AEMC

INFORMATION

Transmission Frameworks Review Second interim report

Call for submissions by 10 October 2012

The AEMC Transmission Frameworks Review is looking at possible changes to the National Electricity Market framework to encourage cost-efficient investment into the future.

No-one knows with certainty what the future supply of electricity will look like in Australia. Wind, wave, gas, distributed generation,[1] solar and other technologies will compete with existing plant for their place as a proportion of overall generation.

Attempting to forecast the location and nature of new generation and transmission investments any distance into the future is hazardous. The role of this review is to develop the best framework to underpin cost-efficient outcomes whatever transformation eventuates.

We know the types of electricity generation and their locations have already started to change in response to changing patterns of consumption and the introduction of policies to address climate change. The current framework may not effectively deal with the change ahead and the risk of doing nothing is an inefficient framework for future investment.

The changes proposed in the review will have an impact over the next decade or two.

Today's price increases relating to overall network transmission are the result of decisions made by businesses, governments and regulators at least five years ago. The Transmission Frameworks Review is one of the AEMC's broad range of projects directed at ensuring regulated markets deliver long term, efficient prices. In addition, the AEMC is investigating measures to address more immediate price pressures in the Economic Regulation of Network Service Providers rule change proposals. A draft determination on those proposals will be published later this month.

Why this review is necessary

The transmission network (high voltage, long distance towers and wires) is effectively the "backbone" of the National Electricity Market (NEM), linking electricity generators to users of electricity across regions.

Under the current framework customers directly pay the full cost of transmission. This means generators do not pay for the full cost of their location decisions. If generators did face the full cost this would result in more optimal investment by generators who are building new plant.

In the earlier years of the NEM, generators were mainly located around fuel and water sources. Technological development, economic change and responses to climate change policies are fundamentally changing the way that electricity is generated, transported and will continue to do so in coming decades. Critically, the location and scale of the new generation sources are likely to be very different to those that dominated in the past, and new solutions will be required to ensure that electricity generation and transmission are as efficient as possible to cope with this change.

[1] Distributed generation comes from electricity generators which are connected to the distribution network (close to load), instead of the transmission network. This may include co-generation units, back-up generation or renewable energy generators, including residential solar. Also called embedded generation.

Our proposals would fundamentally transform the way generators access the market and the way transmission investment decisions are made.

Submissions on the second interim report close on 11 October 2012

What's in the second interim report?

The AEMC has identified clear alternate paths for the planning, construction, operation and use of the electricity transmission network to drive greater efficiency.

Our proposals would fundamentally transform the way generators access the market and the way transmission investment decisions are made. All of the costs associated with generating and transmitting electricity would be taken into account, with business owners bearing more of the risk of their investments rather than passing them all through to customers.

The report proposes three key areas of change to the electricity frameworks - generator access, planning and connections.

One option is proposed for significant reform to generator access, more closely linking generation and transmission decisions to deliver the lowest overall cost of electricity provision. Under this proposal, generators would drive and pay for much of the transmission investment by purchasing 'firm' access to get the electricity they generate across the transmission network to customers. This would achieve more certainty in access to transmission and encourage generation to be built where transmission costs are cheaper.

A number of proposals are also put forward for enhancing current NEM transmission planning arrangements that centre on stronger national coordination and enhancing the role of the National Transmission Planner, a role currently performed by the Australian Energy Market Operator (AEMO).

Proposed changes to the connection of new load and generation to the transmission network are designed to improve transparency in how transmission businesses charge for connections, enhancing the ability of connecting parties to negotiate effectively with transmission businesses who are effectively a monopoly provider.

Next steps

The review was instigated by the Ministerial Council on Energy (MCE), now the Standing Council on Energy and Resources (SCER), in April 2010 in recognition of the need to ensure the NEM frameworks are right for the future. It is a comprehensive review of the current framework which was established in 1998.

Extensive consultation has already taken place with further consultation now underway on this second interim report. Stakeholder submissions are being sought to assist in the assessment of the relative benefits of the options before a report putting forward final recommendation to SCER in early 2013.

Submissions to the second interim report close on 10 October 2012.

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