

Transmission Access Reform STAKEHOLDER FEEDBACK TEMPLATE

SUBMITTER DETAILS

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CHAPTER 2 – DESIGN COMPONENTS LMP

1. Do stakeholders agree with the use of the Volume Weighted Average Price as the regional price?	Yes. It is consistent with how LMP markets operate internationally.
2. Do stakeholders agree that dynamic marginal losses should be reflected in LMPs?	Yes. Any other methodology would mean nodal prices would no longer reflect the physics of the grid leading to locational and dispatch inefficiencies. It is also consistent with how the majority of LMP and FTR markets operate internationally.
3. Do stakeholders agree that some form of pricing mitigation should be introduced to apply an offer cap on LMPs in certain conditions?	No price mitigation would be preferable. Capping market offers could undermine an increasingly dynamic energy market, dampening price signals for the kinds of energy technologies, such as Battery Energy Storage Systems (BESS) and demands side response, required in the energy transition to support a power system dominated by variable renewable energy (VRE). These types of technologies rely on volatile prices to make returns. A key advantage of nodal pricing in this regard is that it would make the exercise of market power more transparent and easier to identify. There is no need for market power mitigation mechanisms over and above those already in place for the NEM, such as the AER's market monitoring powers, good faith rebidding rules and general competition powers. One of the NEM's great strengths is its flexible and balanced market power framework, which relies largely on competitive rivalry to constrain market power, and only penalises behaviour power when a clear abuse of market power can be identified.
4. Do stakeholders agree that an ex ante mitigation mechanism is the best method for pricing mitigation?	No. Rather than constraining the behaviour of all generators in the market through an ex ante offer cap, we prefer the current more flexible ex post framework that assesses abuse of market power on a case by case basis once it can be clearly identified. AER's market monitoring powers and general competition law are fit for purpose for addressing instances of sustained market power under the new framework.
5. Do stakeholders have any other comments on any of the other design elements of LMP?	No.

CHAPTER 3 – FINANCIAL TRANSMISSION RIGHTS DESIGN

6. Do stakeholders agree that no additional measures are required to address competition in the FTR market?	We consider the market for FTRs will be competitive and liquid, particularly where physical and non-physical participants are allowed to participate in the auctions. We agree with the concept of a register of participants with FTRs as a way of ensuring transparency over potential exercise of market power.
7. Do stakeholders agree with FTRs being made available in the auction up to ten years in advance, albeit a small portion of the network capacity?	<p>Yes. Market participants will have different appetites for risk and the auction mechanism should cater for this. Many will prefer not to purchase FTRs more than a few years in advance, given the uncertainty over estimating congestion exposure beyond this. Others will prefer to hedge out as far as possible through linked FTRs, to completely inure themselves against the risk of congestion over the duration of their contracts. We consider that a 10 year tenure for FTRs strikes a good balance to meet different risk appetites.</p> <p>We consider a prudent approach is a staggered release with increasing quantities made available the closer to the time the FTR would take effect, as more accurate information on transmission capability becomes available.</p>
8. Is the measure outlined above useful to participants if only a small portion is made available?	It will be a challenge to get the balance right and will come down to the level of demand. If demand significantly exceeds supply for the long term instruments, then more should be released, however keeping in mind the need to keep enough available for new entrants.
9. Do stakeholders agree that both physical and non-physical participants should be able to purchase FTRs?	Yes, as this will increase the liquidity and competitiveness of the FTR market
10. Do stakeholders agree that there should not be a reserve price for FTRs?	Yes. We see them as primarily a risk management tool and should therefore be available as cheaply as possible to lower the cost of participants managing their congestion risk.
11. A) Do stakeholders see a benefit in terms of simplification of the reform with FTRs only being available between a limited number of pre-defined nodes on implementation?	No. We would prefer to see them available between all points. The reason is that the patterns of congestion changes constantly with new investment in generation and transmission capacity. A zonal approach risks missing these changing patterns of congestion and then exposing generators located outside the predefined area to basis risk without any way to hedge it.
12. Do stakeholders agree that STIPS should be adjusted to be based on the cost of congestion, rather than instances of material congestion?	Yes, as it is a more precise measure of the impacts on participants.
13. Do stakeholders agree that FTRs should not hedge price differences that arise due to marginal losses?	Upon reflection yes. It is too complicated and significantly reduces the available settlement residues to fund curtailments arising from congestion. In our view, exposure to nodal prices will discourage generators from locating in oversupplied areas. This will reduce the likelihood of reduced loss factors caused by clustering of too many generators in the same locations, which has been the main cause of significant loss factor impacts experienced in the current market environment. It is interesting to note in this regard the NERA Modelling estimates that some 20GW of VRE capacity that would have entered the market under current arrangements would not do so under a nodal pricing framework.
14. Do stakeholders have any other comments on any of the other design elements of FTRs?	Yes. We consider that a key missing link in the framework is the opportunity for investors in transmission or connection assets to receive FTRs for the new grid capacity they create. This would provide a strong incentive for private funding of new transmission capacity. As demonstrated by the escalating costs of Project Energy

