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Transmission access reform

AGL Energy (AGL) welcomes the opportunity to comment on the Energy Security Board (ESB) Transmission access reform directions paper.

AGL is a leading integrated essential service provider, with a proud 185-year history of innovation and a passionate belief in progress – human and technological. We deliver 4.2 million gas, electricity, and telecommunications services to our residential, small and large business, and wholesale customers across Australia. We operate Australia's largest electricity generation portfolio, with an operated generation capacity of 11,208 MW, which accounts for approximately 20% of the total generation capacity within Australia's National Electricity Market.

Transmission access reform options

After over four years of reviewing options for transmission access reform in the NEM, AGL still considers the best option would be to continue with the existing open access regime supported by enhanced information for investment timeframes. Nevertheless we would not be opposed to the Congestion Relief Market if it passes a robust cost benefit analysis and is subject to significant further consultation with stakeholders.

We remain strongly opposed to the Congestion Management Model and the Coordination of Generation and Transmission Investment (LMP & FTR) model which are not supported by industry and would greatly increase complexity and undermine investment in the NEM. We suggest these options should no longer be considered as options by the ESB or Ministers. The NEM is going through a massive transformation and there are many important reforms which require stakeholder attention, and it would therefore be to everyone's benefit if the ESB could declare that CMM and COGATI are no longer potential options.

Enhanced open access

AGL favours retaining the status quo of open access supported by enhanced information as the best option for transmission access reform in the NEM. While some investment in the NEM has been poorly located in the past there is no evidence that this is likely to be a significant problem going forward for numerous reasons.

First, most generation in the NEM going forward will be in REZs and subject to Long-term Energy Service Agreements and other instruments which already control access to some extent. Second, investment in the NEM is increasingly being driven by government initiatives such as recent Federal Government initiatives to support batteries and offshore wind for which an access regime would be largely irrelevant. Third, increased transparency of new generation and transmission investments through the Integrated System Plan, the Transparency of new projects rule change, and the enhanced investor information proposed under this directions paper are likely to greatly reduce the risk of poorly located generation investment.

It is not in the interest of new generators to locate in areas which will be subject to significant congestion, and we submit that they are unlikely to do so if they adequately informed of future congestion risk. We suggest that the ESB investigate and undertake further modelling of the newly proposed transmission, network investment, and state-based access schemes to conclusively determine whether there are significant congestion issues that require immediate attention.



Congestion Relief Market

If transmission access reform is deemed necessary, then AGL is not opposed to the CRM if it passes a robust cost benefit analysis. We favour the CRM over other mechanisms as it is a voluntary mechanism and because it uses market forces to determine a price for congestion relief. To ensure it clearly operates as a voluntary mechanism we suggest it should require participants to opt-in, rather than just having the option to opt-out. Nevertheless, we question whether the CRM will have enough participation to justify its implementation.

In theory we expect it will alleviate some types of congestion, but it is not clear that congestion of the type it will alleviate will be particularly common and therefore the impact of the mechanism on dispatch efficiency may be only minor. This is particularly the case given most future investment in the NEM will be either in a REZ or otherwise subject to some other State or Federal government scheme which will influence access to some extent. We expect the CRM will create significant complexity, especially for traders, since each dispatchable generator or load will need to submit a separate congestion relief bid on each transmission line, regardless of whether they are located by that line or not. This will be particularly complex since all dispatchable generators or loads impact the congestion on each line at different levels.

The ESB's version of the Congestion Relief Market was presented through the directions paper and through many public and private forums. The design of the CRM was not understandable from the directions paper alone and very few stakeholders have a clear understanding of the intricacies of the design. In addition, the proposed NERA quantitative modelling is yet to be released to stakeholders. We therefore suggest the ESB delay providing a recommendation to Ministers until after engaging with another round of consultation with stakeholders, which should include an opportunity to respond to the NERA modelling.

Transmission access reform is not a time critical reform, however it is a reform with high potential cost, and we therefore suggest that the time be taken to ensure that the reform is warranted and designed optimally. If investors do not have a clear understanding of how the access reform will work in practice, then the reform will likely raise barriers to entry, resulting in reduced competition and therefore be to the detriment of consumers.

Investment timeframe

AGL strongly supports the proposed enhanced information as a low-cost option to help reduce the risk of poorly located investment.

The ESB is also considering charging new entrants congestion fees or implementing a queuing system to mitigate congestion risk in the investment timeframe. We consider both these mechanisms to be unnecessary complications without clear benefits and they should not be adopted in the NEM. We suggest at the very least that the ESB needs to do further work to determine how these options might be implemented without causing connection or grandfathering issues. We consider a queuing system to be the least favourable option as we expect it would be more difficult and costly to implement.

If you have any queries about this submission, please contact Anton King on (03) 8633 6102 or aking6@agl.com.au.

Yours sincerely,

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