



INFORMATION

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Coordination of generation and transmission investment review - update paper

The Commission has published a short update paper

At its meeting in November 2019, the Council of Australian Governments (COAG) Energy Council discussed the AEMC's *Coordination of generation and transmission investment* review, which is considering reforms needed to deliver new generation and transmission to underpin the future power system. The COAG Energy Council agreed that it will consider the COGATI final report at its March 2020 meeting.

In light of this, the final report for this review will be published in March 2020. The final report will include:

- a preferred transmission access model that incorporates stakeholder feedback received through the current review process
- drafting instructions that indicate the scope of rule changes needed to implement the access model
- a preferred implementation timetable for the reform.

Beyond March 2020, the Commission envisages that there will be considerable additional scope to discuss the merits of, and refine, the access model through the rule change process.

Given the above, the Commission has published a short update paper to provide further information and context to stakeholders ahead of the final report.

Changes to the way generators access the transmission network are needed to better coordinate investment

The Commission is of the view that change is needed to provide better signals and tools for managing transmission related risks in the power system. The form of the transmission access reform needs to be determined now to allow an orderly transition and implementation to occur over time.

We need to evolve our transmission access framework to support the change in the generation mix joining the national electricity market (NEM). Transmission access reform is vital for the NEM to effectively manage the transition under way in generation technologies, whatever this future may look like.

Under our proposal, investors will face improved locational signals that more accurately reflect the impact of their investment and operational decisions on the total costs of the network. This will result in generation, storage and transmission being better coordinated. The result is that generation and storage investment and operational decisions will be made that best utilise the existing and forthcoming transmission infrastructure, lowering total system costs for consumers, as well as for the industry more generally.

The Commission's proposed access model provides a flexible and enduring basis for access into the future. It works hand-in-hand with the Energy Security Board's work on developing changes to the National Electricity Rules to convert the Integrated System Plan (ISP) to action, as well as its post-2025 market design work. The ISP will streamline the regulatory processes required to deliver transmission investment; while access reform will provide both investment and operational signals to generators to better utilise the existing and expanded transmission network.

Implementation date

The Commission has heard that from the large majority of stakeholders that our previously proposed date of 2022 is too ambitious to implement access reform. In light of the arguments raised, the Commission agrees that a later implementation date would be in the long term interest of consumers.

Instead of proposing a new date, we propose a *timeframe* of at least four years from the time that the access model rule changes are made. This is beyond the three years of commonly traded contracts, and allows time for longer term agreements to be renegotiated if required. This will also allow the implementation date to be coordinated with other reforms under way, including those arising from the Energy Security Board's (ESB's) post-2025 market design project.

Stakeholder feedback

In the latest round of consultation, the Commission has heard that most stakeholders agreed that there are issues with the current transmission access framework that need to be addressed.

A significant number of stakeholders, including network businesses, consumer groups and a subset of generators and investors, support the proposed access model in principle. Many of these stakeholders suggested ways that the design could be improved or modified in order to increase the benefits of the model and to minimise implementation challenges.

The majority of investors and generators were not supportive of the access model. They highlighted both implementation issues and other specific concerns about the model, including that it may decrease liquidity in the contracts market or increase market power.

Consistent with stakeholder feedback to-date, key themes for ongoing discussions with stakeholders include:

- the usefulness of the proposed access model to enable market participants to better manage risk stemming from transmission infrastructure, including the firmness and tenure of the financial transmission rights
- transitional impacts of the reforms, in particular to existing contracts
- quantifying the benefits and costs of reform and modelling potential distributional outcomes.

We will be using the time until March 2020 to organise and conduct several targeted workshops with governments, market bodies, consumer groups, industry and other stakeholders, including a fifth meeting with our technical working group.

We additionally encourage interested stakeholders reach out to the project team to schedule a meeting, workshop or teleconference.

Modelling

The Commission is in the process of scoping and undertaking quantitative analysis on the proposed access model. This process includes consideration of the likely impacts of the model, as well as an assessment of the distributional effects in order to inform grandfathering arrangements.

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