TasNetworks
Delivering your power

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Ms Merryn York
Acting Chair
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Via online submission

Dear Mr Pierce

RE Interim Report Transmission Access Reform: Updated Technical Specifications and Cost-Benefit Analysis

TasNetworks welcomes the opportunity to respond to the Australian Energy Market Commission's (**AEMC**) consultation on transmission access reform.

TasNetworks is the Transmission Network Service Provider (**TNSP**), Distribution Network Service Provider and Jurisdictional Planner in Tasmania, and is also the proponent for Marinus Link, a proposed new interconnector between Tasmania and Victoria. The focus in all of these roles is to deliver safe, secure and reliable electricity network services to Tasmanian and National Electricity Market (**NEM**) customers at the lowest sustainable prices. Therefore, TasNetworks is supportive of any efforts to create a transmission access framework that supports the transition of the NEM.

TasNetworks has contributed to and supports Energy Networks Australia's (**ENA**) submission and would like to make several further comments with a particular focus on the Tasmanian context.

Cost/benefit impact for Tasmanian consumers

The costs of proposed transmission access reforms, dominated by the full rewrite of the National Electricity Market Dispatch Engine (**NEMDE**), need to be carefully balanced against benefits. NERA 's Cost Benefit Analysis of Access Reform: Modelling Report forecasts total customer benefit to be compelling, at a multiple of estimated costs. However, this modelling does not specifically consider regional impact. There are a number of categories of benefit that Tasmania's electricity customers will not realise. In Tasmania there aren't any coal fired power stations retiring to drive capital and fuel cost savings, dispatch efficiency is not a concern (as

exhibited in race to the floor bidding) and anticipated competition benefits would be limited by small market size. The wealth transfer from generators to consumers depends on the amount and cost of congestion. Congestion is not currently a major feature in Tasmania, but one that we expect will develop with the addition of wind power and potentially hydrogen load. Tasmanian consumers will share in the benefits of using dynamic losses, but this is less than 10 per cent of the total benefits identified in the NERA model.

We would encourage a deeper understanding of the locational nature of the benefits of transmission access reform (potentially using the NERA PLEXOS model) to allay our concerns regarding cost/benefit trade-off and resulting tariff pressure for Tasmanian electricity consumers.

Ability to predict network capacity and consumer benefit from transmission reform

We consider consumers benefit through increased Transmission Use of System (**TUoS**) offset to be an essential feature of transmission reform. The excess of congestion related settlement residue less Financial Transmission Rights (**FTR**) payouts plus the premium from the sale of FTRs will fund the increase in TUoS offset and with it transfer the cost of congestion from consumers to generators. The simultaneous feasibility auction that determines the volume of FTRs sold only ensures revenue adequacy for FTR payouts when the physical capacity of the network in a given dispatch interval is consistent with the capacity of the network assumed for determining the volume of FTRs sold. If the capacity of the network is less than that assumed at the time the FTRs were sold, the settlement residue arising in the dispatch interval is insufficient to fund the FTRs. In this case any leftover settlement residue from previous periods, plus the revenue from the auction of the FTRs, is used to pay for the FTRs. Once this is depleted, FTRs would be reduced. The proposal to reduce FTR payouts to avoid a shortfall in the TUoS offset account is a welcome safety net for consumers[1]. However these back stop measures do not address the root cause of the problem, which is that variations to transmission capacity compromise the revenue adequacy of FTRs and reduce consumer benefit from transmission access reform.

In Tasmania, unique network constraints and hydrology factors introduce an unpredictability in network forecasting not experienced in other States. This complexity is reflected in the numerous non-thermal constraint equations that apply to Tasmania. We see real challenges associated with the unpredictability of non-thermal network constraints binding, and associated risks to revenue adequacy for FTRs. This is exacerbated by FTRs being three months in length, as the predictability of non-thermal constraints reduces with the length of the forecast period. We are concerned as to the influence this may have on the funding and volatility of TUoS offsets, and effectiveness of transferring the cost of congestion from consumers to generators in Tasmania.

Our concerns around the ability to predict network capacity and impact on FTR revenue adequacy would be reduced by selling less FTRs than the maximum allowed by the simultaneous feasibility action and/or shortening the length of the FTRs to less than three months.

[1] We would point out that a scale back would be viewed as a market failure with associated costs to the FTR market design.

Specific non-network solutions

Tasmania has a number of System Protection Schemes (**SPS**) designed to protect the frequency of the Tasmanian electricity system in event of sudden interruption to the power transfer across Basslink, by tripping generators or shedding load. There remains uncertainty in the current proposal whether the SPS will be considered prior or post the calculation of congestion. We consider it likely that specific non-network solutions would remain necessary to maintain system security and look forward to the opportunity to engage further with AEMC on this issue.

Minimise cash flow volatility caused by TUoS offset

Careful consideration needs to be given to the arrangement for the TUoS offset charge that is funded from auction revenue from the sale of FTRs and excess congestion related settlement residue after FTR payouts. Volatility in the TUoS offset introduces problems for TasNetworks including cash flow shortfalls in a period, reconciliation to tariffs determined annually in March and unwanted price volatility for our customers. Mechanisms should be sought that smooth the impact of transmission access reforms on transmission charges and avoid any one-off step changes.

Service Target Performance Incentive Scheme

TasNetworks broadly supports the AEMC's proposal that the Market Impact Component of the Service Target Performance Incentive Scheme (**STPIS**) be reviewed for alignment with transmission access reform. This review should retain a STPIS that is limited to aspects under the TNSPs' control and reflective of the unpredictability of power flows and the ensuing impact on constraints. A STPIS that is focussed purely on value of congestion is suggesting that transmission assets are built to support any poor locational decisions made by generators, this is unlikely to meet the National Energy Objective.

For more information or to discuss this submission, please contact TasNetworks' Regulation Leader, Chantal Hopwood, at Chantal.Hopwood@tasnetworks.com.au.

Yours sincerely

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