

# SUBMISSION

## ESB TRANSMISSION ACCESS REFORM DISCUSSION PAPER

10 JUNE 2022

Thank you for the opportunity to make a submission to the ESB Transmission Access Reform Discussion Paper (Discussion Paper). We appreciate the work being undertaken by the ESB across a number of key areas of the Post 2025 Market Design Project, especially given the time pressure they are under to deliver advice to energy ministers by the end of 2022. The issues are complex and the time line is punishing.

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

As large energy users, our members are highly exposed to movements in both gas and electricity prices and have been under increasing financial stress due to escalating energy costs. These increased costs are either absorbed by the business, making it more difficult to maintain existing levels of employment or passed through to consumers in the form of increases in the prices paid for many everyday items.

The EUAA supports the pursuit of net zero targets and fully understands that this transition means our energy system will gradually move away from a centralised generation fleet to one that is highly dispersed. This will require appropriate levels of grid augmentation along with deployment of new technology to replace the services previously supplied by synchronous generation that are not provided by non-synchronous generation that will make up a majority of new energy supply.

It will also require close coordination between new entrant generation and appropriate levels of transmission infrastructure. It will also require an approach that delivers fair and equitable treatment of generators who have connected to the shared network in good faith while balancing the needs of generators wanting to connect to access the available renewable resource.

It should be remembered that a certain level of congestion represents an efficient outcome given it would be inefficient (both from a market and consumer perspective) to build a transmission system that allows 100% of capacity in a region to be dispatched 100% of the time as this would result in an over-built network that sits idle for long periods of time.

This outcome would not be consistent with achieving the National Energy Objective (NEO) being:

*“to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers...”*

We often hear statements from non-consumer participants that their approach will be in the long-term interests of consumers. However, we often see these approaches as being more aligned with the long-term interests of market participants shareholders, not consumers. In many cases, consumer groups like the EUAA are forced to involve themselves in complex processes, such as congestion management, primarily to ensure the outcome will be consistent with the NEO and that consumers do not end up paying costs and wearing risks that should reside in the first instance with market participants.

We also hear that consumers are worse off where there is inefficient levels of congestion and therefore it is in our long-term interests to pay to resolve it. These sentiments were expressed by many non-consumer participants in recent debates over Marginal Loss Factors. While it is in the interests of consumers to avoid inefficient congestion it does not necessarily follow that we should pay to fix it. Consumers have no control over the investment decisions of market participants and therefore should not be required to provide a financial safety net for those who do have control.

Consumers expect that the entire energy value chain works to deliver a product and service that is fit for purpose and that the risk and initial costs of providing this outcome sit with participants in the energy value chain. Congestion management, efficient transmission (with no cost over-runs), system strength and reliability are all part of a fit for purpose product that consumers expect to be delivered. We shouldn't have to pay more for poor decisions made by others.

For example. If a car manufacturer discovered their vehicles have a critical flaw in the steering system they do not expect consumers to pay to fix it, even if it is their interests to do so. They recall the product and rectify the problem at their cost given it was entirely in their control to have avoided the issue in the first instance.

At the end of the day, congestion is an issue for equity to solve, not consumers.

Therefore, to achieve an efficient level of network investment and congestion and to be consistent with achieving the NEO will require arrangements that:

- Provide market participants with the best available technical information in the timeliest way.
- Send strong economic signals to market participants to guide investment decisions so as to avoid inefficient levels of congestion from occurring.
- A clear, robust and equitable approach to managing congestion risk amongst market participants should it become material.

With this in mind we believe that of the models outlined in the Discussion Paper (pictured below), that the Congestion Zones with Connection Fees and CMM with Universal Rebates more closely aligns with what we believe will deliver on the three requirements outlined above. We also see this approach will be easier to integrate with and support state based REZ ambitions.

Above all, we believe this approach is more consistent with achieving the NEO.

