



13 November 2019

Ms Suzanne Falvi
A/g Chief Executive Officer
Australian Energy Market Commission
201 Elizabeth Street
SYDNEY NSW 2000

Submitted via email: aemc@aemc.gov.au

Dear Ms Falvi,

AEMC Coordination of Generation and Transmission Investment – Access Reform

SIMEC Energy Australia (SIMEC) welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) *Coordination of Generation and Transmission Investment – Proposed Access Model, Discussion Paper (the Paper)*.

SIMEC is one of Australia's most forward-thinking renewable energy companies, providing energy solutions to residential customers, large businesses, heavy industry and government. We are a member of the GFG Alliance—an international group of businesses with interests in mining, energy generation, metals engineering, financing and property—and we have been recognised for our commitment to delivering value and excellence in innovation at the 2018 South Australian (SA) Premier's Awards in Energy and Mining.

Our interest in this matter stems from our focus on developing a targeted 600MW of capacity – approximately \$1 billion worth of physical capital – in renewable energy and storage capacity in the SA region. The express purpose of this investment is to deliver energy at globally competitive prices to industries that are among the largest employers in Australia. Clearly, any significant change to transmission access arrangements such as those proposed by the Paper will impact these investments.

SIMEC notes that there are a number of issues with the current transmission access regime, chief amongst these is the reality that an incumbent generator could potentially be constrained off because a new entrant connects to the network, thereby impeding network access and diminishing asset returns. An aligned issue, with a similar potential to diminish economic value, is changing marginal loss factors (MLFs). MLFs have recently come into focus as generators affected by changing MLF values (arising from greater line loading which increases line losses) have sought to both relate the changes to asset value projections and to understand whether changing MLF values can be mitigated.

In reviewing the contents of the Paper, SIMEC is concerned that the proposed package of reforms may not actually resolve these two issues and could, potentially, create adverse unintended consequences.

SIMEC ENERGY AUSTRALIA

PO Box 141,
Oaklands Park SA 5046
ABN: 82 110 224 005

T: 1300 936 466
E: simon.camroux@simecenergy.com.au
simecenergy.com.au



Locational decision making

A key justification for the proposed reform is that the implementation of dynamic regional pricing coupled with financial transmission rights (FTRs) will lead to better locational decision making on the part of asset investors – thereby improving network asset utilisation and securing an efficient dispatch of assets overall.

SIMEC questions whether the proposed benefits of implementing dynamic regional pricing will eventuate, as this approach is likely to increase market complexity which could potentially create a barrier to entry to smaller market participants/new entrants – thereby diminishing competition.

Additionally, the possibility exists that by creating dynamic regional prices, vertically integrated entities dominate each reference point in order to mitigate their market risk. This outcome could simply reinforce the market share of incumbents. SIMEC also questions whether race to the floor bidding is as significant an issue, as argued by the AEMC in the Paper, that warrants the implementation of a dynamic pricing regime.

In regards to FTRs, and focussing solely on generation assets, SIMEC considers that the AEMC's argument as to locational incentives created by FTRs being the dominant consideration only holds true if all possible asset locations are of equal value i.e. each potential asset siting has an equivalent primary energy resource. As this is not the case, the value of FTRs (and the dynamic regional price) can only ever be one element in determining the appropriate siting of generation. From SIMEC's perspective, greater weighting will always be applied to the availability of primary energy sources (predominantly wind and solar resources given the transformation underway) and not simply the value of an FTR. With a final investment decision being made once all relevant factors have been considered.

For example, if an FTR regime were introduced today, the old Hazelwood Power Station site would have a very low FTR value (possibly zero). However, SIMEC contends that it is highly unlikely that a new generation asset would be built on this site in the immediate future as the site has poor wind and solar resources – negating the possibility of any renewable investment occurring on the site.

Additionally, the price of gas, and lack of predictable policies on carbon abatement, are similarly likely to preclude gas powered generation investment on the site. Under these scenarios, the benefits of an FTR regime are negligible. Further, where high value primary energy resources exist, such as the Western Victorian region, the value of FTRs are likely to preclude further generation capacity investment (wind and solar) until such time as existing constraints are built out which would, all else being equal, reduce the value of FTRs and open up the region to further generation.

Whilst these examples may be considered outliers, it is clear to SIMEC that simply instituting a dynamic regional pricing model and FTR regime will not resolve existing network issues and nor will the value of an FTR, or the dynamic price, be the primary driver for a new entrant generator.

Furthermore, given that the AEMC has made clear in the Paper that price signalling created by the FTR is to be disconnected from transmission asset build, the implementation of an FTR regime will not, on its own, alleviate existing network constraints¹.

¹ Whilst SIMEC does not consider that this means that the AEMC should link transmission build to the FTR regime, it is important that the AEMC consider the implications of existing network constraints, or lack thereof, and how each may impact scheme implementation.

Marginal loss factors

As noted above, MLFs have recently come into focus as changing MLFs have negatively impacted generation asset values². In response, the AEMC is proposing to introduce dynamic MLFs which it proposes would mitigate the uncertainty associated with the annual MLF calculation conducted by the Australian Energy Market Operator.

In contrast to the AEMC's view, SIMEC considers that moving to a dynamic MLF framework (coupled with dynamic regional prices and FTRs) may not deliver the outcomes intended. Specifically, moving to a dynamic loss calculation will make investment modelling challenging and could diminish investor confidence (as investors will struggle with the concept of economic value potentially changing every 5 minutes). This scenario could delay new asset investments which would clearly be detrimental to efficiency. Dynamic loss factors could also create perverse incentives with regards to asset bidding and contracting. Accordingly, SIMEC suggests that the AEMC conduct further analysis as to how dynamic loss factor calculations will impact market participant decision making both pre and post asset investment.

FTR allocation

SIMEC considers that FTR allocation, including the grandfathering of access rights, is fundamental to scheme operation.

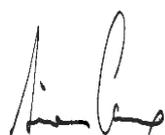
Clearly, grandfathering creates an automatic access right and can create a gap between the 'haves' (i.e. those with access) and 'have nots'. In order to minimise this gap, SIMEC considers that the point in time in which grandfathering is applied should be forward looking i.e. it should be defined as a future point in time to ensure that generators currently in the connection process are not adversely impacted by the allocation of rights. This approach would minimise the possibility of scheme implementation creating inequality amongst market participants.

Conclusion

In closing, and in light of the points above, SIMEC considers that more time is needed to consider whether the implementation of the proposed package of reforms deliver changes that lead to an improvement in the status quo. Or whether, the additional complexity, creation of perverse incentives and uncertainty (with regards to locational values, FTRs and dynamic losses) will simply create barriers to entry which preclude smaller entities, such as SIMEC, from being able to effectively compete with incumbent vertically integrated businesses.

SIMEC considers that extending the AEMC's timeline for consideration of the proposed COGATI reforms, to address issues raised herein, will clarify the points raised and also allow this matter to be considered as part of the Energy Security Board's post 2025 Market Design work.

Yours faithfully,



Simon Camroux
Head of Regulation

² Australian Financial Review, *AGL takes renewable hit as grid congestion worsens*. Available at: <https://www.afr.com/companies/energy/agl-takes-renewables-hit-as-grid-congestion-worsens-20191105-p537h7>