

28 January 2022

Ms Anna Collyer
Chair
Australian Energy Market Commission (AEMC) and
Energy Security Board (ESB)

Submitted via email: info@esb.org.au

Dear Ms Collyer

ESB Transmission Access Reform – Project Initiation Paper (November 2021)

Hydro Tasmania welcomes the opportunity to respond to the Energy Security Board's (ESB) *Transmission Access Reform Project Initiation Paper*.

Any change to the National Electricity Market's (NEM) open access regime would constitute a major market reform, and must be carefully scrutinised to ensure it is fit-for-purpose in the future energy market. Most importantly, any changes implemented must support an orderly transition of our market, and ultimately, deliver net benefits for consumers.

The ESB have stated that the objectives of this re-design process are to:

1. **Create better signals** for generators to locate in areas where there is available transmission capacity – including, but not necessarily limited to renewable energy zones (REZs);
2. **Facilitate better use of the network** in operational timeframes, resulting in **more efficient dispatch outcomes** and lower costs for consumers;
3. Establish a framework that **rewards storage and demand side resources for locating where they are needed most** and operating in ways that benefit the broader system; and
4. Take measures to **give investors' confidence that their investments will not be undermined** by inefficient subsequent connections.

The ESB have presented their high-level concept design for a Congestion Management Model (CMM) as a potential reform to meet these objectives. In addition, the ESB have welcomed stakeholders to present any alternate mechanisms to deliver on these imperatives. Hydro Tasmania looks forward to engaging with the ESB as these high-level designs are considered in further detail.

As acknowledged in the paper, the suitability of our 'open access regime' has been the subject of numerous reviews since the commencement of the NEM. These reviews include: the *Transmission Frameworks Review* in 2010, *Optional Firm Access Design and Testing* review in 2014, and most recently, the *Coordination of Generation and Transmission Investment* review in 2019 – Hydro Tasmania has made comprehensive submissions to each of these processes.

Historically, access reform processes have predominantly focussed on addressing the increasing risk of thermal constraints. While we appreciate the potential risks of this occurring due to the influx of new connections in the NEM, we would like to reiterate that most existing and future power system constraints will be driven by poor system strength, which subsequently result in generators being constrained on. We believe that the development of an efficient system strength market such as proposed in Hydro Tasmania's *Synchronous Services Market (SSM)* rule change presents a more direct reform to address these types of constraint, upon which, a detailed and well tested Congestion Management solution can be built.

Similarly, we encourage the ESB to investigate the potential use of run back schemes to facilitate a more efficient utilisation of existing network assets. Hydro Tasmania, together with TasNetworks, has significant experience in utilising innovative approaches to maximise the utility of the Tasmanian network and support the effective integration of renewable energy. Furthermore, in early 2021, Tasmania was briefly operated from 92% non-synchronous generation sources, which is by far the highest for any substantial power system in the world. We would welcome the opportunity to work with the ESB and draw upon this experience to explore how the use of these Tasmanian solutions could be applied more broadly across the NEM.

Notwithstanding the above observations and alternatives, Hydro Tasmania believes that any amendment to the NEM's open access regime should comply with the following design principles:

1. **Provide a demonstrable and enduring net benefit to consumers.** Any amendments should seek to enhance (or at least not hinder) market efficiency across spot and contract markets. This should be underpinned by robust modelling and trial/testing periods to provide confidence that these reforms will deliver benefits as expected.
2. **Minimise the impact on investments made under current frameworks, whilst avoiding the creation of barriers to entry for new generation.** It is essential that, where possible, any proposed reform to the NEM's access regime avoids undermining investments made in good faith under existing market frameworks. Grandfathering of access rights for pre-existing generators and market network service providers (MNSPs) seems the most logical approach to protect prior investments. Ultimately, any amendments to the NEM's access regime should strike an appropriate balance between insulating pre-existing assets from unintended consequences, while simultaneously supporting the efficient transition of the NEM by avoiding the potential creation of any new barriers to entry. Hydro Tasmania considers this to be a key challenge to overcome throughout the design process.
3. **Be part of a holistic plan to reform the NEM.** There are a variety of concurrent market processes underway in the NEM that will be interrelated with proposed amendments to our access regime (i.e. Hydro Tasmania's SSM rule change proposal, the 2022 Draft Integrated System Plan (ISP); state-based approaches to REZ's etc.). It is critical that this consultation process thoroughly considers these dynamics, and recognise that an increased utility of existing network assets will not negate the need for investment in new transmission infrastructure. In many instances, the risk of congestion will be significantly reduced through

the build out of the ISP and REZ's, as well as the establishment of an efficient system strength market.

4. **Carefully consider the financial implications for consumers arising from a reallocation of risk and cost associated with transmission access between Transmission Network Service Provider's (TNSPs) and generators.** In particular, consideration must be given to the divergence in the weighted average cost of capital (WACC) available to generators compared with TNSP's. The WACC available to generators is typically higher than that available to TNSP's, as generators are exposed to market outcomes, rather than achieving regulated returns. All efforts must be made to ensure that this divergence in WACC's does not result in consumers paying more than they currently are for transmission services.
5. **Allow sufficient lead-time for energy market participants to prepare for and adapt to changes.** Hydro Tasmania considers this would be particularly important to allow for adjustment and/or renegotiation of financial contracts under an amended access and dispatch regime.

Hydro Tasmania looks forward to ongoing engagement with the ESB as this important work progresses. If you wish to discuss any aspect of this submission, please contact John Cooper ((03) 6240 2261) or John.Cooper@hydro.com.au).

Yours sincerely



John Cooper
Manager Market Regulation