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AEMC EPR0098 Transmission access reform: Consultation paper

The Australian Energy Council (AEC) welcomes the opportunity to make a submission in response to the AEMC EPR0098 Transmission access reform: Consultation paper (Consultation paper).

The AEC is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

The AEC supports more efficient dispatch, efficient investment and *ceteris paribus* lower priced electricity. However, in our view after constructively participating in this process over several years, it is becoming increasingly apparent that access reform as proposed is not going to achieve its stated goals and is unlikely to yield any benefits of significance. And if implemented may create disbenefits such as higher spot prices and make investment decisions even more complex than they currently are. Our understanding is that other organisations that represent NEM investors and market participants have reached similar conclusions. This is also supported by recent *Australian*¹ academic research:

“... access reform focused solely on congestion and curtailment may have unintended consequences as a careful analysis of the difference between average and marginal curtailment rates demonstrates. Malalignment between market conventions and access policy may distort entry, raise consumer prices and harm welfare.”²

The AEC considers a simple approach that considers the reality on the ground and recently implemented state and Commonwealth policies would be a more effective way of addressing congestion and access. As opposed to the ‘false precision’ implicit in the proposed hybrid model.

The investment community does not want these reforms, they have been and are sophisticated enough to manage the risks as put succinctly by Simshauser and Newbury:

“For VRE producers, the risk of curtailment is as it has always been – a forecastable risk. The extent of this risk in any given location will be regulated by equity investors and risk-averse project banks after accounting for expected (zonal) spot and forward prices, forecasts of Marginal Loss Factors, future entry until the last entrant makes zero surplus profit given the likely resulting network congestion of the current location and in the context of the broader market.”³

¹ In contrast to the international studies incorporated in the CBA.

² Simshauser, P and Newbery, D. (2023) ‘Non-Firm vs Priority Access: on the Long Run Average and Marginal Cost of Renewables in Australia’. Griffith University, Centre for Applied Energy Economics and Policy Research: Working Paper Series 2023-12. https://www.griffith.edu.au/data/assets/pdf_file/0039/1894494/No.2023-12-Reviewed-Non-Firm-vs-Priority-Access.pdf

³ Op. Cit.

Furthermore, if electricity consumers were aware of the implications of these complex reforms that even energy professionals find challenging to understand, they would not want them either.

Capacity Investment Scheme (CIS) and REZs

In our view, other government policies will improve access for new generation and storage. If this is true, then the underpinnings of the CBA's benefits must be questioned, because the 'do nothing' comparator is unlikely to still be valid. Hence, the reported benefits are likely to be overstated.

The Commonwealth has commenced the CIS with auctions in late 2023 and one currently on foot. The CIS is seeking to incentivise the national deployment of 23 GW of renewable capacity and 9 GW of clean dispatchable capacity by 2030. To achieve this, the Commonwealth will provide revenue underwriting for successful CIS tender projects, with an agreed revenue 'floor' and 'ceiling'. Thereby providing a long-term revenue safety-net that decreases financial risks for investors and exposes taxpayers to the risk of funding revenue shortfalls.

To qualify for a CIS agreement, applicants are assessed against multiple merit criteria across three process stages. Of these, Merit Criteria 1: Contribution to system reliability and system benefits; is relevant.⁴

"What is assessed.

A project's potential impact on network congestion and/or ability to provide additional system benefits. This includes the project's effects on other projects connected or expecting to connect to the network prior to the project.

...

What are we looking for.

Projects intending to locate:

- in strong areas of the network, or*
- with a connection that is not likely to lead to material curtailment and/or congestion of the project's own generation or the generation of nearby renewable projects."*

Clearly the Commonwealth does not want to underwrite projects that are likely to experience heavy congestion and curtailment, resulting in revenue shortfalls that will be funded by taxpayers. Nor would they want a project to adversely impact another CIS funded project for the same reason.

Both NSW and Queensland will be implementing 'sterilisation' zones around REZs and our understanding is that Victoria is planning similar arrangements. This means that the jurisdictions will prevent new generators locating outside a REZ but adversely impacting it. Hence, jurisdictions have policies in place to reduce curtailment and congestion risk for investors in REZs through a form of limited access.

Question 1 - Cost benefit assessment (CBA)

To put the TAR proposal's total net benefits (\$5.6b) into perspective, it is worth noting that over the decade to 2023, NEM spot revenue has averaged \$18.5b in real 2023 dollars.⁵ The average LWP is \$99/MWh and if this is applied to Draft 2024 ISP operational sent out forecasts to 2050, it results in a

⁴ CIS Tender Brief, p. 10. <https://aemoservices.com.au/-/media/services/files/cis/cis-gen-nem/nem-tender-1-market-briefing.pdf?la=en>

⁵ <https://www.energycouncil.com.au/analysis/spot-market-prices-and-revenues-ten-years-of-historical-spot-prices/>

NPV of negative \$284b (seven per cent discount rate). This puts the ESB's CBA results in context, they may improve the NPV of the outcome to 2050 by just under 2%.

