22 October 2020

Mr Ben Davis
Project Manager
Australian Energy Market Commission
GPO Box 2603
SYDNEY NSW 2001

EPR0073 - Coordination of generation and transmission investment implementation – access and charging

Alinta Energy welcomes the opportunity to respond to the AEMC's interim report on transmission access reform.

As an active investor in energy markets across Australia with an owned and contracted generation portfolio of nearly 3,000MW and more than 1.1 million electricity and gas customers, we have a strong interest in transmission access reform.

The transition to locational marginal pricing and financial transmission rights represents a material change to the open access, regional pricing model that has operated in the NEM for more than two decades. While we acknowledge the theoretical improvements that LMP and FTRs may provide to the NEM and the macro-level cost-benefit analysis undertaken by the AEMC's consultants, Alinta Energy remains concerned with:

- The net benefits case, specifically its inconsistencies with previous transmission access reform (for example Optional Firm Access);
- Potential adverse effects on contract market liquidity across all market products; and
- Ensuring that the proposed transitional and grandfathering arrangements are fit for purpose, reflect the fundamental change being proposed and align with the net benefits case.

Alinta Energy maintains its view that:

- The AEMC must clearly outline how the proposed access reform delivers against the primary objective of coordination, and how LMP and FTRs will meet this objective.
- If implemented, largely in its current form, the proposed access model may:
    - have material implementation and market-readiness cost impacts;
    - undermine investor confidence as a result of operational complexity and the implementation of some design choices (including transitional arrangements, grandfathering and contract liquidity); and
    - increase barriers to entry.
- Simplified and less ambitious approaches to transmission access reform should still be considered, noting that full implementation of the Integrated System Plan and the

approach to Renewable Energy Zones will address some of the problems identified.

- While the coordination of generation and transmission investment reforms are aimed at minimising the cost of transmission, substantial new investment in the transmission network (identified in the Integrated System Plan) will occur over the next 20 years. Implementation of the proposed reforms will not avoid these costs and therefore they should feature in the cost and benefits assessment.

To the extent transmission access reform proceeds, Alinta Energy:

- Strongly believes it should be closely coordinated with the implementation of other related reforms, including the Post 2025 Market Design Review, to ensure that market participants and customers do not face unnecessary costs;
- Recommends that a further, more detailed cost benefit assessment is necessary to provide the market with confidence, given the level of investment and resources that will be required. The additional quantitative analysis must:
    - clearly explain and justify its assumptions;
    - provide greater transparency of the true costs of implementation and indicative participant operational costs under the proposed model;
    - include the substantial new investment in the transmission network that will occur over the next 20 years; and
    - focus on the allocative, productive and dynamic efficiency that the proposed reform is intended to drive in addressing the identified problems with congestion, dispatch efficiency and investment coordination.

  We are happy to assist the AEMC with this assessment where possible.
- Supports a minimum implementation period of at least four years following a final rule determination. However, given the operational relationships and interdependences with other proposed structural changes to the NEM, including those being assessed under the ESB's Post 2025 Market Review, our strong preference is that access reform should not commence until 2030 at the earliest. This does not preclude efforts to embed necessary procedural and operational changes, and market-readiness testing. We note this period coincides with the timing of material benefits identified in NERA's analysis.
- Argues that further detail on grandfathering arrangements is necessary to make a holistic determination on the impact to incumbent providers, including the level of support offered and the metric used to distribute transitional FTRs to market participants across each NEM region. Further, transitional FTRs should have a lifecycle of at least ten years, tapering downwards from year 5 onwards to allow sufficient time for incumbents to adjust their portfolios and operating behaviour.
- Remains concerned that the introduction of LMPs will have an adverse effect on contract market liquidity across all market products, because market participants will likely take a conservative view associated with contracting risks. In addition, it is likely that over the transitional period, a significant number of contractual products will be impacted by change of law, and this combined with the general level of uncertainty could reduce liquidity further. We encourage the AEMC to more closely look at contract liquidity impacts over the transitional period and across market operation to ensure that sufficient incentives exist for physical and non-physical participants.
- Supports the adoption of LMP for scheduled and semi-scheduled participants, whereas non-scheduled market participants should face the regional price set as the volume weighted average price of non-scheduled participants.
- Supports the transition to dynamic loss factors as a more economically efficient outcome, which will better reflect the value of generation in areas where it is most needed. However, noting that a final rule and implementation are a number of years away, Alinta Energy strongly encourages the AEMC to continue exploring the possibility of an FTR for losses, either combined with the FTR for basis risk or as a standalone

product.

- Supports the AEMC's position that FTRs should be backed by the settlement residue and the auction revenue, to ensure that they are as firm as possible.
- Considers that FTRs should be made available in tranches with a lead time sufficient to allow the management of retail market positions for participants. Noting the current lead time for SRAs is three years and ASX electricity futures is four years in advance, we support a similar arrangement for FTRs.
- Seeks clarification on the requirements to participate in FTR auctions, including the proposed requirement to hold an ASX financial licence.

We welcome further discussion with the AEMC as it works towards its final report. Please contact Dan Mascarenhas on 0475 943 365 or at Dan.Mascarenhas@alintaenergy.com.au in the first instance.

Yours sincerely

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