

1 August 2019

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Pierce

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

Hydro Tasmania welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) *Coordination of Generation and Transmission Investment (COGATI)* directions paper.

The National Electricity Market (NEM) is undergoing significant transformation through the rapid uptake of renewable energy sources and the retirement of ageing thermal generation. This transformation is compelling energy market bodies and participants to rethink the way that the NEM operates.

Through the COGATI review process, the AEMC are proposing to make substantial changes to the NEM's open access regime by 2022. The AEMC have proposed: (1) implementing dynamic regional pricing (during periods of congestion); and (2) introducing transmission hedges to provide a long-term financial risk management tool for generators to mitigate the impacts of grid congestion. It has also been flagged that revenues from transmission hedging products could be used to fund investments in new transmission assets. The AEMC have proposed that such reforms are necessary to address a variety of issues and difficulties in the NEM. These issues and difficulties include:

- Managing and alleviating grid congestion;
- Disincentivising disorderly bidding behind congestion points;
- Managing year-on-year fluctuations in marginal loss factors (MLF);
- Ensuring costs are shared between generators to efficiently connect renewable energy zones;
- Declining system strength;
- Coordinating grid outages; and
- Managing the increasing quantity of connection enquiries.

Hydro Tasmania acknowledges that there are a variety of existing and emerging issues in the NEM. On this basis, we welcome the AEMC's motivation to seek to resolve these issues in an efficient and orderly fashion. However, as noted in our response to an earlier stage of the COGATI process, we are of the view that *'incremental changes to existing frameworks may be a more efficient way to resolve specific issues*

while other broader market reviews are underway. Hydro Tasmania retains this position, and considers this to be particularly relevant in the context of the Energy Security Board's (ESB) post-2025 market design process. Hydro Tasmania supports the ESB's role in evaluating future market designs as well as the embedding of the AEMO Integrated System Plan (ISP) into the NEM's regulatory framework. While these are progressing, Hydro Tasmania believes that the AEMC should consider minor refinements to current market operations to address issues highlighted in the COGATI review. For example:

- To deliver improved investment signals for new generation assets, the management of year-on-year fluctuations in MLF's may be better achieved through the Transmission Loss Factors rule change;
- A more efficient management of system constraints may be achieved through the development of new markets to incentivise the provision of services that will bolster system strength; and
- The connection of REZ's may be better achieved through the establishment of a targeted fund, such as that proposed by the Energy Security Board in recommendation 11 of their 'Actioning the ISP' work program.

We consider it integral that the whole spectrum of potential remedies to existing and emerging issues in the NEM (within reason) be considered before implementing significant reforms such as those proposed under the COGATI process.

As currently drafted, **Hydro Tasmania has significant concerns regarding the AEMC's proposed reforms** to the NEM's access regime. At a high-level, we consider that:

1. The **magnitude of the issues** that the reform is seeking to address have not been adequately quantified or projected. Hydro Tasmania considers it important to appropriately quantify these issues to determine the scope of reforms that are necessary in the current market context. Further it is unclear as to whether the proposed reforms are likely to be fit-for-purpose under future energy market scenarios/frameworks.
2. It is **difficult for market participants to develop an informed and reasoned position** on the proposed reforms based on the information presented to date. For example, there is yet to be any substantial commentary on the transitional arrangements (such as grandfathering access for existing generators). This is a highly pertinent issue which could have significant implications for market participants and competition between existing and future generators.
3. There are **significant complexities** associated with the proposed reforms which are yet to be resolved. Transforming the existing 12,000+ nodes under a multitude of system conditions into workable access rights will require considerable effort from the transmission providers to define, and for the generators to price. This extra layer of complexity will add to the analytical burden of both parties, and will also create additional barriers of entry for smaller participants.
4. The impact and implications of the proposed reforms on **other market factors and processes** is unclear – for instance, due to the potential fragmentation of pricing in regions with increasing levels of congestion, Hydro Tasmania considers that the proposed reforms are likely to have a negative impact on contract market liquidity. A decrease in liquidity could undermine competitive outcomes in the NEM, and potentially create barriers for smaller market participants and new entrants. Hydro Tasmania supports the review of empirical evidence from other markets with nodal pricing (such as the New Zealand Electricity Market) to better understand the potential implications the proposed reforms may have for contract market liquidity in the NEM.
5. There is **insufficient evidence** to demonstrate that the proposed reforms will produce a net benefit, or meet (or enhance) the National Energy Objective. It is essential that this can be

demonstrated to ensure the proposed reforms will deliver a least-cost solution to issues in the NEM, and be in the interests of consumers. Hydro Tasmania considers that this can only be achieved when a fully established proposal has been developed and subjected to a thorough and robust cost-benefit assessment; and

6. The proposed **timeframe for assessment and implementation is too ambitious** noting significant details yet to be presented. Hydro Tasmania notes that there is only one more period of consultation as part of this review before the Final Determination. Given there is so much work required to finalise this proposal, Hydro Tasmania finds this timeframe concerning.

On this basis, **Hydro Tasmania does not support the AEMC's proposed access reforms** at this time. We strongly encourage the AEMC to address the points raised above before proceeding to their final determination. Hydro Tasmania's view is that the COGATI process has emerged with a narrower focus than is needed for the significant changes facing the sector. We remain concerned that the COGATI proposal (as presented) may negatively impact, or have unintended consequences for other market reform processes currently underway.

Hydro Tasmania looks forward to ongoing engagement and collaboration with the AEMC to better understand the risks and opportunities associated with these proposed reforms. If you would like further information on any aspect of this submission, please contact John Cooper (john.cooper@hydro.com.au or (03) 6230 5313).

Yours sincerely



Steve Davy
CEO