



10 June 2022

Ms Anna Collyer
Chair
Energy Security Board

Submitted via email to: info@esb.org.au

Dear Ms Collyer

Transmission Access Reform – Consultation Paper

Stanwell Corporation Limited (Stanwell) welcomes the opportunity to respond to the Energy Security Board's (ESB) *Transmission Access Reform Consultation Paper* (the Consultation Paper).

Stanwell is a major provider of electricity to Queensland, the National Electricity Market (NEM) and large energy users throughout Australia. While providing reliable and affordable energy for today, we are exploring new generation and storage technologies that will help reduce emissions while also ensuring Queensland's electricity supply remains secure and reliable.

This submission contains the views of Stanwell and should not be construed as being indicative or representative of Queensland Government policy.

Proposals for transmission access reform in the NEM are not new. Over the past decade there have been multiple attempts by various regulators, none of which have been successful. Stanwell notes that over the life of the Post 2025 Market Design Review process the ESB has presented a number of iterations of transmission access reform models, with the majority of stakeholders consistently questioning the need for such complex and potentially costly changes to the current arrangements. In addition, stakeholders, including Stanwell, have requested that the ESB undertake comprehensive cost benefit analysis to demonstrate the net benefit of proposed reforms to customers. To date, the ESB has continually downplayed or ignored stakeholders' concerns, and have yet to provide any meaningful justification or assessment to support its case for reform.

However, now the ESB has committed to presenting a final design to the Ministers by the end of the year.

This agenda would be ambitious, even if there was a clear model identified and a detailed design presented for immediate consultation. However, the options presented in the Consultation Paper have moved the debate backwards from the recommendations proposed by the ESB at the end of last year. The ESB is now presenting stakeholders with

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multiple complex solutions for perceived problems at different timeframes which it is endeavouring to coalesce into a single model in the space of a matter of months.

Further, there is still no consideration of how the proposed options would interact with or complement other market reform initiatives that are currently underway, including the establishment of a capacity mechanism, operating reserves, and the development of markets for essential system services.

It is Stanwell's view that the ESB has still not provided evidence to support the progression of transmission access reform.

Lack of a convincing case for change

Consistent with its previous position on this matter, Stanwell does not support the continued development or implementation of transmission access reform at this time. It is strongly of the view that the ESB has still not made a sufficient case to progress the reforms it is advocating, being unable to demonstrate:

- that reform is necessary, and
- the proposed approach is the best way of delivering the purported benefits.

The ESB has indicated that the principal issues it is targeting with transmission access reform are the need for:

- enhanced locational signals in the investment timeframe, and
- greater dispatch efficiency over the operational timeframe.

Stanwell maintains that these problems have been overstated, and the proposed solutions will provide limited if any relief.

There are a range of existing locational signals available to potential investors. For example, marginal loss factors (MLFs) provide investors with an incentive to connect new generation close to the regional reference node and leverage efficiencies in the transport of energy across the system.

In addition, the Australian Energy Market Operator's (AEMO) generation information page provides prospective investors with information on the capacity of existing, withdrawn, committed and proposed generation projects. Further, the system operator's Congestion Information Resource contains a consolidated source of data relating to transmission network congestion in the NEM.

AEMO and network service providers are increasing the provision of data about network hosting capacity, including the creation of renewable energy zones. It is not clear what additional consequential locational signals would be provided by charging a connection fee or establishing a transmission queue.¹

The ESB's objective of removing incentives for non-cost reflective bidding implies a focus on short-run marginal cost (SRMC) pricing to enhance dispatch efficiency. This focus is not appropriate for practical considerations.

There is an abundance of literature which identifies that SRMC bidding leads to "missing money" in energy markets which stifle investment incentives. This is even more relevant in

¹ If the ESB's locational concerns were predominantly about providing investment certainty to new proponents, this could be achieved more simply by assigning a fixed MLF to a project for a period, say 5-10 years. Subsequent generators connecting in the vicinity would receive a less favourable MLF.

the current NEM design which requires some amount of generation to be available but held in reserve, uncompensated, by the market operator. The use of such over-simplified assumptions in the ESB's analysis means the assumed behavioural changes are unlikely as participants actually respond to incentives not considered in the design.

There has been no compelling evidence that dispatch efficiency is a material issue for consumers or generators. NERA's estimate of the total costs of race-to-the-floor bidding was in the order of \$140 million to \$180 million per year, but acknowledged the analysis

*"... may not reflect the frequency with which market participants race to the floor in practice and the balance of risk lies towards overstatement of the benefit."*²

This estimate is also considerably higher than previous estimates of race-to-the-floor bidding prepared by ROAM Consulting for the Australian Energy Market Commission to inform the Transmission Frameworks Review.³

Moreover, previous reforms, such as 5 minute settlement, were intended to reduce the frequency and impact of race to the floor bidding, suggesting current estimates should be considerably lower than those in NERA's report.

