

16 May 2017

Therese Grace
Australian Energy Market Commission
Level 6, 201 Elizabeth Street
Sydney NSW 2000
02 8296 7800

Dear Therese,

RE: Submission on AEMC Draft Stage 1 Report - Reporting on drivers of change that impact transmission frameworks

ATCO Australia welcomes the opportunity to provide a submission to the Australian Energy Market Commission's (AEMC) Draft Stage 1 report on the drivers of change that impact transmission frameworks, published on 11 April 2017.

ATCO Australia is part of the ATCO Group of Companies, a global organisation with more than 7,000 employees and assets of approximately CAD\$20 billion. ATCO's companies are engaged in electricity (electricity generation, transmission, and distribution); pipelines & liquids (natural gas transmission, distribution and infrastructure development, energy storage, and industrial water solutions); retail energy and structures & logistics (workforce housing, modular facilities, construction, site support services, and logistics and operations management).

ATCO views Australia as an important strategic market for future growth and investment. At present, our Australian operations include:

- ATCO Gas Australia - which owns, operates and maintains the largest gas distribution infrastructure network in Western Australia, serving more than 740,000 residential, commercial and industrial consumers. Service is provided via the Mid-West and South West Gas Distribution System (regulated by the Economic Regulation Authority (ERA) of Western Australia) as well as non-regulated networks in Kalgoorlie and Albany.
- ATCO Power Australia (ATCO), which owns an 86MW open cycle gas turbine generation facility in Karratha, WA, and within the National Electricity Market (NEM) owns, in joint venture with Origin Energy, the 180MW Osborne combined cycle gas turbine generation facility in South Australia.

Due to these diversified business interests, ATCO is aware of the challenges facing both network service providers and generators in the rapidly evolving energy market. The AEMC's terms of reference for this report relates to previous analysis regarding optimal firm access arrangements and the desire to improve efficiency of the coordination of transmission and generation in the NEM. The AEMC's Draft Report provides a comprehensive summary of the drivers of change in both transmission and generation markets. Of particular note is the AEMC's consideration of recent regulatory reviews and energy policy currently under development. NEM rule and regulation changes, the independent review into the future security of the NEM and government interventions into the energy market will all have wide reaching impacts on the Australian energy market. ATCO is of the view that until these reviews are concluded and a co-ordinated approach taken to implement them,

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there will continue to be a large degree of uncertainty regarding future patterns and drivers of investment, both in transmission and generation assets.

Global concerns regarding climate change and greenhouse gas emissions have driven rapid changes in the Australian energy landscape. Complex, unstable and uncoordinated State and Commonwealth government policies aimed at reducing emissions have resulted in dramatic changes in the mix of generation technologies operating in the NEM. These changes have resulted in considerable shortfalls in energy security and reliability as evidenced by recent events in South Australia. To resolve these issues, action must centre on developing and implementing cohesive Commonwealth and State government policies that recognise the need to deliver affordable and reliable energy solutions that contribute to decarbonisation.

ATCO is a strong supporter of reform to market and regulatory frameworks in order to facilitate timely and efficient investment in both transmission and generation assets. A key principle in any reform must be to create a level playing field that does not predetermine or favour one energy source over another in its ability to address the energy trilemma of reliability, security and affordability.

While medium to long term stability and predictability is an essential prerequisite for restoring investor confidence in the NEM, there are more immediate changes to the rules under which these markets operate that could improve matters. With regards to the transmission network, ATCO has concerns regarding the framework and the traditional approach of centralised planning and investment decisions. ATCO would encourage the AEMC to consider whether a transmission only planning approach is consistent with a rapidly evolving energy system. Given the rate of change in the market, there is a danger that this approach will create perverse incentives to encourage investment in redundant infrastructure that is unlikely to deliver outcomes in the long term interests of customers.

ATCO believes that poor pricing design for network services is one of the largest obstacles to creating a fair market framework in the NEM. ATCO supports the implementation of a cost-reflective transmission pricing (or TUOS) framework for load and generation in the NEM. Better TUOS pricing would reveal the underlying cost of technological shifts, and signal the network changes needed to ensure ongoing secure and reliable supply. In the absence of cost-reflective transmission network prices to all network users, the market will not efficiently coordinate investments in network, generation, storage and demand-related activities, yet coordination is essential due to the complex relationship between all of these factors.

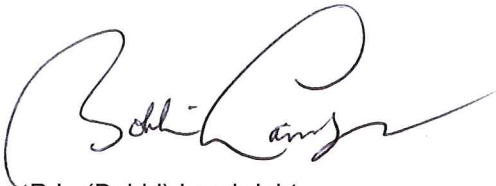
Events such as those recently experienced in South Australia demonstrate that there is a need to carefully consider the impact of increased intermittent renewables and the retirement of thermal plant on the transmission framework. ATCO believe that there is demand for the creation of markets for services such as system frequency and inertia as contestable ancillary services. Defining these services as market ancillary services would allow for their prices to be set according to the regional balance of supply and demand. This would send clear signals to market participants on the value of the continued availability and operation of thermal plant, until a network or non-network solution is developed to lessen that need. Combined with transparent and symmetric network and carbon pricing, this type of market based solution will encourage investment in solutions that deliver reliable, secure and affordable energy.

Options to improve network pricing and developing a better understanding of technological trends should be prioritised before committing to new, large sunk investments in transmission capacity that could fail to deliver long term value to customers. Until these trends and Commonwealth and State

government's reform agendas are well understood, assessing the progress towards optimal firm access will be difficult.

If you have any questions or would like to discuss any of these issues further, please contact myself or Frayne Donaldson, General Manager Power.

Sincerely,

A handwritten signature in black ink, appearing to read 'Bobbi Lambright', with a large, stylized initial 'B'.

R.L. (Bobbi) Lambright
Managing Director & Chief Operating Officer
ATCO Australia