

AEMC TRANSMISSION FRAMEWORKS REVIEW PUBLIC FORUM

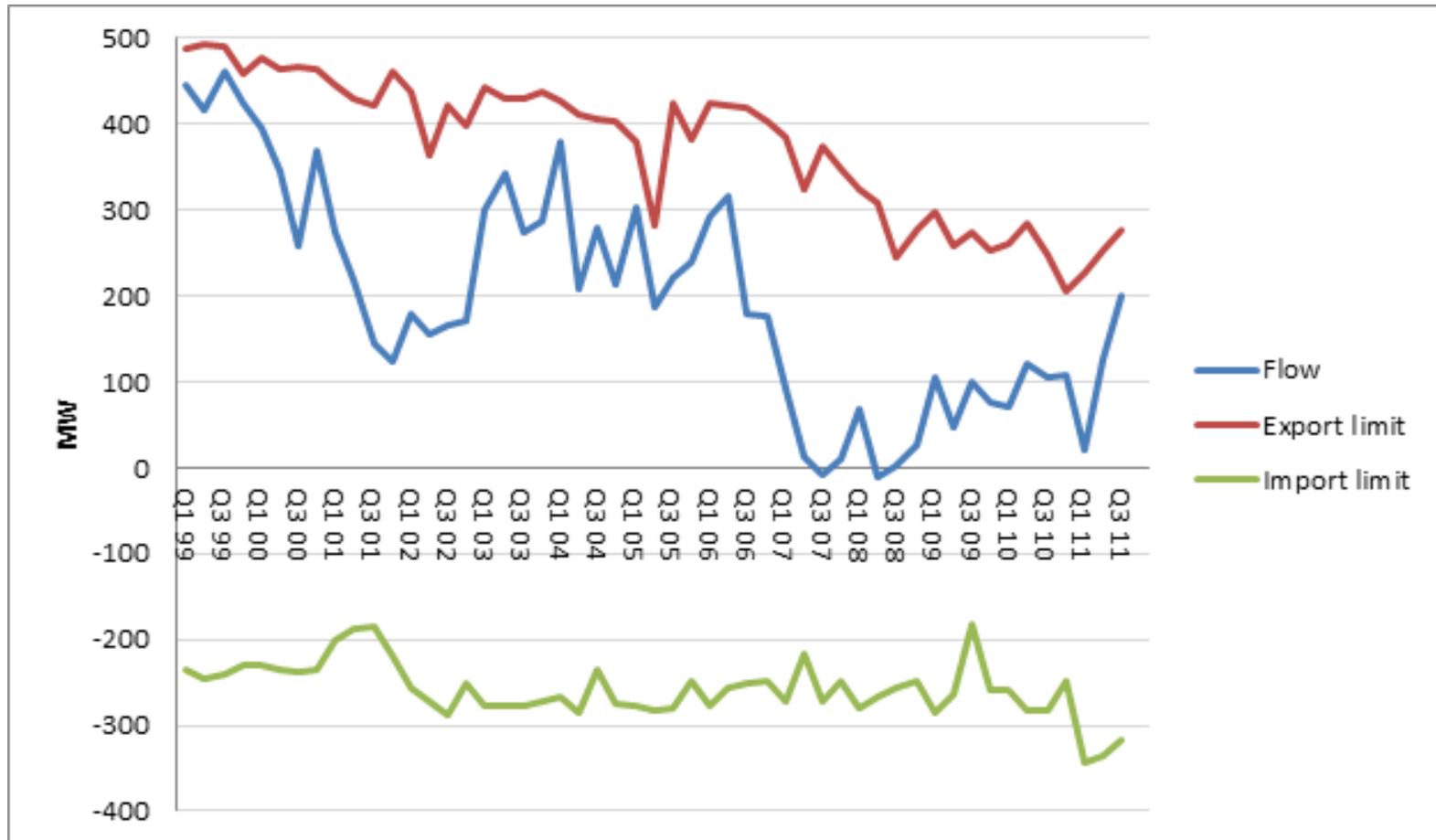
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- International Power GDF SUEZ supports the Review which is A UNIQUE OPPORTUNITY for changes we regard as imperative
- Key generation concerns appear to have been reasonably articulated in the report
- We suspect input to the TFR may have been biased by proposals to impose transmission charges on incumbent generators, contrary to their reasonable expectations, and contrary to the National Electricity Objective
- The options proposed by the Commission only assign generator charges to incumbents for a level of service greater than that currently available; we support this principle
- Removal of the threat of generator charges on incumbents for existing levels of access may enable submissions to concentrate on the future needs of NEM transmission
- Further, the new framework should focus heavily on arrangements appropriate to private investment in generation, as government investment is not expected in the future