Accordingly, it is not clear what benefits the complex Congestion Management Model (CMM) or the Congestion Relief Model (CRM) could deliver.

In concert with other stakeholders, Stanwell has previously called for a detailed cost benefit analysis to conclusively ascertain the materiality of any problem that may warrant attention, and the relative merits of alternative remedial courses of action. However, to this point, the ESB has not undertaken a comprehensive assessment.

Conduct of review

The ESB asserts that the models shortlisted in its Consultation Paper have been developed following stakeholder consultation as part of the current reform process, while also drawing upon selected comments from previous reviews to justify advancing this reform initiative. However, at the same time, the ESB has neglected to acknowledge that the majority of respondents to previous consultations have consistently rejected the need for broad transmission access reforms in the first instance.

Stanwell's analysis of submissions to the *Post 2025 Market Design Options Paper* found the majority of stakeholders that provided comment on the proposed congestion management model did not support its further development. Nonetheless, as with previous consultations, the ESB persisted with presenting this model to Energy Ministers in December 2021, barely acknowledging the extent of opposition to the proposed reform initiative.

Similarly, Stanwell also identified that 60 per cent of respondents to the ESB's *Transmission Access Reform Project Initiation Paper* considered that the concerns they previously raised about the CMM had not been listened to, while 30 per cent indicated that they did not believe engagement on this issue had been genuine.

This serves to reinforce a view Stanwell previously put to the ESB in our submission to the *Post 2025 Market Design Options Paper* that

*"... stakeholder concerns with reform proposals and a lack of coordination between reforms that interact/overlap with one another, does not appear to be acknowledged or addressed."*⁴

² NERA, Cost Benefit Analysis of Access Reform: Modelling Report, September 2020, p iv.

³ ROAM Consulting, Modelling Transmission Frameworks Review, February 2013.

As with previous consultation papers presented by the ESB, the models set out in this Consultation Paper lack sufficient detail to enable stakeholders to make an informed decision as to their relative merits.

In this context, the ESB's approach does not represent best-practice consultation.

Rather than continuing to present partially-developed solutions to a nebulous problem, Stanwell considers the ESB should allocate the resources currently deployed on transmission access to higher-priority, higher-value reforms such as essential system services and the Capacity Mechanism re-committed to the Energy Ministers in June 2022.

Impact of other factors on transmission access

Stanwell recognises that other regulatory and political developments have the potential to promote the ESB's transmission access reform objectives.

With the NEM subject to an unprecedented level of regulatory review and reform, it is important that this reform is conducted in a holistic, co-ordinated manner. Stanwell is concerned that the ESB is progressing its transmission and access reforms in isolation, having insufficient regard to the related impacts of:

- its other Post 2025 Market Design projects, particularly the introduction of a mechanism to value and procure capacity services, and
- reforms being overseen by other market bodies, including the potential development of new markets for operating reserves and essential systems services.

In addition, the new Australian Government has foreshadowed a \$20 billion *Rewiring the Nation* programme⁵ to bring forward projects in AEMO's Integrated System Plan. This investment in transmission infrastructure has the potential to alleviate congestion issues in the NEM, yet at its public webinar held on 26 May 2022, the ESB admitted it was yet to even consider the potential implications of that program for future congestion in the network.

It is incumbent on the ESB to carefully assess the impact of other NEM reforms, planned or underway, and new and emerging national energy policies, with a view to re-evaluating the need for comprehensive transmission access reform. This would potentially reduce the risk of regulatory error and inefficient market design, avoiding unnecessary costs which would otherwise be passed through to the consumer.

Conclusion

The NEM was established to introduce competition in the wholesale electricity sector, with the objective of decentralising the operational and investment decisions to commercial entities that are best placed to bear the costs and manage the risks of those decisions. Greater regulatory intervention would have the potential to distort market signals and impair the capacity of market participants to respond efficiently to them.

Change is desirable where the benefits of that change demonstrably outweigh the costs, when considered across a range of plausible future scenarios. Any proposed change should also be transparently measured against alternative approaches which achieve the same or similar goals to determine the efficient path forward.

⁴ Stanwell Corporation Limited, Stanwell Corporation Limited Response to Post 2025 Market Design Options – A paper for consultation, 9 June 2021, p 5.

⁵ [Rewiring the Nation | Policies | Australian Labor Party \(alp.org.au\)](#)

The ESB's proposals for transmission access reform do not pass these tests. Rather they contemplate the development of an overly complex partial solution to a loosely and, at best, generally-defined problem.

Stanwell welcomes the opportunity to further discuss the matters outlined in this submission. Please contact Ian Chapman on (07) 3228 4139.

Yours sincerely

A handwritten signature in blue ink, appearing to be 'I. Chapman', with a long horizontal flourish extending to the right.

Ian Chapman
Manager Market Policy and Regulatory Strategy