



Ms Anna Collyer  
Chair, Energy Security Board  
Level 15, 60 Castlereagh St  
Sydney NSW 2000

By email: [info@esb.org.au](mailto:info@esb.org.au)

14 June 2022

Dear Ms Collyer,

**Transmission Access Reform – consultation paper**

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Energy Security Board (“the ESB”) in response to the Transmission Access Reform consultation paper (“the Paper”).

The ENGIE Group is a global energy operator in the businesses of electricity, natural gas and energy services. In Australia, ENGIE has interests in generation, renewable energy development, and energy services. ENGIE also owns Simply Energy which provides electricity and gas to more than 740,000 retail customer accounts across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

As ENGIE is both an operator of existing generation assets and a developer of new generation and storage assets, we are able to take multiple perspectives on the issues relating to transmission access reform, an area where ENGIE has long been an advocate for change.

**Transmission access reform is a worthwhile goal – but a perfectly efficient market is unlikely to be achievable**

ENGIE commends the ESB for continuing to explore the opportunity for efficiencies in the deployment of new transmission and generation. The paper does a good job of setting out the issues with the status quo and the way that the energy transition could result in an increase in inefficient levels of congestion (or conversely, inefficient levels of transmission to address that congestion).

Given the unfortunate historical record of previous reform attempts foundering on a combination of stakeholder opposition and design complexities, ENGIE considers that it is important not to let the best be the enemy of the good. Where the ESB is able to identify implementable reforms that improve on the status quo, this may be preferable than trying to implement a more complex but theoretically more efficient set of reforms.

After all, the optimal solution would likely incorporate strong incentives on TNSPs to discover the most efficient solution to congestion management by requiring them to put some value at risk, but this has long been considered “off the table”.

ENGIE considers the fact that a range of alternative approaches have been proposed to be a positive sign that the ESB has effectively signalled that reform is necessary and so stakeholders have engaged constructively with the issues. Leveraging off this input makes it more likely that the eventual selection of reforms is broadly acceptable to stakeholders.

To this end, ENGIE does not have a preferred option at this stage, but rather offers some comments pertaining to the access models under consideration.

ENGIE agrees with much of the analysis in the Paper regarding the issues of inefficient locational decisions and operational congestion management. The ESB's approach of separating investment and operational timeframes with a view to implementing one model to address each of these is a pragmatic approach that avoids getting bogged down in trying to specify a single model that will address all access and congestion issues. Implementing one model for each timeframe assists in mitigating the risks and limitations with any one individual model.

### **Investment timeframe models**

#### **Congestion zones with connection fees**

This option appears to be a pragmatic approach to providing some investment-timeframe signal for more efficient connection location decisions than under the status quo. ENGIE is supportive of further development of the information features mentioned such as Transmission Statement of Opportunities, a traffic light system and/or state-based planning documents. These would appear to be no-regrets reforms.

The development of the connection fee schedule to serve as a financial incentive for locational decisions will need careful development in order to send effective signals. A consistent methodology across the NEM would minimise distortion of such signals, but ENGIE notes that this may be challenging to achieve in practice, both due to the potential for jurisdictional policy to over-ride a NEM-wide framework, but also if different parties are designing the connection fee schedule for different zones.

The TNSPs are likely to have the best information about connecting to their own network. In jurisdictions where REZs may be built on a contestable basis, then presumably the winner of the REZ tender will be best placed to design the connection fee schedule. Of course, assigning this task to AEMO would assist with harmonisation, but AEMO is likely to seek relevant information from TNSPs in any case. In line with the comments above about implementing what is feasible, lack of consistency is not fatal to the utility of this model.

In principle a more complex but more accurate fee schedule will better meet the goals of access reform as set out in the Paper, providing it is not so complex that generation proponents see it as a "black box" that results in fees whose logic cannot be understood by the proponents. Proponents ought to be able to understand the drivers of the fees so they can make a high-level estimate of the likely fee when selecting locations and of course it is critical that they know the actual fee before making a financial commitment to the project, since it could be a material component of the overall project cost.

The revenues this approach raise should be used to offset transmission use of system (TUoS) charges borne by customers.

