Delta electricity

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COORDINATION OF GENERATION AND TRANSMISSION INFRASTRUCTURE (CoGaTI) DISCUSSION PAPER - PROPOSED ACCESS MODEL

Delta Electricity welcomes the opportunity to contribute to the AEMC's deliberations on the coordination of generation and transmission access as detailed in the discussion paper number one of 14 October 2019. Delta owns and operates the 1,320MW Vales Point power station in NSW and has a retail licence to sell electricity to large customers. Delta has operated coal and gas fired generating plant in the National Electricity Market (NEM) since its start in 1998 and is an active participant in both the electricity and gas trading markets.

Timing

Delta reiterates its view that the CoGaTI work be linked, or even integrated with, the Energy Security Board's (ESB) Post 2025 Market Framework Review. It is understood that the ESB's internal working group is liaising with the AEMC on transmission access issues, but there is no explicit requirement for the ESB to consider AEMC's work. It is possible that the AEMC progresses a major transmission framework reform that is inconsistent with the ESB's market framework blueprint. Delta believes there would be benefits to explicitly undertaking the two work streams as part of one market design project.

The CoGaTI project includes a very ambitious timetable given the amount of work still to be done on assessing net benefits, finalising designs and implementing arrangements. Sufficient time needs to allocated to ensure there are no unintended consequences or risk to the efficient functioning of the NEM. Of particular concern is the impact on forward hedging markets. As the projected start date is approached it is highly likely that such a major change to NEM pricing will cause liquidity to decrease. Delta would be more supportive of the proposed timing if the start date was defined as at least three to four years beyond the date at which the final rules are approved, or aligned with the implementation of the ESB's Post-2025 Market Frameworks Review.

The timeframe for implementing the proposed access reform immediately follows the implementation of 5-minute settlement. It is highly likely that interactions between reforms will clash and require additional changes to ensure the efficiency of the market is maintained. As already observed, the timing of the implementation of the CoGaTI reforms should be coordinated to ensure minimum impact on financial markets and market participants.

Transition (grandfathering)

Delta welcomes the AEMC's acknowledgement that grandfathering of transmission rights for existing generators is necessary. The rationale for the CoGaTI reform is a lack of locational signals in the transmission framework and that investors are planning to place their new generation in parts of the network subject to congestion. The reform is driven by the prospect of a very large number of small generators and it is therefore equitable that existing generators be grandfathered a level of access commensurate with their existing access. This approach will effectively recognise the cost of congestion that may already be incurred by the generators located in congested parts of the network. It also deals with the complexity and potential exercising of market power if transmission hedge auctions commenced for all existing generation locations.

Delta's view is that financial transmission rights aligned to historical access levels should be grandfathered to existing generators for at least 10 years to ensure that investor confidence in the market is upheld. This confidence in market revenues is crucial to ensure that the significant investments needed to meet renewable energy targets and other transition goals are undertaken.

Benefit of Access Reform

The AEMC contends that limited locational signals, and the speed of connection, is resulting in investors planning to connect in locations with limited transmission access. Delta observes that the easily accessible information from transmission network service providers on transmission access, provides a very strong locational signal. The open access regime means new generators take transmission congestion risk and it is therefore incumbent on the investor to understand this risk and chose sites that that provide suitable access. This may involve cost to the investor of purchasing more expensive land (closer to the main network) or locating in a less than optimal resource area to obtain less congested access. Over time, as generation patterns shift, new regulated transmission will be economically built (e.g. SA-NSW interconnection) that will open up new opportunities for low risk access. The existing issues of falling MLFs and constraints affecting large scale renewable generation will be dealt with by the application of the RIT-T and it is unclear exactly what net benefits will flow from the proposed reform with regard to transmission planning given that the current framework remains functional. This is particularly true with the AEMC dropping the third pillar of the CoGaTI framework which could have more explicitly linked transmission investment planning with generator location.

Reform Risks

The electricity market is reliant on an efficient and liquid electricity contracts market. The regional reference node structure generally works well for participants contracting within a region as intra-regional congestion is generally not problematic and inter-regional contracting is possible, but limited by the effectiveness of SRA's. Whilst difficult to quantify, moving to dynamic regional pricing will impact the contracts market. It will be critical for generators located in a constrained part of the market to acquire transmission hedges. The effectiveness of these hedges will need to be assessed for the level of firmness and cost. Whilst it can be argued that transmission hedges may in theory support contracting, that will be dependent upon generators being able to afford and acquire these hedges.

The prospect of redefining prices also carries risks to existing contracts, including long term PPAs that support renewable generation. Reviewing and potentially re-writing these contracts introduces substantial cost, complexity and risk to market participants. Delta urges the AEMC to undertake a thorough investigation into the costs of these changes and their potential impacts on the investment environment.

To discuss any questions arising from this submission, please contact me on (02) 4352 6425 or via email at peter.wormald@de.com.au.

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