In our view the CBA results cannot be relied upon to justify the proposed reforms. The bulk of the 'benefits' are from efficient investment, yet the investment community does not want these reforms to proceed. The 'do nothing' comparator is clearly incorrect based on the previous section and as will be demonstrated below, the prototyping is demonstrating results that could effectively turn the CBA's NPV into a net present cost.

Question 2: Feedback on prototyping

The 2023 prototyping of CRM/PA by AEMO produced results that violated the reform's objective, one of which was the CRM affecting the RRP. The initial theory as presented said this would not happen. Overall, the results were concerning and some of the overall RRP increases were large (31 per cent of cases showed a greater than 5 per cent increase in at least one NEM region and 13 per cent were greater than 25 per cent).⁶

We accept that the modelling was not to measure benefits of CRM/PA, however the implications of the modelling results does put the benefits estimate into question. If the model as proposed in theory is intractable to apply in practice, then surely it should be a guide for decision makers. For example, if the load weighted price (LWP) RRP is \$1/MWh higher than otherwise (or approximately one per cent above the 10-year LWP in real 2023 dollars), then that will increase NEM spot revenue by \$180m (180 TWh in 2023).⁷ Using Draft 2024 ISP operational sent out forecasts to 2050 results in a NPV of negative \$2.9 billion (seven per cent discount rate). Effectively halving the net benefits in the CBA excluding carbon reduction.

Possible alternative approach

There has been no modelling and analysis of a simpler, practical and more realistic approach. Most projects are likely to be built in REZs and jurisdictions have or are likely to 'sterilised' an area around each REZ where new plants are not allowed to be built if they adversely impact the REZ. Hence, the REZ has degree of protection.

We suggest that there will not be many problematic project proposals located outside REZs which implies a case-by-case approach should be manageable. It would be much simpler and easier to implement by creating a rule that allows a project to be vetoed based on set criteria prescribed in the rules. The rules could also provide an avenue for appealing this decision. The AEMC itself acknowledges this approach when describing Option 3 PA.⁸

This approach would represent a move away from open access towards limited access but to some extent the NEM has already moved closer to limited access through jurisdictional REZ sterilisation policies. We have raised this approach verbally with the AEMC but to date it is not being a looked at as a viable approach for addressing the problem. It appears that a 'solution' can only come from the establishment of a congestion relief market and some version of priority access, which requires

⁶ Consultation paper p. 25.

⁷ <https://www.energycouncil.com.au/analysis/spot-market-prices-and-revenues-ten-years-of-historical-spot-prices/>

⁸ Consultation paper, p. 40.

modifications to NEMDE and participants would also have to modify their systems. Furthermore, it creates uncertainty and appears to alter the determinants of the RRP.

Consultation paper policy choices

If the proposed reforms are to be implemented despite all the evidence against them, we outline our preferences to the decision points in the Consultation paper.

Question 4: Assessment of priority access allocation models

If PA is to proceed, the AEC considers Option 1 to be the least detrimental as it is a practical and transparent way to implement PA. It is also likely to provide investors with the highest level of certainty when compared with other options. With respect to the other options:

- 2 introduces political risk because governments can declare REZs at any time in the future and have the highest PA position.
- 3 hardens PA in that there may be only two BPFs. As noted on page 40, this option could be expanded to incorporate investments outside a REZ.
- 4 Inadequate information to comment.

Question 10: Feedback on detailed CRM design choices

- Two stage approach with settlement based on access RRP.⁹
- No co-optimised dispatch. Under this approach CRM would not be opt in and the determinants of the RRP would be fundamentally changed.

Options duration of prioritisation and legacy generators¹⁰

With respect to legacy generators and storage we support the AEMC's principled approach to grandfathering legacy generators. The only concern we have is the application of economic life instead of operational life. As noted by the AEMC, the former requires "a central planner" to establish the expected economic life of an asset. In our view, the decision to retire an asset should be left to its owners (ie, operational life) not a central planner. Under this approach legacy assets would maintain the highest priority until their owners decide to retire them.

As has already occurred, state governments have entered closure arrangements for certain coal plants. In our view, this is likely to continue either through these types of bilateral agreements with other coal plants or a more transparent orderly exit policy.

Conclusion

We acknowledge that the AEMC is well intentioned and seeking to solve a perceived problem, but the evidence is indicating that its proposed solutions are counterproductive and it is time to move on and allocate scarce resources to other reforms to the NEM that are more likely to contribute to a cleaner and reliable system with efficient prices for the benefit of consumers.

⁹ Consultation paper, pp 56-57.

¹⁰ Consultation paper, pp 74-75.

The credibility of the CBA's forecasts that are relied upon to support the proposed reforms has deteriorated to such a point that it is not fit for purpose. Furthermore, even if one still accepts its results, they are trivial when one considers the NPV of forecast spot market revenues and they are extremely sensitive to any variance in its assumptions. There are now multiple policies at both the Commonwealth and state level that will largely address the objectives of the reforms. Continuing to persist with increasingly complex untested solutions that will undermine how the RRP is determined and create additional uncertainty for investors is a Quixotic quest that if implemented would be unlikely to satisfy the NEO.

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Yours sincerely,

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