

2 August 2019

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

Locked Bag 14051
Melbourne City Mail Centre
Victoria 8001 Australia
T: 1300 360 795
www.ausnetservices.com.au

Via electronic lodgement

Dear John

Directions Paper: Coordination of generation and transmission investment – Access reform (Ref EPR0073)

AusNet Services welcomes the opportunity to make this submission on the Australian Energy Market Commission's (the Commission's) Directions Paper.

AusNet Services owns and operates Victoria's electricity transmission network, responsible for transporting electricity from where it is generated into Victoria's five lower-voltage distribution networks and to directly connected end users. We do this via 55 terminal stations, 13,000 transmission towers and 6,600 kilometres of high-voltage transmission powerlines.

Accordingly, AusNet Services has a significant interest in the proposed generator access reforms, and wishes to encourage best practice and integrated arrangements that both respond to the energy sector transformation and provide an effective and robust operating framework for the evolution of the NEM.

As well as offering our own views in this submission, AusNet Services has contributed to and supports the Energy Networks Australia (ENA) submission on the Directions Paper.

The Commission's Directions Paper proposes the following broad reform proposals:

1. Introduction of locational marginal pricing (LMP);
2. Establishment of transmission hedges to provide financially firm access to the regional reference price;
3. Future transmission planning and development including:
 - a. Using transmission hedges to drive network investment; and
 - b. Two options for facilitating Renewable Energy Zones (REZs).

We note that the Directions Paper focuses more on the LMP reform, and relatively less on the other reforms, which the Commission intends to address in more detail in the anticipated September 2019 COGATI Draft Report.

This submission offers comments on each of the three broad reform proposals, as well as commenting on:

- The need to integrate these reforms with the Integrated System Plan (ISP) and the Energy Security Board's post-2025 reform program; and
- The timetable for the COGATI reforms.

Introduction of LMP

While there are a number of detailed design issues to be resolved, AusNet Services supports the idea of introducing LMP to provide signals for efficient dispatch of generation and more efficient generator location decisions over the longer term.

AusNet Services consider the development of the detailed design of the LMP implementation in the NEM should prioritise the treatment of loss factors. In line with the ENA submission, AusNet Services supports the development of dynamic marginal loss factors and the integration of these within the LMP. As has been highlighted by the transmission loss factor rule changes currently being considered by the Commission, the loss factor issue in the NEM is now material and needs to be addressed, with dynamic marginal loss factors providing a first-best solution.

AusNet Services is also supportive of the approaches outlined in the ENA submission to:

- broaden the scope of the participants facing the LMP beyond scheduled generators to all generation, storage and load (scheduled, semi-scheduled and non-scheduled) where possible; and
- have full implementation of LMP across the NEM in preference to a staged implementation which applies LMP to progressively smaller regions.

Transmission hedges

As with LMP, subject to resolving detailed design and implementation issues, AusNet Service is supportive of the introduction of transmission hedges (referred to as Financial Transmission Rights in other jurisdictions). This is a sensible option to allow generators to achieve firm financial access and would support efficient market outcomes.

AusNet Services supports the arrangements for the procurement and settlement of hedges outlined in the ENA submission, namely that:

- short-term hedges relating to the existing transmission system be issued by AEMO (based on capacity information provided by TNSPs), in its role as independent market operator;
- longer-term hedges associated with new transmission investment (where that investment continues to be identified under the strategic, integrated ISP and regional planning processes) should be issued by the relevant TNSP;
- the short and longer-term hedges should be settled by AEMO as part of its market settlement functions; and
- hedges should be issued via an auction.

Future transmission planning, funding and development

The third element of the Commission's reform proposals in the Directions Paper relates to future transmission planning, funding and development.

The Commission is proposing that the sale of transmission hedges would fund and guide and development of new transmission capacity. TNSPs will sell hedges, and then both AEMO and TNSPs will face an obligation (the 'generator access standard') to plan and build the transmission network to reflect the quantity of hedges sold.

As outlined in the ENA submission, there are considerable practical and conceptual concerns with this idea that mean that transmission hedges are unlikely to play a significant role in transmission planning or future funding. This is also the experience in other markets. One key practical concern is the need for generators to purchase hedges substantially in advance of executing their generation project.

As AusNet Services has raised in our previous submissions, market led transmission investment cannot coordinate to achieve the necessary scale efficient power system design necessary to connect significant new generation in a timely manner, if at all. Further, the reform proposals should integrate with and complement the benefits of strategic planning via the ISP. Hence, the best that can be expected is that the sale of transmission hedges can inform the ISP and regional transmission planning processes.

In summary, AusNet Services consider that the LMP and transmission hedging proposal will deliver the most significant reform benefits. As noted in our submission on the COGATI Discussion Paper in April this year, the pricing and access certainty provided by these reforms would be complementary to the current transmission planning and investment decision-making processes, and which are expected to remain at the core of the network planning arrangements under the 'actionable ISP' model.

In terms of the Commission's proposals for REZ developments, AusNet Services strongly supports a consideration of a broader range of development options, including the options put forward in the ENA submission which includes the ESB's government-supported funding approach, an 'open-season' process and a transmission bonds approach. AusNet Services also agrees that there are significant barriers to the workability of the PIAC model and that it would be unlikely to support transmission investment in practice.

COGATI timeframe

As raised in our previous submissions, the reforms being proposed in the COGATI review are important, but complex, and represent significant changes in the NEM framework for participants. In addition, there is a need for clear integration into the NEM market design work that is proceeding in parallel. Given this we consider that the Commission's timeframe is overly ambitious and support the ENA's view that the Commission should identify and adopt a more considered timeframe that provides a greater likelihood of successful implementation of these key elements of the reforms.

AusNet Services is keen to engage further on the more detailed design of the reform options.

Please contact Deirdre Rose, Principal Regulatory Economist if we can assist with any queries in relation to this submission.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Tom Hallam', written in a cursive style.

Tom Hallam
General Manager Regulation and Network Strategy