

Our Ref: 17611030

26 November 2024

The Hon Chris Bowen MP
Chair of Energy and Climate Change Ministerial Council
PO Box 6022
House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Energy Ministers

Re: AEMC final recommendations regarding Transmission Access Reform

The Australian Energy Regulator (AER) has been closely involved in the exploration of transmission access reform. This includes the earlier work conducted under the Energy Security Board and most recently working with the Australian Energy Market Commission (AEMC) as they have progressed their review, as directed by Energy Ministers. We commend the AEMC for completing a detailed exploration of the hybrid model as tasked by Energy Ministers and the thorough stakeholder engagement they have conducted.

Transmission access reform work sought to address the risk that the current framework would lead to various inefficiencies in the National Electricity Market (NEM) that could delay the renewable transition and increase its costs for consumers. These include a lack of locational signals that risk over-investment in both generation and network infrastructure as participants could connect in areas of the grid with limited hosting capacity and limited incentives to coordinate with large-scale storage, leading to transmission congestion and curtailment of generation. It also includes operational inefficiencies as higher priced generation may be dispatched (and may be able to bid strategically to drive up prices) where otherwise more competitive generation is constrained, and participants (especially storage) are not rewarded for their ability to reduce congestion.

Developing reforms has been challenging and the options have been compromised

Reform on transmission access has been attempted numerous times in the NEM yet has never been implemented.

Such reform is necessarily complex as it touches fundamental elements of market design, market operation and the frameworks for large infrastructure investments. However, the biggest challenge encountered to date has been opposition from market participants – in particular on the question of balancing stability for incumbent generators whilst still encouraging efficient new connections.

In an attempt to address this opposition, the successively proposed reform options have undergone compromises which have taken them further away from the approach demonstrated internationally to be the first-best option to address the issues of access and disorderly bidding – nodal pricing, also known as locational marginal pricing. These compromises to try and keep incumbent and subsequently connecting generators broadly whole occurred at the expense of consumers’ potential benefit from the reforms. The hybrid model (consisting of priority access and the Congestion Relief Market) is the latest of many iterations in this vein.

We acknowledge the significant technical and stakeholder challenges the AEMC has faced in their task of developing the hybrid model as directed by Energy Ministers. In this context, we concur with the AEMC that it is appropriate to not implement the hybrid model given the potential incremental benefits it may deliver are unlikely to outweigh the material costs of implementation.

Benefits will remain unrealised in the absence of national reform

In considering the path forward on transmission access reform, we urge Energy Ministers note the reform objectives that will remain unrealised in the absence of reform.

The AER agrees that government interventions such as Renewable Energy Zones (REZ) and the Capacity Investment Scheme noted in the AEMC’s final report help address some of the problems outlined above relating to the location of new generation. However, we highlight that despite this, important reform objectives will remain unfulfilled.

These schemes have limited effectiveness in improving operational efficiency due to non-cost-reflective bidding or incentivising congestion relief from storage and demand-side technologies. Furthermore, we note that these schemes are, in most instances, time-limited and rely on continued active involvement of jurisdictions in markets.

We also note that, in the absence of a national access framework, there will remain issues regarding access between individual REZs. These issues will continue to grow as more REZs become energised and particularly as many REZs are planned to locate close to NEM region boundaries. This can create challenges in having to balance maximising the value of dispatch for individual REZs and their generators against the most efficient outcome for the system as a whole.

The future for transmission access reform

While the AER agrees the hybrid model should not be implemented, we consider there remains a need for an enduring solution to transmission access. The status quo would require continued government direction and coordination of investments. The AER considers the upcoming Review of Market Settings in the NEM to Follow the Capacity Investment Scheme would be a constructive forum to consider transmission access options that complement a future market design that returns to effective market-led investment and operation of generation beyond the horizon of government programs.

Yours sincerely



Clare Savage
Chair
AER