2 July 2020

The Commissioners
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Sent to: AEMC by online lodgement

Dear Commissioners

Electricity Network Economic Regulatory Framework
2020 Review Approach Paper
EPR 0085

Major Energy Users Inc (MEU) is pleased to provide its thoughts on the issues raised in the Electricity Network Economic Regulatory Framework (ENERF) 2020 Review Approach Paper.

The MEU was established by very large energy using firms to represent their interests in the energy markets. With regard to all of the energy supplies they need to continue their operations and so supply to their customers, MEU members are vitally interested in four key aspects – the cost of the energy supplies, the reliability of delivery for those supplies, the quality of the delivered supplies and the long term security for the continuation of those supplies.

Many of the MEU members, being regionally based, are heavily dependent on local staff, suppliers of hardware and services, and have an obligation to represent the views of these local suppliers. With this in mind, the members of the MEU require their views to not only represent the views of large energy users, but also those interests of smaller power and gas users, and even at the residences used by their workforces that live in the regions where the members operate.

It is on this basis the MEU and its regional affiliates have been advocating in the interests of energy consumers for over 20 years and it has a high recognition as providing informed comment on energy issues from a consumer viewpoint with various regulators (ACCC, AEMO, AEMC, AER and regional regulators) and with governments.

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Overall, the MEU considers that the approach outlined by the AEMC in its Approach Paper reasonably well outlines the immediate needs of the electricity market network regulation needed to achieve the National Electricity Objective (NEO).

However, the MEU considers that the Approach Paper does not identify an issue that is becoming increasingly more important to consumers as the transmission network is being augmented, specifically reflecting the increased amount of interconnection between the regions identified by AEMO in its Integrated System Plan (ISP) and to provide connections to the shared network from the Renewable Energy Zones (REZs) also identified by AEMO in its ISP. The increases in connections to the REZs is driven by the move away from a relatively few large generation plants to a significant increase in many smaller generation plants distributed widely across the NEM.

The ISP developed by AEMO sees that there will be massive amounts of new interconnection assets required to be built now and in the future. As at 2018, the Regulatory Asset Base (RAB) for transmission assets was nearly $21 Bn. Analysis of the cost of the new 2020 ISP driven augmentation indicates that just for the Priority 1 projects included in the ISP, the transmission RAB will increase by more than 20% and an even higher amount resulting when priority 2 projects are added. While some of this increase in transmission RAB will provide a benefit to consumers in terms of reliability of supply, it is important to highlight that consumers have overwhelmingly stated that they do not want to spend on increased reliability and want to see lower electricity prices.

In addition to the ISP projects, each regional TNSP is examining future intra-regional augmentations to increase capacity of their networks especially to provide access to new generation in the REZs, such that together with ISP projects and intra-regional augmentations, the transmission RAB could potentially double within the next decade, adding between $1-2 Bn in annual costs to consumers. What is important to note is that much of this increased transmission augmentation is to provide connection of renewable energy zones (REZs) to the existing shared networks with little of the new augmentation being driven by a need to connect new load.

The MEU accepts that the current cost benefit test for new transmission assets (ie the RIT-T) is crafted as a market benefit test which provides benefits not only to consumers but to generators as well. Under the current transmission cost allocation approach, even if augmentations are made because there is a net market benefit, it is consumers that fund the cost of transmission augmentation of the shared network. In previous assessments of the RIT-T, the AEMC has identified that a market benefit test excludes transfers of wealth between generators and consumers from the cost benefit analysis so, implicitly, any investment in the transmission network that benefits generators is paid for by consumers.

Effectively, an augmentation that passes the market benefits test while delivering a benefit to a generator by providing free access to the shared network for its product, is a cost to consumers even though it should be generators which fund their shallow and deep connections to the shared network. The existing cost allocation approach does not provide clear locational signals to new generators.

With this in mind, the MEU considers that the ENERF 2020 review must include an urgent review of the approach to cost allocation between generators and consumers for use of the transmission networks so that generators pay a share of the deep investment needed in the shared network caused by the multitude of relatively small but dispersed generators being added to the NEM.

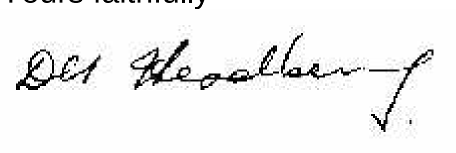
The MEU is aware of the AEMC approach to the coordination of generator and transmission investment (CoGaTI), but the MEU points out that CoGaTI as currently developed only addresses the allocation of costs between generators seeking access to the shared network where there is congestion.

The MEU also points out that there is also inequity in the allocation of costs between consumers for use of the transmission networks. For example, the VNI minor project implemented under the 2018 ISP has Victorian consumers paying for an augmentation which is designed to increase the flow of electricity from Victoria to NSW. This clearly shows that NSW consumers are obtaining a benefit at the expense of Victorian consumers. Again, it is the cost allocation approach which does not provide equity. While the MEU is aware that some of costs such as these might in part be recovered under the inter-regional TUoS process, this is not at all certain.

The program that the MEU considers the AEMC must institute as part of the ENERF 2020 review is one which, at a high level, would require the beneficiary to pay for an investment which provides them with a benefit, following the approach used elsewhere in the NEM rules to ensure there is equity in cost allocation.

The MEU is happy to discuss the issues further with you if needed or if you feel that any expansion on the above comments is necessary. If so, please contact the undersigned at davidheadberry@bigpond.com or (03) 5962 3225

Yours faithfully



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