

28 January 2022

Ms Anna Collyer  
Chair  
Energy Security Board  
Lodged via the ESB website

Dear Ms Collyer,

**Submission to Transmission access reform Project initiation paper**

Pacific Hydro Australia and Tango Energy welcomes the opportunity to comment on the ESB's Project Initiation Paper as part of the next stage of the transmission access reform project.

Founded in 1992, Pacific Hydro Australia is a leading owner, operator and developer of renewable energy assets. It operates a high quality, diversified portfolio of wind, hydro and solar assets with an installed capacity of 665 MW; it also has a development pipeline of substantial projects totaling over 1100 MW of potential capacity, as well as over 300 MW of energy storage solutions. It also has a growing electricity retail business, Tango Energy, with approximately 130,000 customers as of January 2022. With a strong reputation for engaging and collaborating with the communities where it operates, Pacific Hydro has a track record of delivering lasting, sustainable benefits. Its operating assets currently abate over one million tonnes of greenhouse gas pollution every year.

We are committed to accelerating the decarbonisation of Australia's energy system, while maintaining a secure, affordable and reliable supply of electricity for customers.

The overarching objective of the Congestion Management Mechanism (CMM) should be to promote transmission development to aide accelerated growth of renewable generation connections and the decarbonisation of the NEM. Whilst we acknowledge that the details of the CMM are yet to be developed it is not clear to us from the information available how the proposed CMM achieves this objective.

Furthermore, we have concerns that the proposed CMM may result in inadequate allocation of congestion rebates to variable renewable energy portfolios, which would have detrimental consequences for renewable investment and retail competition.

We also note that NSW and VIC jurisdictions have made some progress with respect to addressing issues relating to connections of VRE for Renewable Energy Zones (REZs) and recommend that the ESB consider building upon this work as part of a co-ordinated national approach.

The views expressed above are expanded upon below for your consideration and we look forward to further consultation with the ESB on the CMM and the other Post-2025 Market Rules project workstreams.

**The Congestion Management Model (CMM)**

Pacific Hydro Australia and Tango Energy believes that implementation of the Congestion Management Model (CMM) proposed by the ESB may result in an outcome which hinders efficient investment, creates an uncertain environment for strategic planning and reduces retail competition.

The proposed CMM would see the introduction of locational marginal pricing (LMP). While we understand the detail of how allocation rights within the CMM are yet to be finalised, our concerns are primarily around the allocation methodology.

We suggest that any allocation methodology should not duplicate the work being done in the capacity mechanisms workstream<sup>1</sup> and result in an outcome where non-firm capacity is “double-penalised”. We understand that the capacity mechanism workstream contains proposals to require retailers to procure firm capacity through a certificate scheme. Furthermore, we note that the current CMM proposal<sup>2</sup> indicates that the LMP would have to be estimated based on short run marginal cost (SRMC) to serve the load at the relevant node, effectively making generator revenue a function of SRMC. It is unclear in the allocation methodology how generators are expected to recover long run marginal costs and we are concerned this will ultimately lead to an inefficient outcome by disincentivising low-cost spot energy prices. We also note the AECs objection to a decreased market price cap<sup>3</sup> which has been used in other countries to manage this LMP price risk.

Further, the allocation methodology should not result in a lessening of retail competition, particularly on relatively crowded (high demand) locational price nodes (e.g. metropolitan and regional load centres). On this point, we ask the ESB to consider an option of allocation of rights based on retail portfolio load.

As such we ask the ESB to carefully consider the risks and benefits for all parties when considering potential allocation methodologies and how the resultant CMM would complement the National Electricity Objectives.

### **State Initiatives on Renewable Energy Zones (REZs)**

It is important to recognise the effort and leadership by the states who are already well progressed with development of their own transmission plans to support REZ development. Furthermore, we note that AEMO’s Integrated System Plan (ISP) already acknowledges the need for ‘Actionable Projects’, which provide a way forward in terms of areas of need for transmission investment.

In NSW, the Central-West Orana REZ, was nine times oversubscribed by investors which is a clear indication that REZ will form the basis of Australian states’ clean energy transitions. Accordingly, the Central-West Orana REZ transmission link has now been prioritised in the 2020 and 2022 Draft ISP as an actionable project. Victoria is also well progressed with its REZ framework.

It is not clear how the CMM framework would operate with a different access framework applying to each state. This risks a fragmented approach to connections nationally and we ask the ESB to work towards a framework that is supported by the states and that applies nationally to ensure a sensible and efficient outcome for future investment across the NEM.

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<sup>1</sup> <https://esb-post2025-market-design.aemc.gov.au/resource-adequacy-mechanisms-and-ageing-thermal-retirement>

<sup>2</sup> P51, <https://esb-post2025-market-design.aemc.gov.au/32572/1629945838-post-2025-market-design-final-advice-to-energy-ministers-part-c.pdf>

<sup>3</sup> As voiced in the AECs Member briefing from ESB on Capacity Mechanism Project Initiation Paper held on 18<sup>th</sup> January 2022

We therefore ask the ESB to reconsider progressing the CMM model, noting the following as viable alternatives:

- Alternative options and models put forward by industry, such as the model supported by the Clean Energy Council (CEC) in their submission; and
- The access frameworks being developed by State Governments in VIC and NSW.

Please feel free to contact Domenic Capomolla via email [enquiries@pacifichydro.com.au](mailto:enquiries@pacifichydro.com.au) if you want to discuss this submission or have any questions.

Yours Sincerely,



Domenic Capomolla

Interim Chief Executive Officer of Pacific Hydro Pty Ltd