

Department of State Growth

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John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
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Via online submission

Dear Mr Pierce

Coordination of Generation and Transmission Investment – Access and Charging (EPR0073)

The Department of State Growth welcomes the opportunity to provide a submission to the Australian Energy Market Commission's (AEMCs) Coordination of Generation and Transmission Investment (2019 CoGaTI) – Access and Charging Consultation Paper.

The National Electricity Market (NEM) is undergoing a significant transition as levels of intermittent renewable generation continue to increase and coal fired generation retires. It is critical that market and regulatory arrangements are such that this transition occurs as efficiently as possible – delivering lowest possible prices for consumers while maintaining reliability and lowering energy sector greenhouse gas emissions.

The Tasmanian Government, through its participation in the COAG Energy Council, has strongly advocated for reforms to ensure these objectives are delivered. The role of the Energy Security Board (ESB) is considered particularly important, given the wide-reaching nature of the required reforms and the need for an overall coordinated approach.

Tasmania is well suited to provide low cost, reliable and clean energy to the NEM as the market transition continues. This is based on Tasmania's existing hydro and wind dominated electricity supply, and access to world-class renewable energy resources, which provide the opportunity for significantly expanded renewable generation capacity and pumped storage. These opportunities are being considered through Hydro Tasmania's Battery of the Nation and TasNetworks' Project Marinus initiatives, which are strongly supported by the Tasmanian Government.

The Project Marinus Initial Feasibility Report, released in February 2019, shows that a second interconnector between Tasmania and Victoria (Marinus Link) is technically feasible, and economically viable under some credible scenarios, with the timing of the link largely dependent on the rate of coal generation retirement in Victoria or New South Wales.

The Feasibility Report identifies that Marinus Link would be a strategic interconnection investment providing NEM-wide benefits, with economic modelling indicating more than 90 per cent of the customer benefit goes to mainland NEM regions and less than 10 per cent to Tasmania. Further, a significant proportion of the mainland NEM benefits are in regions beyond Victoria (that is, not directly joined to Tasmania).

In its Current Situation Assessment of the Marinus Link and Battery of the Nation initiatives, the Tasmanian Government has clearly indicated that in order for Marinus Link to proceed, pricing and funding arrangements need to reflect these national benefits and ensure Tasmanians do not carry an unfair cost burden.

While the current inter-regional transmission charging arrangements allow for the recovery of some interconnector costs from other regions, it is clear these arrangements are inadequate where the majority of benefits are in other regions, including non-adjointing regions. If Marinus Link were to proceed as a regulated investment under these arrangements Tasmanian consumers would face an unfair cost burden.

As such, a review of these arrangements as part of the 2019 CoGaTI review is strongly supported. The Department agrees with the AEMC's position that inter-regional transmission charging arrangements should adequately ensure that those who benefit from an interconnector pay for that interconnector.

There is concern, however, that the scope of the review, as alluded to in the Consultation Paper, may not be broad enough to ensure that beneficiaries fairly pay for interconnector investments, particularly where a significant proportion of beneficiaries are in non-adjointing regions.

The Department considers that a broader and more holistic review of interconnector charging arrangements is required to ensure that interconnector investment costs are appropriately allocated to beneficiaries across all regions.

In regard to the proposed access reforms, while the Department agrees that reform is required to improve coordination between generation and transmission investment as increasing numbers of prospective generators seek to connect to the network, there are significant concerns with the proposed approach outlined by the AEMC.

In particular, these concerns relate to the proposal to provide generators with the ability to purchase firm transmission access rights. The proposed reforms appear very similar to the Optional Firm Access reforms that were previously considered by the AEMC. In its *2015 Final Report on Optional Firm Access, Design and Testing*, the AEMC identified significant issues with implementing OFA in Tasmania, reflecting the complexity of the use of system security constraints, and concluded that:

"If optional firm access was implemented, Tasmania should be excluded from the optional firm access model in the first instance, assuming elements of the Tasmanian market remain as they are currently. Relative to other regions, the technical challenges for optional firm access would be greater and the benefits lower in Tasmania".

As such, the Department would have significant concerns with attempting to introduce similar reforms.

At a minimum, the Department considers that in order to support the reforms the AEMC would need to comprehensively demonstrate that the benefits of the proposed access reforms would clearly outweigh the costs of implementation in Tasmania and would be technically and practically achievable.

The Department considers it essential that there is a coordinated approach to market reform, given the imperative for reform as the fundamental market transition currently underway continues and the complexity of the required reforms. It may be more appropriate for contentious elements of the AEMC's proposed access reforms to be considered as part of the ESB's Post 2025 Market Design for the NEM.

Yours sincerely



Gary Swain
DEPUTY SECRETARY, TRANSPORT SERVICES

3 May 2019