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Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

RE: Coordination of Generation and Transmission Investment Renewable Energy Zones – Discussion Paper

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the Australian Energy Market Commission (Commission)'s Renewable Energy Zone (REZ) discussion paper, which provides the basis for consultation on the Coordination of Generation and Transmission Investment (COGATI) Review.

About ERM Power

ERM Power is an Australian energy business for business. ERM Power provides large businesses with end to end energy management, from electricity retailing to integrated solutions that improve energy productivity. Market-leading customer satisfaction has fuelled ERM Power's growth, and today the Company is the second largest electricity provider to commercial businesses and industrials in Australia by load[1]. ERM Power also operates 662 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland, supporting the industry's transition to renewables.
https://ermpower.com.au/

Renewable Energy Zones

ERM Power believe the COGATI review should focus reform recommendations towards developing low carbon technology regions. These REZ regions have been identified through the ISP.

The Commission has indicated that their view of two different types of connections to a REZ:

- Type A is a cluster of generators sharing connection assets only, which are those assets used by generators to connect to the transmission network.
- Type B is a cluster of generators sharing their connection assets as well as a part of the shared transmission network. The shared transmission network are those assets that facilitate the flows of electricity between all parties that produce and consume electricity.

In our view, the Commission should consider that a Type A connection may not merely connected to the edge of the current boundary of the shared network but to a point of low or zero network congestion within the shared network.

In doing so, the Type A connection may bypass areas of the shared transmission network. Whilst the Commission is of the view that Type A connections are already adequately covered under the existing regulatory regime, ERM Power remains concerned that a Type A connection can be facilitated as a non-regulated asset. Non-regulated asset development would result in increased costs to consumers. Transmission investment must occur through a regulated process to ensure the lowest overall cost of new transmission network to consumers, irrespective of the funding party.

[1] Based on ERM Power analysis of latest published information

It is also unclear if the current frameworks delivers a sufficient property right to the generators that fund either a Type A or B connection. we believe that the rules need to be amended to ensure that this is the case. We believe this property right does not need to be in the form of an FTR. We believe a simpler option is for the property right to dictate that the generators who have funded the network augmentation be placed on the right hand side of the applicable network constraints, where applicable to do so. They would then not be subject to being constrained off at the time of network congestion.

The Commission has proposed a number of models for Type B connections. The Commission's preferred model sets out that the funding of a network augmentation would not result in the direct allocation of a long term transmission hedge, but rather only provide the right to be able to bid in an auction to purchase a long term transmission hedge. The willingness of generators, or equally a large consumer, to fund the network infrastructure would not guarantee that the TNSP would be required to build the infrastructure, only that it would proceed to a RIT-T evaluation.

ERM Power does not support the above proposal due to its complexity. We also see risk in the possibility that, despite the willingness of participants to fund additional network infrastructure, the proposal does not require the TNSP to do so. It is also questionable that the proposal would deliver the lowest cost to consumers over the long term.

As set out above, if a participant or group of participants are willing to fund network infrastructure via long term contractual payments, then the network infrastructure should be constructed as a regulated asset. The regulated assets should be allocated to a separate asset base and a property right should be conferred to the funding parties. This would not require the use of the proposed complex transmission hedge or FTR framework. The property right for access to the funded infrastructure could be more simply provided thorough the allocation of the generators location in the NEMDE constraint equation.

We would welcome the opportunity to discuss this submission with you further. Please contact Emma White, Policy Adviser 03 9214 9347.

Yours sincerely

Jon Stretch

Manager Director & CEO