



**EnergyAustralia**

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Australian Energy Market Commission

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Dear Commissioners

### **Optional Firm Access, Design and Testing: Supplementary Pricing Report**

EnergyAustralia welcomes the opportunity to make a submission on the AEMC's Optional Firm Access, Design and Testing supplementary pricing report (the report). We also thank the Commission for releasing the prototype model and organising the associated workshops and consider this work has been successful in outlining the intended implementation of LRIC pricing.

EnergyAustralia is one of the country's leading retailers, providing gas and electricity to more than 2.6 million customers. We own and operate a range of generation and storage facilities, including coal, gas and wind assets, in NSW, Victoria and South Australia.

Our contention is that the pricing model is not fit-for-purpose, and will not be even if the limitations identified can be resolved. It is inherently biased to overstate prices and materially overcharge generators.

Whilst the model would provide a new transparency to network planning and be valued as a tool to aid in providing some preliminary pricing signals to participants, especially for large scale access requirements beyond the short term outlook, it is not a suitable substitute for detailed, risk based transmission planning and negotiations with a TNSP on a case by case basis. The complexities involved in network planning preclude the process from being accurately replaced with a stylised model. We would like to see TNSPs involved in the determination of a final price that more accurately represents their expected costs.

We understand the pivotal role the pricing methodology and prototype has within the OFA reforms and believe cost reflective pricing is imperative to its success. Use of a regulated pricing model misrepresents the investment and commercial considerations of parties exposed to congestion risk. Certainty, stable prices and avoiding one-on-one negotiations are not sufficient to justify the approach proposed. Specific concerns have been identified below, which we hope can be addressed.

It is also a concern that the stylised assumptions and methodology formalised into the LRIC pricing could 'leak' into Regulated Investment Tests and revenue proposals. This is

particularly the case with age-based replacement and a methodology that is biased towards high costs to manage deterministic thermal overloads. This supports a no-risk approach for TNSP's with no apparent incentive to get the prices right.

For any questions regarding this submission, please contact me on (03)8628 4518.

Regards,

A handwritten signature in black ink, appearing to read 'Ben Hayward', written in a cursive style.

**Ben Hayward**  
Wholesale Regulation

## **Specific concerns with the LRIC pricing and methodology**

### **Deterministic in nature and not well suited to smaller access requirements**

The expansion plans in the LRIC pricing model are deterministic (N-1) in nature and are only well suited to preliminary pricing signals for large scale access procurement. Small capacity options leveraging off optimised utilisation of existing assets are not well recognised.

TNSP's use a risk-based/hybrid/probabilistic approach to timing where investment is deemed prudent and efficient based on a considered view of: the cost of the various solutions (network and demand side); the extent of overload measured in both MW and energy at risk (MWh); and the growth of the overload. TNSP's plans will also allow for some congestion and even overloads to avoid significant augmentation in order to materially defer capex when a lumpy growth outlook prevails. Control schemes, dynamic ratings, short term overloads, adjusted planning margins, operational provisions, etc are some of the techniques considered by all TNSPs to manage risks and limit congestion.

This commercial and risk based view of congestion is entirely consistent with a generators perspective, and any use of a deterministic standard - and specifically a security adjusted standard as designed in the prototype - does not reflect the costs of access imposed on a TNSP. The specific timing of individual investment decisions is fundamental to the LRIC principles, so the generalised assumptions outlined in the proposed application will acutely misguide pricing outcomes particularly in a low growth environment.

### **Stylised growth outlook can be misleading, as evidenced by Tasmanian findings**

Given the stylised nature of the model, it can potentially be misleading in regards to returning overstated capex to TNSPs based on various generalised assumptions:

- augmentation capex based on simplistic RRN balanced growth rates that do not account for geographical diversity or constant point loads
- replacement capex profiles based on simplistic aged based criteria that bares no alignment to the historical use, performance and condition of transmission plant, and seems to embed an unprecedented principle of time based recurring capex into the economic regulatory framework based on a step change in transmission capacity at a notional end-of-life
- network solutions based on simplistic large-scale network replication/investment options that are also essentially unprecedented in the history of the NEM development
- access that appears to grow uniformly using zone growth assumptions that are not reflective of individual participants considerations which will be discrete, specific and maybe variable over time. Further, it is not clear why any access growth assumptions are made at all?

It is particularly concerning to EnergyAustralia the model will not be correlated to the NTNDP or TNSP annual planning processes. We consider it untenable that the stylised LRIC model would forecast prices based on a network development plan that could directly contradict an individual TNSP's regional development plan.

### **Lack of transparency in regards to generation expansion and scheduling**

Especially in the case where there is very little access contracted, it is not clear how reliability-driven and non-firm generation will be scheduled to meet demand forecasts. TNSP discretion to decide the generators to whom transmission access can be provided to most cheaply appears contrary to the intended objectives of the model and will likely be a point of contention when it is applied. Further, artificially setting LRIC prices to zero (rather than negative) when an access request has the impact of deferring future expansion also appears inconsistent to the pricing principles should that be a reasonable and reliable means of avoiding developments. Avoiding TUoS is a consideration for generation planning.

### **Inter-regional effects not clearly accounted for**

The current regionally based models released do not account for the treatment of interconnectors and cross regional payments between generators and TNSPs. This is critical in the context of how co-optimised constraint equations are currently formulated and how prevalent they are (including those based on stability limits).

### **Governance and upkeep of the model to maintain any reasonable standard**

In our view the model would need to be fully reconciled with registered data used to represent the network and the supply side definitions. It would need to be updated with every: network augmentation; new generator or retirement; change in access; updated WACC decision; new exchange rate or unit cost; new (spatial) demand forecast; etc. This short list of matters affecting the pricing model gives some sense of the replication across separate TNSP processes and magnitude of the task at hand to establish an accurate and appropriately dynamic regulated pricing model.

### **Inflexibility in regards to commercial negotiations**

The lack of recognition or ability for the model to represent commercial interests of parties, who may want to pay more/less for access based on risk profiles and delivery timeframes associated with an access based network development infers that it will not be adaptable to the changing requirements of participants.