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Transmission Access Reform Interim Report – October 2020

BlueScope Steel (**BlueScope**) welcomes the opportunity to provide comments to the Australian Energy Market Commission (**AEMC**) on the Transmission Access Reform Interim Report.

BlueScope is Australia's largest steel manufacturer and the only flat steel producer. We employ 6,500 people in Australian regions and cities to supply our nationwide customers in the building and construction, manufacturing, transport, and agriculture sectors. BlueScope also exports steel products and is a global leader in premium coated and painted steel products, operating in 18 countries.

As a large energy user, consuming ~1,200 GWh of electricity per annum, energy affordability, reliability and security are fundamental to the competitiveness of our business. BlueScope engages proactively with the market in a range of ways, but we do this with the objective of optimising our energy costs and not to maximise revenue from the electricity market. Keeping domestic production costs competitive remains paramount and energy is a major cost in steelmaking. More expensive energy directly affects our capacity to invest and provide employment.

While BlueScope appreciates the work undertaken by the AEMC and the theoretical underpinnings of nodal pricing, BlueScope strongly believes that the COGATI workstream should be paused for the following reasons.

First, COGATI is incredibly complex and represents a fundamental reform to the NEM. BlueScope considers the modelling which shows that it delivers substantial benefits is flawed. In particular, we do not believe the economic benefits will be realised and even so the model is suggesting that most of the benefit will not be realised until after 2035 (given 5 years of grandfathering of financial transmission rights).

Second, the Integrated System Plan and other related measures address many of the underlying issues related to the transition to renewables and should be given a chance to work. For example, the priority transmission projects under the ISP will strengthen the grid backbone. The introduction of renewable energy zones as contemplated in the ISP and the recent announcements of the NSW and Queensland Governments should facilitate further large-scale renewable investments in a co-ordinated and efficient manner. The scale of the REZs being considered would suggest that, in the future, the majority of new renewable investment will be in areas where the grid has been planned and developed to support it.

Third, there seems to be an underlying assumption in COGATI that renewable projects and batteries have insufficient locational signals for their siting. BlueScope questions this. In 2018, BlueScope entered into a corporate power purchase agreement with Finley Solar Farm. As part of the procurement process, BlueScope can confirm that congestion risk was a critical issue for both projects and offtakers and was assessed carefully and valued. Ultimately, a number of factors affect project siting, not least of which is the resource yield. Ultimately, COGATI does not remove the physical constraints and its value in managing that risk is overstated. It is noteworthy that there appears to be very little support for COGATI from those parts of the industry that it actually impacts. In BlueScope's view, the complexity of COGATI will make it much more difficult for large corporates to directly support future projects.

Finally, the Energy Security Board (ESB) reform process needs greater consideration and prioritisation as a package. The individual workstreams can hide the interconnectivity. It is BlueScope's view that the COGATI workstream is overly complex and expensive and the case for it has not been established given the other measures. The speed and scope of reform in the energy markets means that most stakeholders cannot meaningfully assess and comment on the proposals and "reform fatigue" has set in. We consider priority and resources should be focussed on the measures in initiatives B to F of the Post 2025 Market Review Consultation Paper and to regulatory changes that facilitate REZs in an efficient way which involve generators bearing some of the transmission and system security costs to fully reflect their impacts on the system.

Thank you for the opportunity to provide feedback. If further comment or clarification is required please contact Bridgette Carter, Manager Energy Sourcing & Utilisation on 02 4240 1749 or David Jenkins, Manager Government Relations on 03 9666 4022.

Yours sincerely



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