	<p>Connect, transmission assets and components are becoming increasingly expensive as demand for it increases around the world to support the energy transition. Therefore, finding funding sources for transmission that come from other than consumers will become increasingly important in our view to support the future development of the grid.</p>
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CHAPTER 4 – QUANTITATIVE IMPACT ASSESSMENT

<p>15. What are the views of stakeholders regarding the estimation of a range of total consumer benefit of \$6.2 – 8.2 billion over fifteen years operation of the NEM from 2026 to 2040?</p>	<p>Modelling the benefits and costs of nodal pricing is highly complex exercise as to achieve are realistic analysis would ultimately requires estimating future behavioural responses to price changes, as well as forecasting what those prices will be to begin with (clearly a challenge over a 20 year forecast horizon). The NERA modelling is a credible attempt to capture the costs and benefits of a nodal pricing and FTR regime assuming ideal market competitive market conditions and a least cost modelling approach.</p> <p>Recognising the limitations of what is possible in modelling a complex dynamic system such as the NEM, we consider some useful conclusions can be drawn from the modelling. The modelled benefits largely comprise a combination of more efficient dispatch and avoided generation costs. Spectacularly, the modelling suggests some 20,000MW of renewable generation capacity that would have entered the market by 2040 in the absence of more efficient locational signals is avoided under the reform scenario, with significant increases in capacity factors of those generators that remain.</p> <p>While the numbers are most surely open to debate (particularly give high simplified bidding assumptions of the model), the key take away from our perspective is that the LMP discourages precisely what is of most concern under the existing arrangements, the excessive clustering of new generators in specific locations, causing excessive competition for scarce transmission capability and reductions in loss factors.</p> <p>However, we suspect the calculated avoided generation cost is somewhat overstated. We would expect that over time under the “no reform” scenario that increasingly unpredictable impacts of congestion on generator revenue streams would ultimately reduce incentives to invest in new generation capacity. However, modelling the likely impacts of increased congestion risk on actual investment decisions and patterns would admittedly be very difficult to model. In any case, we support the key finding of the model that under the existing framework too much generation enters the wrong parts of the grid</p>
<p>16. What are stakeholder views on the modelling that has been undertaken, including the methodology?</p>	<p>The NERA analysis represents a credible approach consistent with international findings on the benefits of reform. One weakness with the modelling however, is that it did not investigate the impact of exposure to increasing levels of congestion on curtailment risk and investment incentives, which we consider to be the key matter of concern under the existing framework (perhaps because this would be difficult to measure satisfactorily).</p>
<p>17. What are stakeholder views on the different categories of benefits included?</p>	<p>Largely appropriate, perhaps more could have been done to explicitly model the benefits of the reforms to participants, rather than its overall net benefits to consumers.</p>
<p>18. What are the views of stakeholders regarding the preliminary cost assessment that has been undertaken, and the indicative cost range provided?</p>	<p>We consider limited value can be placed on specific numbers as the actual quantitative costs and benefits of the reforms are impossible to estimate precisely.</p>

CHAPTER 5 – IMPLEMENTATION AND TRANSITIONAL FTR ARRANGEMENTS

<p>19. Do stakeholders agree with a four-year implementation period for transmission access reform, following the finalisation of rules?</p>	<p>We would have preferred to see a three year time frame for implementation, given the large volume of renewable generation that is committed or intending to enter the Market. In the 2020 ESOO AEMO notes some 10,000 MW of VRE generation is in the commissioning phase or committed, with a further 41000 MW in the project pipeline. However, that said, we understand it is a significant market reform and the market should be given sufficient time to adapt to the new arrangements and disruption to contracts.</p>
<p>20. Do stakeholders agree with the objectives or benefits of the transitional allocation of FTRs?</p>	<p>We would prefer there not to be a transitional allocation. The auction of “rights” in an auction is more efficient than administrative determination, such as grandfathering. Auctions promote a price discovery process, allowing the true value of the rights to be determined and observed by the market. It provides all participants equal opportunity to access the rights, not discriminating between existing or new generators. Therefore there is no barrier to entry. Also, there is no right of access that currently exists to the network, with access determined on the basis of market offers and transmission capability.</p> <p>However, we recognise that moving from an open access regime to one with access rights introduces new costs and risks for existing participants, we consider a period of adjustment and learning is appropriate. A 5 year sculpted approach as set out in the interim report which entails an increasing amount of FTRs being made available for auction from the first year is a sensible approach. It represents an appropriate period for allowing participants to manage any financial shocks from a significant new market reform and allowing a period of learning and adjustment. The 5 year time frame and sculpted approach should ensure the transitional allocation does not act as a barrier to new entry and undermine the liquidity of FTR markets. And agree that by releasing increasing amounts of FTRs to the market would provide a learning opportunity for new entrants as well.</p> <p>We consider the allocation approach should as far as possible mimic the behaviour of a prudent participant looking to hedge their congestion exposure on a forward looking basis in a congested environment. Precision in terms of completely offsetting financial exposure should not be the objective. We consider the forward looking allocation method would represent the best opportunities for learning, which is ultimately the objective of the transitional arrangement.</p>
<p>21. Do stakeholders believe that the proposal for allocating transitional FTRs is appropriate?</p>	<p>Yes</p>
<p>22. Do stakeholders agree with the eligibility criteria set out in the paper?</p>	<p>Yes.</p>