



26/04/2019

Mr John Pierce
Chairman
Australian Energy Market Commission (AEMC)
PO Box A2449
Sydney South NSW 1235

Via electronic lodgement

To John,

Discussion Paper: Coordination of generation and transmission Investment Implementation – Access and Charging

Mondo welcomes this opportunity to comment on the COGATI discussion paper. As a leading provider of transmission connection services, Mondo supports the AEMC's efforts to enhance the coordination of generation and transmission investment.

Access & charging reform should complement the ISP

The 2019 COGATI discussion paper presents an implementation plan for major reform to the NEM's transmission access arrangements. The 2018 COGATI report presented these reforms as part of a more holistic plan, with the Integrated System Plan (ISP) providing the core direction for generation and transmission planning, to be facilitated and complemented by the Action Plan currently being proposed by the ESB and the reforms proposed in the 2019 COGATI review.

Accordingly, the 2019 COGATI work should continue to support an objective of integrating with and complementing the benefits of strategic planning via the ISP. This could be set as a criterion for evaluation of the work program, as it progresses.

Bright future.

Timeline and alignment with parallel work streams

The AEMC has proposed a final report, including draft rule requests, be submitted to COAG in December this year. This indicates a sense of urgency. It is unclear however, whether the benefits of early delivery outweigh the benefits of good and robust market design. A good market design process allows sufficient time for the AEMC and its stakeholders to:

- leverage relevant global experience and learnings
- define and evaluate the complete portfolio of options raised to date
- consider the full merits and risks of each of the options
- consider how these options might work together.

To the extent the benefits of early delivery do outweigh a more comprehensive approach, quantitative analysis demonstrating benefits would help build the case for immediate action.

In addition, we note that the Energy Security Board (ESB) is proceeding with work in parallel on Post-2025 Market Design. While this work is only expected to be implemented in the mid 2020's, any recommended changes to the existing market design are due to be scoped, consulted on and submitted by the end of 2020. With that in mind, it would benefit the AEMC and stakeholders to align the timeline and content of the two reviews. Specifically, after reviewing the Access and Charging and Post-2025 Market Design timelines, we note the following opportunities for improved alignment:

- The ESB review was scheduled to provide a Scope of Work for the project by March this year. This provides an opportunity to realign the scope of this project. This would allow the AEMC to better leverage stakeholder forums and technical working groups, such that outputs are useful to both reviews. This will also limit the potential for stakeholder fatigue in these discussions.
- The ESB timeline indicates a technical working group was formed in March and tasked with considering the market design, and its ability to deliver the required services. The findings, approaches and even membership of this group could inform the work of the AEMC's technical working group, which commences in May.
- The ESB is planning to conduct stakeholder consultation from June through to December 2019. The AEMC is similarly planning to conduct stakeholder consultation from June through to October 2019. Given the overlap in topics and attendees, these consultations might be timed to avoid conflicts, and preferably such that they inform each other. Additionally, the outcomes and messaging of these forums may be aligned to build confidence in both processes.
- The ESB will identify options for the provision of electricity system services between June and August, and then provide two favoured options in December. As options are identified, the AEMC may consider the merits of pausing, re-defining or proceeding with the Access and Charging Review. This will avoid the risk that the AEMC and ESB provide inconsistent advice.

Aligning these work programs, should not unduly impact the timeline and will provide a more holistic market design, which facilitates and co-optimises the diversity of benefits available from large scale generation, transmission and distribution augmentation, and the integration of DER. More generally, alignment will increase industry confidence in the packages of reforms, and ensure any immediate reforms occur on a 'no regrets' basis.

Selection of Firm Access Rights from Available Policy Instruments

Historically, generators have been required to pay for “open” access to the transmission system. However this contribution does not pay for capacity on the shared network or guarantee that capacity will be available. The changing nature of generation has now found the limits of this approach. Firm access is a potential solution. However, other mechanisms have also been proposed to this end, including:

- Generation development bonds
- A government funded ‘Adjustment Fund’ as proposed by the ESB
- TUOS reform and application to generators
- Generator Firm Access or Financial Transmission Rights
- Nodal pricing (including reform of Marginal Loss Factors).

We also note the work planned to be complete by July 2023 to support generator funding of transmission infrastructure, particularly in the context of Renewable Energy Zones (REZs).

While each instrument is different, they address similar underlying issues and may be complementary. Consequently, some consideration and mapping of these underlying economic issues and the interaction of different instruments would provide context and rationale for Firm Access and Dynamic Regional Pricing (DRP).

The above options and work streams should be considered within a holistic program to ensure the most economic and efficient market design outcome.

Embedded and Aggregated Generation

Distribution Network Service Providers (DNSPs) and regulators are increasingly looking to create innovative mechanisms that coordinate the dispatch of distributed energy resources (DER) at the distribution level. These mechanisms aim to leverage aggregated generation, load and storage to provide market, transmission network and distribution network services.

Currently, these “distribution market models” are immature. Operational systems and market definitions are still in a development and trialling stage. Before a distribution market can become operational, several tasks need to be addressed by the industry including:

- defining and practically testing network limit definitions and DSO roles
- understanding DER characteristics, and developing and testing standards and revenue models
- developing a distribution level market, with DER services defined, tested and evaluated
- integrating and co-optimising the distribution level market with wholesale/transmission needs.

Given the immaturity of distribution markets, the application of DRP to smaller DER connected to the low voltage distribution network may be premature, and inhibit distribution market innovation. A particular concern is the potential for the DRP to apply to some but not all of the DER within an aggregated fleet. Conversely, larger generators may have the option to connect into the transmission network or a distribution network at the sub-transmission level. Within this context generators may be encouraged to connect at the sub-transmission level if this avoids the DRP.

With the above in mind, we would suggest that AEMC asks the technical working group to consider generators connecting at a sub-transmission level as a boundary case. The consideration of lower level distribution mechanisms (to encourage optimal investment) may be undertaken as part of the NEM 2025 project that the ESB is undertaking, and informed by practical trials.

Impact on existing or planned generation

Generators often rely on long-term off-take agreements which reference the existing Regional Reference Price (RRP) to support their investment in specific projects. Changing the price that certain generators are required to settle on may impact those contracts and any institutions that intend to rely on those contracts, creating a level of commercial risk and investment uncertainty.

With regard to Firm Access Rights, we note that the proposed changes are fundamental in nature. Changes are likely to impact the risk, return and functions of existing generators and Transmission Network Service Providers (TNSPs), as well as raise issues of equity between existing and new generators.

The development of a clear pathway for transitioning to DRP and Firm Access will help to alleviate concerns and provide confidence to generation proponents.

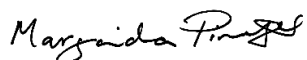
Inclusion of Battery Energy Storage Systems (BESS) within Dynamic Regional Pricing

As the owner of the BESS at Ballarat Terminal Station, Mondo has a strong interest in maximising the services a BESS can deliver. Congestion relief is one such service, however under the current market framework it is difficult for the value of this service to be specifically realised, as benefits to generators are socialised. The proposed DRP offer would address this issue and add 'constraint relief' to the commercially realisable stack of services batteries can deliver. Consequently, we strongly support the inclusion of utility scale battery charging within any DRP regimes.

More broadly, BESS applications warrant special attention within the current COGATI review due to their rapid take up, the expected decrease in battery prices and their ability to provide transmission support (as an alternative to transmission investment). Explicit consideration of BESS applications will create more resilient and future proof reforms.

Please feel free to contact Daniel Brass, our Market Insights Lead, (daniel.brass@mondo.com.au, ph:04 88135557) if you have any questions in relation to this submission.

Regards,



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