



COGATI review - technical working group #3

5 September 2019

1 Overview

The second working group meeting was held in Sydney on 5 September 2019.

The working group was formed by the Australian Energy Market Commission (AEMC) to provide advice and input into the progression of the COGATI 2019 review (EPR0073).

All enquiries on this project should be addressed to Jess Boddington on (02) 8296 0626.

2 Attendees

The attendees of the meeting are listed below.

Member	Organisation
Arista Kontos	AER
Ben Skinner	AEC
Bill Jackson	ElectraNet
Bradley Woods	TasNetworks
Dan Mascarenhas	AGL
Dan Sturrock	ARENA
David Havyatt	ECA
David Scott	CS Energy
Dean Gannaway	Aurizon
Deirdre Rose	AusNet
Donovan Marsh	ESB
Georgina Snelling	Energy Australia
Gordon Leslie	Monash University
Greg Hesse	Powerlink
Jessica Hunt	AEMO
Joel Gilmore	Infigen
Kirsten Hall	AEMO
Miyuru Ediriweera	PIAC
Panos Priftakis	Snowy Hydro
Peter Nesbitt	Hydro Tasmania
Richard Khoe	AER
Robert Pane	Intergen
Ron Logan	ERM Power
Sally McMahon	Spark Infrastructure

Steven Nethery	Goldwind
Tim Jordan	CEFC
Tom Geiser	Neoen
Verity Watson	ENA
Zainab Dirani	TransGrid

The AEMC's project team attended and is listed below.

Name	Position
Suzanne Falvi	Executive General Manager – Security & Reliability
Victoria Mollard	Director – Security & Reliability
Jess Boddington	Adviser – Transmission and Distribution Networks
Ella Pybus	Consultant – Cambridge Economic Policy Associates
Tom Walker	Senior Economist
Jessica Scranton	Lawyer

3 Agenda

At the start of the meeting, the 'competition health warning' was read out, and copies of the protocol (attached) were given to each member of the working group.

The meeting focussed on four areas:

- 1) a recap of the review so far, including a summary of the feedback that was received to the directions paper and how we are taking that feedback into account
- 2) the objective and scope of quantitative analysis for the reform.
- 3) our preliminary view on the link between access reform and the current transmission framework, including how transmission hedges could indirectly inform the transmission planning and investment
- 4) key aspects in the design of transmission hedges.

The project team thanked participants for their time and noted that the group will be convened again in November. In the meantime:

- a concept design paper will be published in early October
- a discussion paper on renewable energy zones will be published in early October
- a public workshop will be held on 18 October to discuss and consult on the issues raised in the papers.

4 Session 1 - Stakeholder feedback and incorporation of feedback

4.1 AEMC presentation

The COGATI team gave a recap of the review so far, including:

- That the COGATI review is tasked with access and charging reform, but that we are prioritising access reform based on prior stakeholder feedback that it is most urgent.
- The context of broader reform that COGATI sits within. This includes relevant projects and work programs being undertaken by the ESB, AEMO and the AER.
- Progress on the COGATI review so far, both in terms of milestones and the policy proposal outlined in the June directions paper.

The team summarised key themes in the feedback received to the directions paper – a summary can also be found on our website: <https://www.aemc.gov.au/news-centre/media-releases/summary-submissions-new-transmission-access-reform-framework>.

We also discussed how the AEMC has adjusted its approach to the review in response to feedback received:

- discussing ways to quantitative model the impacts of the reform at a later session today
- considering the implementation date
- separating out renewable energy zones into its own workstream with its own consultation process, with this linking back into the COGATI final report in December
- publish a concept design that sets out the high level specification of the proposed reforms and outlines our proposed approach to impact analysis in October for stakeholder feedback, ahead of the COGATI final report in December.

4.2 Stakeholder views

Stakeholders contributed the following points to this session:

- That the importance of grandfathering was a key theme that emerged from generators' submissions. The COGATI team agreed with this, and suggested that there be a dedicated session on this at the next technical working group.
- That the Open Energy Networks work program jointly led by AEMO and ENA should be added to the list of relevant work programs.
- Consumers would benefit from publication of the local marginal prices that exist within AEMO's dispatch engine, and that this should be pursued further. AEMO suggested that its Guide to Mispricing¹ would be helpful to providing more information on this.
- That the quantitative modelling is important – this was discussed in the next section.

