



Mr John Pierce AO  
Chair  
Australian Energy Market Commission

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Melbourne, 2 August 2019

## Coordination of Generation and Transmission Investment – Access Reform (EPR0073): Directions Paper

Dear Mr Pierce,

innogy Renewables Australia (**innogy**) welcomes the opportunity to provide a submission on the Australian Energy Market Commission (**AEMC**) directions paper on the Coordination of Generation and Transmission Investment (**COGATI**) work program.

### Introduction to innogy

innogy is the Australian subsidiary of innogy SE, a company with 4 gigawatts of operating onshore wind, offshore wind, solar and hydro renewable power plants; as well as a 7.1 gigawatt global renewable and storage development pipeline. We are currently building the largest solar farm in Australia – the \$480 million 349 MW Limondale project. If the right policy settings are in place in Australia, we intend to grow our Australian portfolio of renewable energy assets through further investments in solar, wind and storage in cooperation with communities, suppliers, vendors and locally-based developers.

### The need for reform

We share the AEMC's view that there is a need for reform in the NEM.

Australia's energy market is transforming rapidly, with much of the country's thermal fleet scheduled to retire in the next 20 years, starting with Liddell in 2023. To ensure reliability, affordability and security of supply in the National Electricity Market (**NEM**) throughout this transformation, a significant volume of investment will be required.

In the Integrated System Plan (**ISP**), the Australian Energy Market Operator (**AEMO**) has predicted that 54 GW of new capacity will be required in the NEM by 2040. AEMO's technology-neutral modelling predicts that solar, wind and storage capacity, supported by more interconnected transmission, will be the lowest cost pathway to ensure continued reliability and security of supply through the transformation. Importantly, AEMO has found that it will be preferable for consumers if new transmission is built to regional areas with good renewable resource availability rather than just concentrating new renewable generation in areas where governments have previously built transmission for other reasons.

Companies such as innogy have already invested in starting to build out the replacement generation capacity for the NEM. However, the current market rules are unsuitable for achieving the full vision of the

ISP. As a result of the energy market uncertainty, energy investments have decreased in the last quarter. Investors face an inability to predict or control future congestion, curtailment and line losses, increased connection costs and delays due to a lack of centrally-planned transmission and system strength augmentation, and a transmission development process which takes five-ten years to complete. There are now very real risks of a hiatus in new generation investment, which could lead to shortfalls in supply in the near future, less reliability and security and higher prices in the NEM.

### **The reform process**

While we support the need for reform, we believe that the process to identify the appropriate reform should be revisited. The directions paper, like the 2018 consultation paper on COGATI, only explores one possible theory of how to promote efficient generation and transmission investment in the NEM.

We suggest the approach to reform should start with identifying the problems to be addressed, followed by laying out a number of possible solutions to those problems, then conducting cost benefit analysis of the possible solutions against the National Electricity Objective to identify the most cost effective solution for consumers. That is the process required for a single transmission investment decision to be approved through a regulatory investment test for transmission (**RIT-T**), so it would be prudent that a reform which impacts all transmission investment across the NEM be analysed with at least the same level of rigour.

By focussing on only one theoretical solution without cost benefit analysis, it is difficult to know whether that theory is the best approach or even a better approach than the status quo in addressing the multitude of current problems impeding efficient generation and transmission investment in the NEM.

Given the lack of options analysis, we think the COAG Energy Council will find it difficult to determine whether the COGATI proposal is the most efficient way to promote the investment in generation and transmission needed to ensure reliability, security and affordability in the NEM into the future.

### **The proposed reform**

The current COGATI proposal is to move the NEM to dynamic regional pricing, allow generators to manage some risks associated with such a move by purchasing transmission hedges, and then apply the transmission hedges as another factor to feed into existing network planning processes.

On the detail in the directions paper, we cannot have confidence that the current COGATI proposal will better coordinate transmission and generation investment than the status quo. By adding an additional consideration of transmission hedge purchases over and above the ISP and RIT-T processes, it is difficult to see the current COGATI proposal streamlining transmission build. The interplay between the market-led purchase of transmission rights and the centralised decision-making of the ISP is not clear.

In our view, the ISP, and the work of the Energy Security Board to implement it, could go a long way to better coordinating transmission and generation build. We appreciate that the ISP modelling, like any modelling, may not be the most accurate predictor of how Australia's energy market actually evolves in practice. However, it is the most comprehensive, evidence-based plan put together for the NEM, and so we believe it should be the starting point for a review of the coordination of transmission and generation investment.

On the detail in the directions paper, we also cannot have confidence that the current COGATI proposal will allow generators to manage the basis risk associated with a move to dynamic regional pricing for the whole asset lifetime. In theory, a transmission hedge purchased at a reasonable price coupled with an incentive scheme on TNSPs could provide better certainty for investors, reduce the cost of capital and ultimately flow through to lower prices for consumers, however there is insufficient detail on the design of transmission hedges to form a firm view.

The current COGATI proposal appears focussed on solving issues of disorderly bidding and avoiding transmission “roads to nowhere”. Neither of those issues have been demonstrated to impact significantly on energy prices, reliability or security. In our view, if the reform process was revisited, the AEMC would have a much better opportunity to identify a holistic solution which addresses more of the significant problems impeding efficient investment in generation and transmission.

#### **Suggested next steps**

We commend the AEMC on consulting with a number of stakeholders on COGATI, however an opportunity has been missed by focussing the consultation on the finer details of only one possible solution. Opening up consultation on alternative solutions would provide an opportunity to find a better overall outcome with better buy-in from stakeholders.

Then, following feedback on a wider range of options, the AEMC could conduct rigorous cost benefit analysis on different reform proposals.

We share the view of the AEMC that reform should happen as quickly as possible, but better coordination of transmission and generation investment is too important, and the implications too far-reaching, to rush into reform without appropriate analysis. In our view, the 2022 implementation timeframe should be revisited once the cost benefit analysis is complete and the preferred solution is known.

In the interim, the AEMC could use the MLF and transparency reform workstreams to make incremental but immediate improvements to facilitate an orderly and efficient energy transition, at the same time as the ESB advances implementation of the ISP.

Thank you for the opportunity to comment on the directions paper. If you would like to discuss any of the issues raised in this submission, please contact one of us on the details below.

Yours sincerely,



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