastructure across Australia. We have recruited a team of established industry professionals to lead APA in playing a pivotal role in the energy transition. In line with our strategic focus, we have also announced a partnership with leading global infrastructure organisation EDF Group. This partnership synergises EDF's global experience in electricity transmission delivery and operations, with APA's strong local experience in the construction and operation of linear energy infrastructure.

As the only MNSP in the NEM, any reforms to the way MNSPs are settled will only impact Basslink. Our intention is for Basslink to become a TNSP and in September 2023 we lodged a revenue proposal and conversion application with the Australian Energy Regulator (AER). Irrespective of this, it is important that there are no unintended consequences for MNSPs from any eventual reforms.

The proposed transmission access reforms outlined in the Consultation Paper would represent the most significant changes to the NEM since it was established. In addition to the reforms being considered by the AEMC, other significant reform processes are also underway across the NEM:

- the Commonwealth Government is progressing the detailed design of the Capacity Investment Scheme
- Energy Ministers have flagged further market reform, including the design of a potential capacity mechanism[1]
- Jurisdictions are designing access schemes as part of the development of Renewable Energy Zones (REZs)
- The AEMC is considering a rule change from the Australian Energy Council (AEC) proposing an ancillary spot market for inertia.

These various reform processes are increasing complexity and create uncertainty for market participants. It is essential that the various reform processes are aligned and result in a stable, predictable regulatory environment for investors.

1.2 Priority access and investor certainty

The NEM is a wholesale electricity market that has been operating on the east coast of Australia since 1998.[2] The NEM operates on one of the longest interconnected power systems in the world, incorporating around 40,000km of electricity transmission lines.

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1 Energy and Climate Change Ministerial Council, Meeting Communique, 1 March 2024

2 The NEM commenced operation in December 2018

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Since its commencement, the NEM has grown significantly. There are now over 570 registered participants and around $25 billion was traded in FY22-23.[3]

These large numbers demonstrate the important role played by the NEM in providing an essential service to almost 11 million customers.[4] As coal power stations retire, many billions of dollars of investment are required to provide the new infrastructure needed to supply the NEM with renewable energy.

For this reason, any proposed changes to the way the NEM operates should aim to promote investor certainty. The AEMC proposes to conduct the review using four criteria previously agreed to by Energy Ministers. 'Investor certainty' is not currently one of the assessment criteria being used to assess any design choices, and we recommend that it be added.[5] Promoting investor certainty will ensure that low cost capital can be attracted to future investment in renewable generation. Any reforms which create uncertainty for current or future investors will increase risk and should be avoided.

1.2.1 Assessment of priority access

In order to promote investor certainty, existing market participants should not be penalised as a result of any market reforms. For this reason, we do not support options that automatically prioritise certain generators (for example, REZ generators) over existing market participants. In our view, existing generators should always have priority over a newer generator, and it should not be possible for AEMO or jurisdictional governments to alter these arrangements.

For similar reasons, we are concerned with the 'annual roll up process' outlined in section 4.3.1 of the consultation paper. Such an approach will erode a legacy generator's priority over a ten year timeframe as new generators join them at the top of the queue. In our view, a period longer than ten years (say 15 years) would be more appropriate.

1.2.2 Duration of prioritisation

The Consultation Paper suggests different options for the duration of prioritisation. The AEMC's preferred position, outlined in section 7.1.1, is that that once a generator meets the end of its economic life, it would fall back into the lowest priority level. This approach will erode the value of investment made on the basis of locational signals and requires a central planner to set the duration of priority access.

It is possible that efficient investment could extend the life of generators. The AEMC should therefore consider whether generators should stay at a higher prioritisation level if their economic life is extended as a result of efficient investment in the asset.

1.2.3 Testing and commissioning of generators

The priority access model needs to consider how to prioritise generators undergoing commissioning. The ability for generations to complete commissioning is currently challenging. There is a risk that this will be further exacerbated by a lack of priority for new

3 AEMO, *The National Electricity Market* Fact Sheet, accessed 4 June 2024
4 AER, DNSP operational performance report, Customer numbers
5 AEMC, Consultation Paper, May 2024, p85

generators under the priority access model. Any flexibility should be time limited such that generators are only prioritised for genuine commissioning activities.

1.3 Treatment of MNSPs

At present, Basslink is the only MNSP operating in the NEM. Basslink currently earns revenue through differences in Regional Reference Prices (RRP) between regions and is currently considered as a pseudo generator and load for market settlement purposes. This approach accounts for the physical export and import at either end of the link.

In addition, inter-regional residue payments are allocated directly to Basslink as MSNP. This is different to the process for regulated inter-connectors where TNSPs receive revenues that arise through the Settlements Residue Auction.

