



3 October 2017

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

By electronic lodgement

**Approach Paper - Coordination of generation and transmission investment
(EPR0052)**

Origin welcomes this opportunity to respond to the Australian Energy Market Commission's (AEMC) Approach Paper on the market review of coordination and transmission investment. The approach paper forms the start of stage 2 of the review as set out in the terms of reference given to the AEMC by the Council of Australian Governments Energy Council (COAG EC).

While noting the conclusions of the AEMC's stage 1 review, there is still a lack of clarity around the issues this review is intended to resolve. Undoubtedly the market is undergoing a significant transformative period, however, notwithstanding this, our view is that:

- It has not been demonstrated that the changes underway have had a detrimental impact on the coordination of transmission and generation investment to the extent that new policy measures are required. We do not consider that the issues identified in the review and that it may attempt to solve are sufficiently defined at this time to warrant consideration of the options described in chapter 4 of the approach paper.
- The contemplation of new transmission policy measures at a time when there is still uncertainty around a long-term emissions reduction policy (which will have a bearing on the type and speed of new generation entry) is likely to be premature
- Where there is any ongoing concern around the strength of locational signals in the NEM, it should be noted some of the recent and contemplated measures aimed at maintaining system security will serve to ensure that generators maintain the integrity of the network when connecting, effectively incentivising more efficient locational decisions. For example, the requirement on new generators to maintain minimum fault levels where otherwise reliability of the transmission system in a specific area might be degraded by the new generator. Origin also notes that the South Australian Office of the Technical Regulator will require new generators to provide minimum levels of inertia
- Current policy uncertainty would suggest it is premature to focus on specific solutions right now, particularly considering the large number of overlapping reviews underway dealing with reliability, the impact of increasing penetration of intermittent generation, the proliferation of new business models and so on. Material changes to transmission pricing and access given this may impact further on investment uncertainty and as such, Origin does not consider that these issues need to be addressed now through the options presented in the approach paper.

Existing provisions within the National Electricity Rules

While better coordination and efficient investment in generation and transmission assets is important as more intermittent sources of generation enter the market, Origin believes the existing rules contain sufficient incentives and provisions to ensure that alternatives to price signals such as TUOS.

The RIT-T process should discourage generators from connecting to any part of the network, particularly if doing so results in congestion which in turn will impact on the economics of a generation proponent's business plan. The example on page 18 of the approach paper demonstrates that the RIT-T would be functioning as intended - the investment required would be very unlikely to provide a net benefit to consumers and on this basis, should not proceed.

While the RIT-T may suggest that the construction of so much wind generation in this location may be uneconomic, there are alternatives. For example, other provisions, such as clause 5.19 of the NER, provides a process to allow generation proponents and transmission network service providers (TNSPs) to undertake a scale efficient network expansion (SENE) study. The SENE is an underutilised provision that offers an alternative to the options put forward in the approach paper. If its conditions are met, investment in a study may reveal least cost options that might not have been obvious under a forecast dependent RIT-T process.

Origin would be pleased to discuss matter raised in this response further with the AEMC, and particularly the value in forming an industry working group to assist the AEMC with stage 2 of the review. Please contact David Calder on (03) 8665 7712 in the first instance.

Yours sincerely



Steve Reid
Manager – Wholesale Regulatory Policy
(02) 9503 5111 – Steve.Reid@Originenergy.com.au