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19 October 2020

Ms Merryn York
Acting Chair
Australian Energy Market Commission

Lodged online: www.aemc.gov.au

Dear Ms York,

TRANSMISSION ACCESS REFORM – INTERIM REPORT

Tilt Renewables is a leading Australasian renewables developer engaged across all stages of project development through to operations. Tilt Renewables (TLT) currently has 366 MW of operational wind farms across the NEM and New Zealand, plus a further 469 MW in construction/commissioning and over 3 GW in its development pipeline.

Tilt Renewables welcomes the opportunity to provide feedback on the AEMCs Transmission Access Reform- Interim Report (the Reform) previously known as CoGaTI.

Australia's National Electricity Market (NEM) is experiencing a period of significant change, bringing with it both disruption and opportunity. Central to successfully navigating this is the transmission network. The speed at which new generator connections have occurred in recent years is unprecedented, creating challenges for the grid and reinforcing the need for better coordination of generation and transmission investment.

TLT DOES NOT SUPPORT THE ACCESS REFORM

TLT does not support the AEMC's proposal to introduce locational marginal pricing (LMP) and financial transmission rights (FTRs) as it does not address the issues it was originally directed to do. As the name suggests, COGATI was originally proposed as an attempt to coordinate investment decisions for transmission and generation and ensure that investment responsibility did not fall back on government. The reforms as proposed are based around two key elements:



- Locational Marginal Pricing (LMP), which would expose generators (but not the majority of demand) to a more granular price, reflecting the individual demand and supply conditions at more than 600 local nodes across the NEM, incorporating dynamic losses and with the stated aim of enhancing locational signals and decision making; and
- Financial Transmission Rights (FTRs), which generators could purchase to manage price basis risk occurring from the introduction of LMPs, as a non-firm form of hedging.

It should be noted that the proposed framework of LMPs and FTRs only provides an effective location signal via the introduction of price basis risk absent adequate access to effective FTRs. Where the potential for subsequent network investment, which would remove any existing congestion, is facilitated by the presence of currently congested generator access, this locational signal is nullified.

The AEMC in the transmission access reforms March 2020 paper, specifically states that it is not working on transmission planning and investment, which instead requires actioning the ISP, a process being led by the ESB. The AEMC is now limited to the development of a new transmission access model within the ESB's broader Post-2025 market design process¹. Whilst there was a constructive response to the apparent alignment with the Post-2025 market design process from stakeholders, the AEMC appears committed to introducing these reforms despite numerous issues raised by various stakeholders.

The Reform creates significant risks and investment uncertainty resulting in disruption to existing long-term energy contracts and added costs for market participants due to the Locational Marginal Pricing regime being proposed. TLT strongly believes that reducing risk is necessary to create a healthy investment environment. Only in this way can we facilitate efficient investment in the new renewable energy generation and storage technologies that are needed in coming years. There are a number of different risks for generators and developers at present that could be addressed through market reform. Unfortunately, this Reform proposal does little to improve the investment environment. In fact, it will have the opposite effect, introducing more complexity, risk and uncertainty into the market, which will be both difficult and costly to manage.

The AEMC has clearly put substantial effort into revising design elements and settling outstanding design elements in the months leading up to this Interim Report. Regardless, TLT considers the policy itself as well as a number of design elements will only add cost and complexity and not improve the investment coordination and certainty. There is an absence of adequate evidence or rigorous analysis undertaken by NERA on behalf of the AEMC. NERA analysis does not reflect the industry process and market reality and acknowledges that they have explicitly assumed the No Reform case is less efficient than the Reform case and have not attempted to efficiently model the Reform case in a holistic way – rather, just applying a series of offline calculations.

¹ https://www.aemc.gov.au/sites/default/files/2020-03/March%20update%20paper%20-%20transmission%20access%20reform_0.pdf (p.1)



The benefits provided by NERA appear grossly overestimated. The wealth transfers substantially occur due to the differential between the calculated LMP and the FTR. It does not appear to take into consideration increases in contract prices with the need to purchase FTRs (to manage the price risk) and there appears to be a lack of detailed understanding/ oversimplification of the contract market in general, a fundamental oversight given new generation investment typically relies on long-term contracting (between counterparties who face a common market price) in order to keep the cost of energy low. NERA proposes that inefficient volume risk (that the reform aims to eliminate) is greater than the basis risk faced by generators after ownership of FTRs, thus contract market liquidity will likely improve as a result of the reform – i.e. that one risk negates another risk. This fails to consider that the offered volume of FTR's will be less than the physical capacity of the transmission network.