5 Session 2 – Quantitative modelling

5.1 AEMC presentation

We noted the feedback that the AEMC should undertake quantitative impact analysis of the COGATI reform. Stakeholder objectives vary but include:

1. providing evidence as to whether the total benefits of the reforms are likely to exceed the total costs
2. informing specific design details within the policy reform

¹ See: https://www.aemo.com.au/-/media/Files/Stakeholder_Consultation/Consultations/NEM-Consultations/2019/Dispatch/Guide-to-Mis-Pricing-Information.pdf

3. providing evidence of possible distributional impacts (winners and losers)
4. providing a more detailed explanation of the nature of the benefits that might arise from the reforms.

We asked the group whether there were any objectives missing, and what objectives are the most important.

We then talked through three modelling techniques that could be used to achieve objective 1: agent based market model; central planner model; and a computational general equilibrium model; as well as their pros and cons.

The COGATI team sought feedback as to how this modelling should be undertaken, and which objectives should be prioritised.

5.2 Stakeholder views

Stakeholders contributed the following feedback:

- Stakeholders recognised that it would be difficult to conclusively model whether the benefits of reform exceed the costs, but that there are types of modelling that the AEMC could undertake in order to understand what types of benefits that arise, how the materiality and relativity of these benefits may change given different scenarios, as well as the costs of implementing the reforms.
- One thing the AEMC could consider is quantifying the costs of inefficient operation and investment in transmission infrastructure under the current arrangements, as well as how the materiality of this might change in the future, in order to identify the size of the potential 'prize' that could be captured by reform.
- A primary objective should be to use quantitative analysis to obtain confidence in the decision to proceed with the reform.
- We should attempt to understand any incentives that could be created by the introduction of dynamic regional pricing and transmission hedges, including how this changes risks for generators. For example, impacts on a generator's cost of capital.
- Any modelling should include sensitivity analysis or stress testing to confirm the validity of its conclusions, as well as see how the conclusions may change under different environments.
- We could also look at case studies of implementation in other jurisdictions e.g. to obtain estimates of costs.
- Agent based market modelling may be useful in simplified contexts, especially if it is iterative in nature. However, a key limitation is that assumptions around the market structure heavily impact on the outcomes of the model. There was a recognition that the results of agent based modelling would differ from the Integrated System Plan, as they utilise two different techniques.
- We could conduct paper trials with humans being actors in the system.

6 Approach to access reform

6.1 AEMC presentation

The AEMC provided an overview of the current transmission planning framework.

We also set out that taking on board stakeholder feedback, our preliminary view is that we should pursue a model that does not have a direct role for generators to influence transmission investment i.e. transmission hedges would only indirectly inform the transmission planning and investment.

6.2 Stakeholder views

Stakeholders contributed the following feedback:

- The AEMC should be mindful of the fact that Victoria has a different jurisdictional planning regimes, compared to other jurisdictions, when designing the access reform proposal.
- If there is no direct link between the sale of transmission hedges and the outcomes of transmission planning and investment, then a key benefit of the reform that has been discussed to date may be lost. Generators should be able to directly influence the transmission infrastructure outcomes in a more robust way than is currently available.
- The proposal for an indirect link between the transmission planning framework and the sale of transmission hedges is no worse than the status quo, but it may not improve efficiency of transmission planning outcomes either.
- It is hard to reconcile the timing of transmission infrastructure build with the timing of generation build, particularly where renewable generation can be constructed so quickly. Some stakeholders were of the view that this weakness could be overcome, while others were more sceptical.
- There is the potential to overbuild or underbuild transmission, no matter what planning and investment regime is in place.
- Some stakeholders were concerned that the development of the ISP may not align with where generators want to locate (and subsequently where they would want to purchase transmission hedges).

In response to stakeholder feedback, attendees brainstormed potential hybrid models where generators could fund additional transmission infrastructure directly. Options suggested included:

- A book build process that could coordinate expressions of interest from generators to locate in particular parts of the network. This might have some similarities to the interconnection queue processes that operate in the US. This process could potentially involve a form of financial commitment from the generator,
- An amendment or extension to the RIT-T, such that in cases where a RIT-T does not stack up – but a generator would like the project to go ahead – the generator could contribute the funds required to make the project viable in return for a longer term transmission hedge.
- A funded augmentation where generators receive a long-term transmission hedge for the radial part of the network that is augmented (i.e. from their point of connection to the relevant node attached to the shared network).

