28 January 2022

Anna Collyer
Chair
Energy Security Board

Submitted by email: info@esb.org.au

Dear Ms Collyer,

Transmission access reform – Project initiation paper

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on the Energy Security Board's (ESB) transmission access reform project initiation paper.

Origin maintains that the case for adopting the congestion management model (CMM) adapted for renewable energy zones, the CMM(REZ) at this time, has not yet been made. Nevertheless, we note that National Cabinet has instructed the ESB to progress detailed design of the mechanism, and so we plan to engage constructively in this process. The detailed design should include free allocation of rebates to existing plant as they cannot relocate; make rebates available in all locations with spare network capacity to maintain efficient investment incentives; and ensure the model does not undermine jurisdictional REZ signals.

We welcome the ESB seeking alternative options in this initiation paper as this reflects regulatory best practice. However, the challenge is that any solution put forward will need to address a broad set of issues and assessment criteria that the ESB has set out in the paper. It is unrealistic to expect that any single alternative solution could do so, nor do we consider that it is necessary. Our view remains that the access related issues experienced to date are symptomatic of transmission investment not keeping pace with generation investment (i.e., lack of coordination) driven in part by government policy:

- *Locational signals*: The NEM already has strong locational signals (e.g., marginal loss factors). More recently, locational signals have been driven by government policy and jurisdictional REZs.
- *Congestion management*: Effective congestion management is important, but the regulatory framework should aim to ensure efficient investment in transmission first before any ongoing congestion problems can be identified and addressed.
- *Enabling new technologies*: We support the need to ensure new services are rewarded. For storage, this could be achieved via incentives to provide network support services; improving the treatment of storage in the regulatory process for network augmentation; or through transmission use of system (TUOS) charge exemptions.
- *Risk management tools*: It is the lag between transmission and generation investment and the lack of coordination that has increased the risk for investors.

CMM(REZ) – design parameters

Some initial comments on a list of non-exhaustive areas for further work are set out in Table 1.

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Table 1: Areas for further work

Design areas	Origin's comments
Where rebates will be made available	We welcome the ESB noting that it will consider instances under which it would be appropriate for participants outside of a REZ to receive the rebate. It is crucial for the rebates to be provided to generators located in 'good' areas of the network to promote efficient outcomes, including in regions that do not have REZs. This could include areas with spare network capacity and brownfield sites (e.g., where plant retires). AEMO or a similar body could be tasked with identifying those areas on a regular basis, to complement the identification of REZs. Without this addition, investors will face unhedgeable basis risk when locating outside of REZs, including in locations that would otherwise be efficient to invest in. While we recognise that congestion risks might be lower in these locations, the inability to hedge and unequal treatment with REZs would create uncertainty for investors. Making rebates available in those locations would manage this uncertainty. Similarly, generators outside of REZs that hold a long-term energy supply agreement (LTESA) through outstanding merit[1] in NSW should receive rebates.
Grandfathering arrangements	The rebates offered to existing plant and in-train developments should reflect "full grandfathering", i.e., the rebates should be allocated for free in full. Grandfathering arrangements are crucial as existing generators cannot relocate and should not be exposed to the risk of significant retrospective regulatory changes for investment decisions made in the past. We look forward to working with the ESB on the allocation design.
Interconnectors and loops	Worked examples are useful – however, to date, they have focused on simple network configurations. More practical worked examples are needed to understand the implications of the model. This includes how it would work with interconnectors and on a looped/meshed network.
Compatibility with REZs	The design should ensure that the CMM(REZ) does not undermine or complicate the signals provided by the jurisdictional REZs. The paper contemplates proponents within a REZ would either be entitled to participate in a process to purchase access to rebates (the rebate allocation scheme) or could be allocated rebates as part of the jurisdictional auctioning process. It is not clear why an additional auction would be needed to access rebates – they should be allocated for free to generators connecting within the REZ boundary (and to generators outside of REZs that choose good locations). It is not clear how the jurisdictional process would work in practice – e.g., would rebates be available for both LTESA and access right holders in NSW? Is the intent to allocate the rebates for free to access right and LTESA holders (rather than priced into the auction)? How would projects that are within the

[1] Under the NSW Roadmap, generation projects outside of REZs may be eligible for an LTESA if they are deemed to meet a set of criteria. This implies that these projects are valuable and in good locations.

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	geographical area of the REZ but not connected to infrastructure that requires an access right be treated?
Rebate allocation scheme	In addition to the form of the scheme (tender, auction, first come/first serve etc.), on the ESB should set out the rationale for such a scheme, given that 'poorly' located plant will not have access to rebates in any case. It is also not clear how the funds raised will be used.
Allocation metric	The exact metric used to allocate congestion rebates in each dispatch interval should aim to ensure that generators are fully hedged against the basis risk introduced by the model.

If you wish to discuss any aspect of this submission further, please contact Sarah-Jane Derby at Sarah-Jane.Derby@originenergy.com.au or by phone, on (02) 8345 5101.

Yours Sincerely,

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