More importantly, there appears to be a lack of proper consideration to the implementation of REZ's and the subsequent investment in shared network capacity to deliver generation connected in the REZ's to the consumer load centres. Instead NERA only included specific ISP projects and did not include network augmentation projects listed in the network service providers' annual transmission planning reports.

TLT is also very concerned that the proposal has not adequately accounted for cost of capital impacts, which for renewable generation in particular flow directly to the cost of energy able to be provided to consumers, and the costs more broadly on the industry.

ADDRESSING THE COORDINATION ISSUE SHOULD BE THE PRIORITY

A key question is whether the other reviews currently underway negate the need for the Reform entirely. These include:

1. Actionable ISP work program (ESB), which includes reform of the RIT-T
2. Review of system strength requirements (AEMC)
3. NEM post-2025 Market Design work program (ESB), under which COGATI now sits, as well as parallel work on Renewable Energy Zones (REZs) (ESB).

It must be remembered that while the ISP Rules are intended to streamline the RIT-T and post-RIT-T process for regulated transmission investment, the ISP is primarily a transmission planning document and there is no regulatory mandate for generation and storage resources to be built, or to be built at locations assumed in the ISP, hence the case for market design to sufficiently incentivise supply side investments in coordination with transmission investments. With further refinement and clear checks and balances, the ISP could facilitate coordination, especially for REZs. Triggered by the ISP, RIT-Ts could become more flexible, allowing the necessary transmission investment to ensure low-cost energy can be supplied to consumers despite the changing power flows in the NEM as the generation mix changes from thermal dominated to renewables dominated over time. However it remains important that



investments are still assessed and approved via a rigorous process, in order to guard against the risk of inefficient regulated transmission network “gold plating”.

The obvious candidate for better coordination of future transmission and investment is a clear, national framework for REZs. A well designed REZ framework, which also includes the necessary augmentation of the existing “shared” network, when required, would address the key issue identified by AEMC by better aligning generation and transmission infrastructure: providing a solution to the barrier of coordinating multiple, independent projects to align project timing and funding for new transmission.

This would also address a key concern of existing and potential generators that transmission and other system services have historically lagged new generation investment (leading to costly constraints and system security impacts), as well as working towards a least-cost outcome for consumers by minimising often unnecessary and costly delays.

By putting the Reform to rest, the AEMC could focus on collaborating with industry, other market bodies, consumers and Governments to deliver an effective framework that would deliver the required investment for the transition of the NEM. For example, TransGrid and ARENA are conducting a study to see how a new funding model could be used for the proposed New England REZ.² There are also natural links between REZ frameworks and the urgent need to value and procure essential system services such as system strength and inertia. These are urgent, material problems that need to be addressed.

As it stands, pressing ahead with the Reform has a high risk of being counterproductive and we encourage the AEMC as a member of the ESB to work through the 2025 Market Design work program to progress other initiatives underway that we believe will more efficiently address congestion and improve locational signaling. These include:

- The ISP and actioning the ISP rule change with a particular focus on the RIT-T reforms
- Development of REZs and associated work in relation to dedicated connection assets
- Accelerate the system strength as suggested in TransGrid’s rule change and under consideration in the AEMC’s investigation into system strength frameworks in the NEM
- The transparency of new projects rule change that was finalised in October 2019

IN CONCLUSION

We believe the Reform is an unwelcome distraction from the real issues for a successful energy transition in Australia, and we urge the AEMC to cease this process. The immediate focus should be facilitating the efficient and timely investments in transmission and

² <https://arena.gov.au/projects/transgrid-new-england-renewable-rehub-feasibility-study/>



generation that Australia's energy transition requires, through the ESB's existing REZ programs and actioning the ISP, and only consider access changes if poor access outcomes persist once coordination of transmission investment has been addressed.

If following implementation of the Post-2025 reforms and other workstreams in progress, access issues remain, then fundamental changes such as the access reforms could be contemplated. It is important to prioritise and sequence the work that is under way, with the most pressing issues being addressed first.

Thank you for the opportunity to comment and please feel free to contact myself or Rhys Albanese (rhys.albanese@tiltrenewables.com, 0423 423 797) to discuss any of the issues raised in this submission.

Kind regards,

A handwritten signature in blue ink that reads "Nigel Baker".

Nigel Baker
Executive General Manager, Generation & Trading
Tilt Renewables