Action: AEMC staff committed to writing up a short note summarising the proposal in the directions paper, proposal based on stakeholder feedback, and the hybrid options suggested above. This will be sent around to technical working group participants for feedback.

7 Design of transmission hedges

7.1 AEMC presentation

The AEMC noted that most stakeholders (other than generators) supported the introduction of transmission hedges in their responses to the June directions paper.

We outlined some potential design objectives for transmission hedges (what we should keep in mind when designing transmission hedges), and asked for stakeholder feedback on how key aspects of transmission hedges should be designed (e.g how long should transmission hedges be for; from what locations should they be purchased).

7.2 Stakeholder views

Stakeholders contributed the following feedback:

- The design of transmission hedges will differ depending on how much these drive transmission planning.

- The AEMC should consider transitional and implementation impacts, so that the introduction of transmission hedges does not create a transitional shock nor disadvantage new entrants.
- Transmission hedges should aim to support or match existing contracting arrangements.
- Generators use the network at different times of the day, so a time of use transmission hedge may be useful.

Australian Energy Market Commission

Working group protocol

Context and purpose

The AEMC has convened this working group with energy industry members to discuss proposed access reforms being considered by the Commission in its COGATI review.

The Working Group is committed to complying with all applicable laws, including the *Competition and Consumer Act 2010 (CCA)*, during these discussions. Breach of the CCA can lead to serious penalties for members and for individuals involved in any breach (including large financial penalties and potentially also imprisonment for key individuals involved).

This Protocol governs the way in which Working Group discussions will proceed, and the Working Group agrees to adhere to this protocol in order to ensure compliance with the CCA.

Key principles

The purpose of this Working Group is solely to discuss the proposed reforms being considered by the review and for stakeholders to raise potential issues for the Commission's further consideration.

Each member **must make an independent and unilateral decision** about their commercial positions and approach in relation to the matters under discussion in the Working Group.

This Working Group **must not discuss, or reach or give effect to any agreement or understanding*** which relates to:

- **pricing** for the products and/or services that any member supplies or will supply, or the terms on which those products and/or services will be supplied (including discounts, rebates, price methodologies etc).
- **targeting (or not targeting) customers** of a particular kind, or in particular areas.
- **tender processes** and whether (or how) they will participate
- any decision by members:
 - about the purchase or supply of any products or services that other members also buy or sell
 - to not engage with persons or the terms upon which they will engage with such persons (i.e. boycotting); or
 - to deny any persons access to any products, services or inputs they require.
- **sharing competitively sensitive information** such as non-publicly available pricing or strategic information including details of customers, suppliers (or the terms on which they do business), volumes, future capacity etc
- **breaching confidentiality obligations** that each member owes to third parties.

* An "understanding" does not have to be formal; a "nod and a wink" is enough if one party commits to act in a particular way.

Communication & meeting guidelines

Members must ensure that **all communications** (including emails and verbal discussions) adhere to the Key Principles. All meeting between Working Group members should be conducted in accordance with the following rules:

- Agree and circulate an agenda in advance of each meeting. The content of each agenda should not include anything that could contravene the Key Principles set out in this Protocol, and try to avoid "any other business" agenda items.
- Ensure all members understand ahead of the meeting that any competitively sensitive matters must be subject to legal review before any commitment/agreement can be given.
- The below 'competition health warning' is read and minuted at any meetings or conference calls:
 - Attendees at this meeting must not enter into any discussion, activity or conduct that may infringe, on their part or on the part of other members, any applicable competition laws. For example, members must not discuss, communicate or exchange any commercially sensitive information, including information relating to prices, marketing and advertising strategy, costs and revenues, terms and conditions with third parties, terms of supply or access.*
 - For any new attendees – please note that participating in these discussions is subject to you having read and understood the Protocol including the Key Principles. If you have not yet done so, please do so now.*
- Accurate minutes are kept of all meetings, including details of attendees.
- If something comes up during a meeting that could risk contravening any Competition Laws, attendees should:
 - Object immediately, and ask for the discussion to be stopped.
 - Ensure the minutes record that the discussion was objected to and stopped.
 - Raise concerns about anything that occurred in the meeting with their respective legal counsel immediately afterwards.
- Any decision about whether, and on what terms, to engage with customers and suppliers is an independent and unilateral decision of each member.