## **Transmission queue**

This approach will need to be carefully designed in order to minimise incentives for gaming the rules around when a prospective generator qualifies for the queue. The suggestion that generation projects in the queue must be built within a certain timeframe is useful but unlikely to be sufficient in this regard. It's also unclear how outcomes could or should be adjusted if a generator near the front of the queue does not get built within the timeframe.

The queue could also be counterproductive to the extent the expression of interest (EOI) processes and then the auction as required together result in a slower connection timeframe. The NSW REZ EOIs carried out to date have indicated a high level of interest in connecting to the REZ and suggest that an auction will be required in most cases. The Paper's reference to "minimum eligibility thresholds" for the EOI process suggests that a *second* EOI process may need to be carried out. As noted above, if jurisdictions adopted different eligibility thresholds this would distort relative signals between jurisdictions.

As with the congestion zones model, surplus revenues should be used to offset TUoS charges. ENGIE does not support the alternative suggestion of hypothecating such revenues to fund other initiatives, as there is likely to be a mismatch between the efficient level of revenues and the efficient costs required to achieve the other initiatives.

ENGIE sees no fundamental reason why queue positions should not be tradeable. This should, in principle, improve the allocative efficiency of the model. However, frequent queue position trades may indicate gaming of the mechanism and so trading outcomes should be monitored.

## **Operational timeframe models**

ENGIE notes that previous operational timeframe models, such as locational marginal pricing, have proven highly unpopular with many stakeholders and owners of current and prospective generation in particular. While the views of this group of stakeholders should not be determinative, their views are indicative that investors appear to prefer volume risk (i.e., the risk of being constrained off) over price risk (e.g., LMP). While MLFs have an impact on prices, they at least only change annually, and don't undermine hedging strategies.

Given these concerns, the ESB should think very carefully about the risks of imposing a mandatory congestion pricing model on the market, such as the congestion management model (CMM) with universal rebates. If risks around the level of rebates a generator receives are not considered hedgeable, it could inhibit investment confidence in the NEM.

With this in mind, the congestion relief market (CRM) may prove more palatable to the market because participants can choose whether or not to participate. If participation becomes widespread, this will usefully inform future debate about access models, as the value to participants of managing congestion will become clearer. Nonetheless, ENGIE has concerns about the overall value of this model.

In the case of both the models under consideration, there is a concern around out of merit generators benefiting from a flow of congestion payments. However, the potential solutions are themselves problematic. As the Paper sets out, using bids to screen out recipients re-introduces the disorderly bidding

incentives the models are designed to reduce. However, pre-determining who is out of merit via the rules of the model is hard to do without violating the important principle of technology neutrality or introducing an element of cost-based dispatch to a bid-based dispatch market. Additionally, the proposed threshold of \$300/MWh for applying such rules is contingent on cap contracts continuing to settle around \$300/MWh. While this has been a standard price benchmark in such contracts it is the case that other benchmarks are evolving as the system transitions to a different mix of generation and in light of recent events. But once a figure is in the rules it becomes hard to change and may cease to be reflective of market practice.

ENGIE considers there is also a need for further work to determine the impact on holders of inter-regional settlement residue units, which are currently a valuable tool for managing price risk between regional RRP.

### **Storage location**

ENGIE cautions against the ESB developing a strong view on where storage technologies such as batteries *should* be located. Co-location with variable renewables is one option and ENGIE expects that the NEM will continue to see further examples. However, there is an emerging trend of locating large batteries on the site of former coal plants and ENGIE is a proponent of one example of this trend with its Hazelwood battery. Such sites benefit from land availability at sites that may not be well suited to some other uses, a pre-existing grid connection in a strong part of the grid and a local workforce with skills in operating large electrical machines. These are all reasonable factors to support battery location and it should not be seen as evidence of a dysfunctional access regime just because such batteries may not directly support congestion management in other parts of the grid with high levels of renewables. Given AEMO is estimating up to 45GW of storage is required in its Step Change scenario, it's likely that storage will be deployed at a range of locations on the grid.

Should you have any queries in relation to this submission please do not hesitate to contact me on, telephone, (03) 9617 8415.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Jamie Lowe', is positioned below the text 'Yours sincerely,'.

### **Jamie Lowe**

Head of Regulation,  
Compliance and Sustainability