

Anna Collier
Chair
Energy Security Board

28th January 2022

Submitted by email to: info@esb.org.au

Dear Ms Collier

AEC Response to Project Initiation Paper on Congestion Management Model (CMM)

The Australian Energy Council (the “AEC”) welcomes the opportunity to make a submission in response to the Paper.

The AEC is the industry body representing 20 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia, sell gas and electricity to over ten million homes and businesses, and are major investors in renewable energy generation.

The Paper provides background to the history of the access reform proposal and the need for reform. Whilst not disagreeing with the theoretical challenges of the existing arrangements, the AEC acknowledges that many industry views exist that doubt whether these justify major reform. This submission however engages only within the scope of this paper, being how the ESB should approach its 2022 project.

Thus, this submission should not be interpreted as the AEC preferring, at this time, any particular access model or status quo. It is hoped that greater clarity will emerge as the project progresses.

Assessment criteria

Table 3’s criteria broadly covers the range of matters that should be taken into account. The first five are generally aligned with the AEC’s own publication of its recommended Market Design Principles¹.

Criterion 5, Implementation considerations, should have an explicit inclusion of additional investment risks during the period of uncertainty that results from major reforms whilst their implications are digested by the investment community.

The AEC recognises that Ministers have effectively obliged the ESB to include the unusual assessment criterion 6, Flexibility for jurisdictional differences. The AEC accepts states have already legislated bespoke Renewable Energy Zones (“REZ”) arrangements, however in doing so, there is considerable risk of detracting from the efficiencies of a national market. The AEC suggests that criterion 6 should be balanced with a criterion around enhancing national transmission planning and the national trading of electricity.

Consideration of alternative models

The AEC welcomes the ESB’s consideration of alternative models to the CMM to which there was considerable negative feedback during the Post 2025 review. Whilst some models may have emerged more recently, the AEC considers they should be given fair consideration as to whether they adequately address those concerns whilst going some way to meeting the ESB’s criteria.

¹ <https://www.energycouncil.com.au/media/jzrpgxsb/market-design-principles-final-report-180419.pdf>

Further to the models discussed in the paper, the AEC considers the recently released NSW Central-West Orana REZ access rights and scheme design² is worthy of consideration. Within this REZ, the proposal is for a physical access regime that will ration the right to connect up to only the capacity of the physical network of the REZ. This means that, within the extent of the new REZ at least, system normal congestion is not expected, thereby removing the need for congestion compensation.

An alternative model for the ESB to consider would be the global application of this philosophy, such that connection is only permitted to the extent that no new system normal congestion is expected. The AEC acknowledges this would be a very major change from the NEM's existing open-access connection philosophy, with a much greater role for network in determining the circumstances of connecting generators. Thus, the AEC suggests it only for consideration and analysis at this time.

The ESB could look to the Western Australian Wholesale Electricity Market (“WEM”), which initially applied such a physical access right approach and the reasons for its recension.

Overview of key issues requiring further consideration

Table A1 provides a reasonable sweep of the broad scope of topics the AEC recommends for consideration against CMM and any other models. The following suggestions are not inconsistent with that broad scope, but are explicitly noted to ensure their inclusion.

Where rebates will be made available

A key concern is whether CMM will unintentionally inhibit investment in non-REZ locations even where spare network capacity exists. The project should include a thorough description of the processes by which connectors to such locations can gain confidence in their eligibility early in their development.

Rebate Allocation Scheme

The allocation scheme will need to consider the matters suggested in the table, but also the way in which new network capacity, as it is built, can be allocated.

Allocation of roles and responsibilities

The state-based development of REZs necessarily involves bodies created at the state level to have a large influence in the CMM eligibility. At the same time, noting the AEC's earlier comments supporting the NEM's national construct, there should be oversight from the national perspective. The project should consider how this could come about. For example, the Australian Energy Regulator (“AER”) might oversee or review eligibilities resulting from state level activities against national market criteria.

Nature of rebate entitlements

Whilst full Locational Marginal Pricing (“LMP”)/Financial Transmission Rights (“FTR”) schemes would involve greater change from status quo than CMM, they do have the benefit of more readily permitting efficient trading of FTRs, for example from ageing to new entrant generators. The material published to date did not anticipate trading of eligibilities, but it may be possible through a process overseen by the relevant network planner and/or AER.

Grandfathering arrangements/In-train developments

Clearly grandfathering is essential to deliver the intent of the reform. The project will need to:

- Develop a predictable mechanism to determine initial allocation and ideally perform an indicative calculation.
- Determine at what moment of the construction process an asset becomes eligible for grandfathering.

² <https://www.energy.nsw.gov.au/renewables/renewable-energy-zones/central-west-orana-rez-access-scheme-consultation>

- Consider is the treatment of committed network capacity and whether and how this can be taken into account in the initial allocation.

The table raises the question of equal treatment of eligible assets. Whilst ideally in system normal there should be no conflicts, there are likely to be times when network capacity is below that for all eligible assets. Different eligibility priority levels would add complexity, but may also provide a stronger locational signal, so the AEC agrees this should be considered.

Interconnectors

Determining the treatment of interconnectors in the CMM or other models will be a technically challenging part of project. The Table mentions determining its “availability”, which will need to be considered, but the project should also consider to what extent they can be grandfathered for eligibility for rebates. Existing practice clearly places interconnectors at a lower priority in congestion compared to intra-regional dispatch, so this would presumably be recognised in grandfathering. The additional question suggested by the AEC is whether they can be reasonably grandfathered at any non-zero transfer so as to not further diminish their firmness.

Conclusion

Any questions about this submission should be addressed to the writer, by e-mail to Ben.Skinner@energycouncil.com.au or by telephone on (03) 9205 3116.

Yours sincerely,



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