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CoGATI Implementation – Access and Charging

Alinta Energy welcomes the opportunity to provide a submission to the Australian Energy Market Commission's (**AEMC**) Coordination of Generation and Transmission Investment (**CoGATI**) *consultation paper (the consultation paper)*.

Alinta Energy is an active investor in energy markets across Australia with an owned and contracted generation portfolio of nearly 3,000MW, including 1,700MW of gas-fired generation facilities and 1,070MW of thermal generation facilities, and in excess of 1.2 million electricity and gas customers including more than 630,000 in east coast markets.

Background

Alinta Energy supports the further investigation and wholistic study of the current access and transmission charging arrangements. Alinta Energy has long been committed to the delivery of incremental transmission planning reforms which contribute to the achievement of the following objectives:

- The introduction of commercial drivers on transmission businesses, and commercial financing of transmission infrastructure, thus minimising the total cost of building and operating the system over time and subsequently minimising prices for electricity consumers.
- The co-optimisation of transmission and generation investment by promoting the efficient utilisation of spare network capacity when feasible.
- The shifting of some transmission investment risk away from consumers where possible.
- The construction of detailed analysis on whether obligations on transmission network service providers to upgrade or maintain lines to remote assets, or generation assets requires further contemplation within the NEM rules.
- The enablement of generators to signal where transmission capacity is constructed to provide the most effective utility.

For these reasons, at a conceptual level the evaluation of access reform and charging including dynamic regional pricing is a worthwhile objective of the CoGATI process. Nonetheless, whether the potential planning and efficiency benefits outlined within the consultation paper can be achieved in practice is more uncertain.

For instance, it is important to recognise how business and investment decisions in the regulatory planning domain influence the drivers of congestion in the long-run. Given the fundamental nature of generation and transmission investment (plant size, locational decisions, and network capability), these decisions cannot be easily amended or revised in the short run.

As such, dynamic efficiency, which concerns the efficiency of long run decision-making and market performance, in timeframes where infrastructure investment decisions can be changed, is critical to ensuring inefficient investment decisions do not unexpectedly arise. Alinta Energy would suggest that it is these dynamic efficiencies which are most relevant to the CoGATI process and as such should receive predominant focus in the AEMC's analysis, rather than the management of short-term constraints issues and a strong focus on disorderly bidding that may arise from time to time.

Further Information and Analysis

The detailed assessment of the impacts of dynamic regional pricing are absent this initial consultation paper. Alinta Energy appreciates that this may be a result of the inherent difficulties in modelling market outcomes at this early stage of the reform process. However, without a clear understanding of settlement and commercial impacts via more certain scenario modelling and proposed conceptual model, the case for engaging in thorough and rigorous debate is highly challenging and can only be academic in nature.

For instance, broadly speaking, some of the risks associated with network congestion and asset stranding may be less concerning for larger vertically integrated entities with significant and geographically dispersed portfolios. Whereas, smaller participants, unlike larger participants may not gain the advantage of natural hedges against constraints which can provide economic rents and thus may be more supportive of dynamic regional pricing. However, at this early stage of the process participants are unable to provide comment on these potential design feature, absent a strawman design model.

Such a significant and material piece of network reform that the CoGATI reforms contemplate, warrants a comprehensive analysis of potential dispatch outcomes at the portfolio level, where complexities can be raised, and questions posed about the scale of the changes required to implement the scheme envisaged. As such, the provision of the following information would assist participants consider the implications of Dynamic Regional Pricing Model:

- the treatment of constrained on generators under different scenarios;
- how different ancillary services are treated and recovered from the market (under both constrained on, and constrained off scenarios);
- how scheduled loads would be treated;

- comprehensive scenario modelling clearly articulating how dynamic regional pricing residues will be allocated amongst participants under a range of different scenarios and regions;
- what impact (if any) dynamic regional pricing will have on how settlement residues currently operate;
- how AEMO's intervention framework may intersect with how constraints on generators are applied;
- what impact dynamic regional pricing will have on consumers;
- what impact dynamic regional pricing will have on marginal loss factors;
- how battery facilities and energy storage would be treated under dynamic regional pricing and what impact these technologies would have on constraints if applied by the market operator;
- consideration of historical patterns of congestion within NEM zones and whether the frequency of constraints is increasing or decreasing (in terms of numerical frequency and materiality);
- detailed commercial scenario modelling at the participant portfolio level;
- some indication or forecast of the level of costs required to implement the reform process and the financial impact on individual participants and the market more broadly; and
- consideration of the complexity dynamic regional pricing may have on participant behaviour and any subsequent impact on the contract market.

This does not mean Alinta Energy does not support the CoGATI reform process, it is just worth noting that it is difficult to envisage the process gaining extensive industry support in the format it has been presented absent a detailed consideration of the above items.

Intersection of Proposed Reforms

The AEMC would be aware that the Energy Security Board (**ESB**) has recently commenced a Post 2025 NEM market design project, tasked with developing advice on a long-term, fit-for-purpose market framework to support reliability that could apply from 2025. This project is expected to recommend changes to the existing market design or recommend an alternative market design by the end of 2020.

The ESB's project 2025 work and the AEMC's CoGATI review will almost certainly intersect as both workstreams interact with fundamental issues relating to the NEM's network access and planning frameworks.

To prevent duplication of separate (but fundamentally related) reform workstreams, Alinta Energy supports the Australian Energy Council proposal to consider the merging of these related workstreams on access design. This proposal will ensure issues can be holistically assessed as well as ensuring minimal disruption to market participants and policy makers.

Conclusion

Alinta looks forward to participating in the ongoing CoGATI consultation process and would encourage consideration of the points raised above.

If you have any queries in relation to this submission, please contact me via email: anders.sangkuhl@alintaenergy.com.au or by phone 02 9375 0992.

Yours sincerely,

[signed]

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