The introduction of a Congestion Relief Market (CRM) will introduce another layer in the settlement and dispatch process. The AEMC has proposed that MSNPs will be settled in a way similar to an analogous scheduled generator-load pair, equivalent to their treatment currently. This means they:

- earn an Inter-Regional Settlements Residue payment similar to regulated interconnectors and similar to how they are paid today; and
- receive a CRM payment – based on their CRM prices settled inter-regionally– similar to the settlement of scheduled generators and loads.[6]

In practice, this means that MNSPs will continue to be settled analogous to a generator-load pair, equivalent to their treatment in the current market design.

APA is supportive of the proposed settlement approach. It means that MNSPs continue to be treated as a generator-load pair for settlement purposes any inter-regional revenues that arise due to price differentials and energy flow between regions will be maintained.

It is important that the rules drafting and implementation in AEMO dispatch and settlement systems reflects this intent. This will avoid any unintended consequences from the introduction of various features of the proposed changes, including priority dispatch that are mechanisms not relevant for MNSPs.

Counter price flows can arise over MNSPs in certain situations driven by interactions between the Frequency Control Ancillary Services and access dispatch outcomes, directions or during market intervention periods. Market design should limit MNSP exposure to negative prices analogous to other market participants. Clamping and Market Floor Price (MFP) are market design concepts that already exist and should continue to apply to MNSPs.

1.4 Interaction with other reform processes

Concurrently with the AEMC's transmission access reform process, other significant reform processes are underway across the NEM:

6 AEMC, *Consultation Paper,* May 2024, p110-111

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- the Commonwealth Government is progressing the detailed design of the Capacity Investment Scheme, an underwriting scheme designed to support the addition of 32GW of renewable generation and dispatchable capacity across the NEM. In February 2024, the Commonwealth published a consultation paper which acknowledged that the design of Capacity Incentive Scheme Agreements (CISAs) may override market signals, thereby undermining the ability of the market to incentivise new investment.[7]

- Energy Ministers have flagged further market reform, building on the former Energy Security Board's Post-2025 analysis that identified the need for capacity reforms, to bring forward certainty for investors. The March 2024 communique from the Energy and Climate Change Ministerial Council indicated that the review could include the design of a potential capacity mechanism.[8]

- Significant work is being undertaken across the NEM to implement Renewable Energy Zones (REZs), with many of the proposed REZs expected to have their own access schemes. For example, The NSW Government has been consulting on access schemes as part of the development of its REZs. The purpose of the access schemes is to provide increased certainty for access right holders and maintain an efficient level of utilisation of REZ infrastructure.[9] The Victorian Government has been consulting on a Grid Impact Assessment regime for new generators outside the REZs that can potentially curtail the generation of existing and planned REZ generators.[10]

- The AEMC is considering a rule change from the AEC proposing an ancillary spot market for inertia. The AEMC will progress the rule change with the publication of a directions paper by November 2024.[11]

On their own, each of these initiatives are significant changes to the way the NEM has operated over the past 25 years. Together, these reform processes create an increasingly complex regulatory environment which creates uncertainty for investors.

Any transmission access reforms that the AEMC proposes to take forward must be carefully evaluated to ensure they are fully compatible with the reforms being undertaken by Energy Ministers and individual jurisdictions. Future AEMC work should highlight how all the changes to dispatch will work together, as the examples in the Consultation Paper do not paint a complete picture.

Given there are over 570 market participants in the NEM, the AEMC could be proactive in reaching out to a broader group of stakeholders. It is concerning that less than 10 percent of those participants made submissions to the Energy Security Board's 2022-23 consultation processes. This suggests that many stakeholders are unable to engage with what is a very

7 DCCEEW, *Design Paper – Capacity Investment Scheme,* February 2024, pp 17-18
8 Energy and Climate Change Ministerial Council, Meeting Communique, 1 March 2024
9 EnergyCo, *https://www.energyco.nsw.gov.au/industry/access-schemes*, accessed 4 June 2024
10 VicGrid , *For industry, business and developers (energy.vic.gov.au) , accessed 4 June 2024*
11 AEMC, *Efficient provision of inertia rule change,* June 2024

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complex reform program. Governments and market bodies need to be more proactive in explaining these reforms to stakeholders.

We also recommend that the potential costs and benefits of the proposed transmission access reforms be carefully considered. The changes to 5 minute settlement took around four years to implement following completion of the rule change process in 2017 and are estimated to have cost the market between $500 million and $2.5 billion. [12]

12 https://whatswatt.com.au/what-is-five-minute-settlement-why-does-it-matter/


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