**Table 1 Shortlisted models for detailed design**

| Investment timeframes  | Operational timeframes  |
|--|---|
| <p><b>Congestion zones with connection fees</b></p> <p>Investors receive clear up-front signals about which network locations have available hosting capacity.</p>   | <p><b>CMM with universal rebates</b></p> <p>Establishes a single, combined-bid energy and congestion market</p>   |
| <p><b>Transmission queue</b></p> <p>Establish a transmission queue that confers priority rights (either to allocate rebates in the CMM or to establish who buys and sells congestion relief in the CRM).</p> | <p><b>Congestion relief market (CRM)</b></p> <p>Changes to the market and settlements to provide separate revenue streams for energy and congestion relief.</p> |

### **Congestion Zones with Connection Fees**

It is our view that clearly identifying congestion zones that prescribe a value to access and congestion, along with existing MLF, provides a clear signal to market participants about the appropriateness of further investment in the region. We are also in favour of connection fees becoming a more prevalent aspect of the future build out of the energy system as it ensures all participants “have some skin in the game” when it comes to location and transmission costs.

Unsurprisingly, our strong preference is that connection fee revenue be used to off-set TUOS and therefore help alleviate upward pressure on consumer costs. We would also support a minimum level of connection fee to ensure that in all instance’s generators are making some contribution to off-set network costs.

### **CMM with Universal Rebates**

It is our view that CMM with Universal Rebates provides a robust, transparent and equitable means by which market participants can manage congestion risk should it become material. While it is a form of Locational Marginal Pricing (LMP) that has been discussed in previous iterations of this work stream, it does not appear to have the issues associated with previous LMP approaches for energy users who have entered into corporate PPA’s with renewable energy projects. We will continue to watch this closely to ensure there are no unintended consequences for energy users.

Developing an approach that integrates both congestion and energy markets also seems to be a sensible way forward. We are aware there is concern over the allocation of rebates in this model and this is clearly an area that requires further discussion.

### **Other Matters of Consumer Interest**

It must be recognised that none of the congestion management models that have been put forward (including those that have been rejected) materially resolve congestion i.e. none facilitate the actual construction of new

transmission that was contemplated as part of the much broader Coordination of Generation and Transmission Investment (CoGaTI) program<sup>1</sup>.

While we do support the work being undertaken by the ESB on congestion management, we do wonder if it will moderate the “build, constrain, complain” approach by some market participants. We hope that the work on congestion management can be integrated into the broader transmission picture, including the pursuit of REZ by state jurisdictions, the AEMO ISP and other aspects of the transmission frameworks review.

Above all, we strongly support the ongoing role of robust, independent review of all transmission augmentation by the AER. We are becoming increasingly concerned that good governance and a focus on achieving the NEO are being pushed aside as we rush to meet net zero targets. We are not in favour of a build it and they will come approach as this would amount to nothing more than consumers writing blank cheques for the energy supply chain with no guarantee of net market benefits.

To continue the motor vehicle analogy, consumers are often asked to pay for a Ferrari, so that others can drive it 4 days of the week.

We understand the desire of governments to pursue net zero targets and to accelerate the move to an energy system that is predominantly based on renewable energy resources. This necessarily means bringing forward significant amounts of transmission investment; investment that may not deliver net market benefits or comes into the TNSP Regulated Asset Base before it is economically justifiable.

All of this leaves consumers taking financial, volume and market risk. Therefore, if governments and market participants want a faster roll-out of transmission they should be prepared to wear some of the cost and risk associated with it, rather than expecting consumers to sign blank cheques and then hope for the best.

We hope to continue this discussion as we develop a Post 2025 market design that is not only fit for purpose for market participants but one that is consistent with the NEO.

Do not hesitate to be in contact should you have any questions.

Kind regards,



Andrew Richards  
Chief Executive Officer

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<sup>1</sup> We recognise some of the issues first raised as part of CoGaTI are being dealt with elsewhere such as via the AEMO ISP or through state government programs, in particular Renewable Energy Zones (REZ) which may also include co-contribution by connecting generators.