- We note the Commission's desire for evidence-based submissions
- However the Review should not be limited to dealing only with problems that are currently having an impact:
 - Once the impact is sufficiently “painful” it will be too late to maintain investor confidence, and repair the damage
 - Using this approach alone may prevent consideration of arrangements that will prove robust over a wide range of possible future developments
- In any event the evidence of access and interconnection degradation through inadequate network investment is clear, for example:
 - Impact of Basslink connection on Latrobe Valley generation access and Victoria-NSW interconnection
 - Impact of relocation of Yallourn Unit 1 to 500kV network on Hazelwood
 - Impact of Southeast upgrade on Heywood capability
 - Impact of Kogan creek connection on QNI capability
 - Impact of Mortlake commissioning on Heywood capacity

HEYWOOD INTERCONNECTOR AVERAGE QUARTERLY LIMITS AND FLOW VICTORIA TO SOUTH AUSTRALIA



- Any market where by design suppliers cannot secure transport, would be unacceptable and dysfunctional ...
- ... any market, it seems, except electricity markets, particularly the Australian electricity market
- This must not continue any longer
- The NEM delivers severe (to terminal) penalties to generators for failure to deliver at times of scarcity
- Yet transmission risk is largely unmanageable except by avoidance of contracting or *force majeure* provisions

- Current NEM arrangements are inconsistent with sound risk management principles; transmission risk is allocated to participants wholly unable to manage it
- There are two obvious solutions:
 - Reallocate transmission risk to those with greater ability to manage it – TNSPs or AEMO; or
 - At a minimum provide the means for participants to mitigate the risk

- We agree there are problems with reallocation of the risk of constraint to TNSPs or AEMO
- This is not because of the “open access” regime
- Rather, to fund these entities so they have the resources to pay constraint compensation appears to make wires (or system) charges, and hence consumer costs, unacceptably high
- The immediate answer is therefore to provide the ability for participants to mitigate the risk
- For system-wide impacts market suspension must be reconsidered - not a matter for this Review
- For participants it means firming access arrangements

- We propose the Review should focus on making good arrangements for the future, not on seeking to undo the past, for example:
 - Some participants have implicitly paid for network access, through asset purchase, or through debt allocation on disaggregation
 - Some participants have not paid for shared network augmentation despite the contrary intention being evident in the Rules
 - Some participants have had expected network access degraded by connection of new entrants despite the contrary intention being evident in the Rules
- Given this history we do not believe that it is possible to define, let alone achieve, "fairness" between different vintages of generators
- The proper focus of this review should be fairness within each cohort of generators constructed under a new framework

Issues for private investment in generation

- Greater certainty of market access. Uncertainty arises from:
 - The risk of a new entrant degrading existing access; and from
 - The variability of network capability in the operational timeframe
- The first risk is relatively easy to eliminate, while the latter would require more major changes to the framework
- Costs of market participation should be known in advance of an investment decision. This is one reason why incumbent generators should not be charged for transmission as they had no expectation of this when investing
- The framework should support decentralised decision making by intending participants
- Recognition that regulatory risk imposed on one participant will affect the availability and cost of future investment, including finance, for subsequent potential entrants
- Arrangements which prove to be tolerable only where there is common ownership between transmission and generation should not be considered

The Commission's 5 Options

	Option Description	Initial Comments
1	"Open Access"	Unacceptable. No advance in generator access, and removal of a key indicator of original Code intent (5.4 (a)) without an alternative
2	"Open Access" with Congestion Pricing	Insufficient. As above. Correction of Congestion Pricing issues is laudable (and we have been instrumental in development of alternative approaches), but second order
3	Generator Transmission Standards	Small improvement to generator access. Some improvement in locational decisions. No choice of access level. Uncertain costs for incumbents. Inconsistent with NEO?
4	Regional Optional Firm Access	Improved generator access. Some aspects suggest this may be the best of the proposed alternatives, but source and level of compensation cannot be certain. Do not accept AEMC contention this discriminates against new entrants
5	National Locational Marginal pricing	Still thinking. A bridge too far?

- We expect to propose an alternative framework with the following features:
 - Access protected against the threat of degradation by later entrants (noting that current arrangements do not distribute access on economic grounds when it matters, i.e. when congestion occurs)
 - Charges on generators for transmission costs aimed at efficient locational decisions, and hence not applying to plant already located. However, higher levels of access would incur charges on incumbents
 - Generators seeking access able to choose their place and level of access, while facing all relevant costs and operational consequences of that choice
 - Agreed access tradable to allow for its efficient use over time, including appropriate signals in relation to plant retirement
 - Congestion management instituted to allow efficient dispatch during episodes of congestion and also to allow better inter-regional hedging
 - Planning of interconnector capacity given an explicit focus through new planning arrangements

- These proposals require no changes to market dispatch or market settlement
- The relevant Rule changes to achieve these outcomes would, to a significant extent, be comprised of clarifications of existing provisions
- These proposals would bring some limited and practicable rights, as envisaged by the current Rules but not implemented