

20 August 2019

Mr John Pierce AO
Chair
Australian Energy Market Commission

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Ref EPR0073 – Coordination of Generation and Transmission Investment

Energy Consumers Australia appreciates the opportunity to comment on the Australian Energy Market Commission's (AEMC) *Coordination of Generation and Transmission Investment - Access Reform: Directions Paper* (the Paper) of June 2019.

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the Council of Australian Governments Energy Council in 2015, our objective is to promote the long-term interests of energy consumers with respect to price, quality, reliability, safety and security of supply.

The CoGaTI process is one of a number, such as the Integrated System Plan (ISP) and the Energy Security Board's Post 2025 Market Design process, that are seeking to ensure that the transition of the electricity system occurs in a way that maximises affordability for consumers without compromising reliability.

We note that the 'Step Change' scenario that is being included in the 2020 ISP will provide a view of the least cost pathway to a net zero carbon energy sector. As you know net zero carbon by 2050 is an objective already adopted by a number of State Governments. The cost impact of a lack of integrated energy and emissions reductions policies which leads to poorly timed investment cannot be borne by consumers as the sector transitions to increased renewables.

In this submission we note consumer priorities as revealed by our Energy Consumer Sentiment Survey together with the observations of consumer advocates who were briefed by AEMO staff. We generally support the development of locational marginal prices, but believe the AEMC needs to undertake more detailed modelling of the impact of this move and of the operation of Financial Transmission Rights before further development of the approach.

Consumer priorities

The consumer interest in the Coordination of Generation and Transmission Investment (CoGaTI) is motivated by the implications of uncoordinated investment in terms of price and reliability.

Uncoordinated investment may have one of three outcomes:

- It may result in there being sufficient generation to meet demand but if the electricity cannot be transmitted to the market, the result for consumers would be unserved energy.
- It may result in excessive transmission capability to serve load, the result for consumers would be excessive prices.
- If there is overinvestment in generation while at the same time there is sufficient transmission for the lowest marginal cost generators to serve load, there is neither unserved energy nor a price consequence in the short term. However, the longer-term consequences for investment would be negative for both.

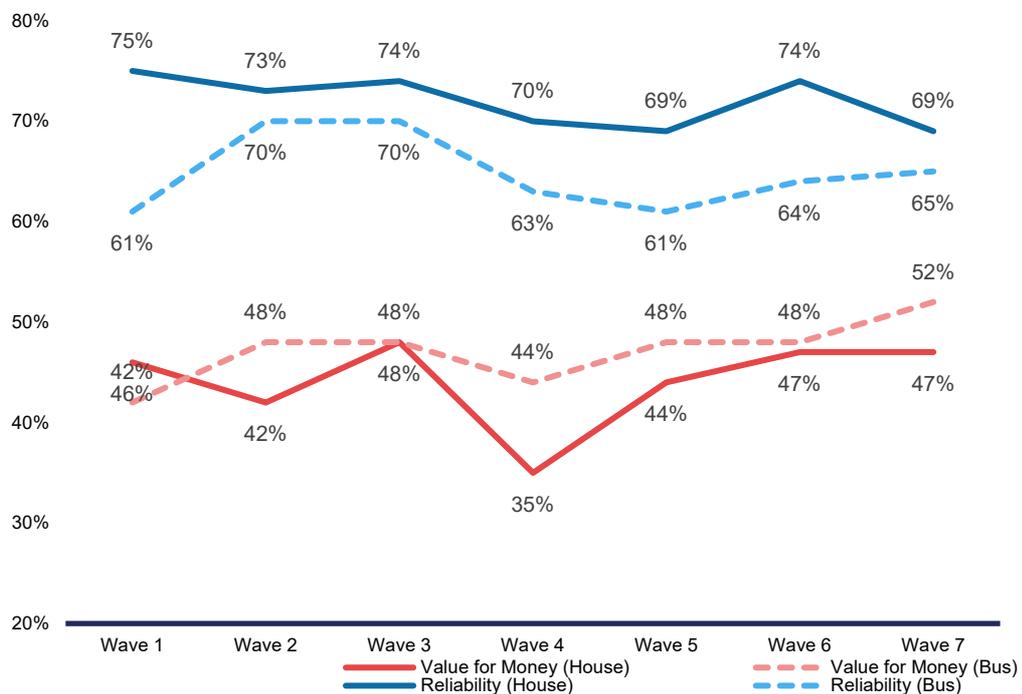


Clearly well-coordinated investment in generation and transmission optimises both reliability and prices.

Framing our consideration of CoGaTI is what consumers are telling us about energy services and priorities. The Energy Consumer Sentiment Survey indicates that affordability is their main priority. Figure 1 shows the response to questions about value for money and reliability over the seven waves of this research, (from early 2016 to late 2018) for both households and businesses:¹

- Value for Money
"How would you rate the overall value for money of the products and services provided by your electricity company in the last 6 months?" (% 7 out of 10 or higher)"
- Reliability
"Thinking about the reliability of your electricity supply, how satisfied are you with the number of times you've had loss of power, blackouts or other faults with your electricity supply in the past 6 months?" (% 7 out of 10 or higher)"

Figure 1: Consumer satisfaction with price and reliability



These survey responses demonstrate that consumers have significantly higher satisfaction with the reliability of electricity services than they do with price. The survey has also consistently shown that consumers rate the 'value for money' for electricity below that for all the other services (water, mobile phone, insurance and banking) included in the survey. We do not interpret this data as suggesting that consumers necessarily want a trade-off of lower prices for less reliability. We do, however, believe that

¹ <https://energyconsumersaustralia.com.au/wp-content/uploads/Energy-Consumer-Sentiment-Survey-Report-June-2019.pdf>



it provides strong evidence for being cautious in instituting mechanisms to increase (or maintain) reliability, given the cost implications for consumers.

In noting this preference of consumers, we do acknowledge that transmission constraints not only pose straightforward reliability issues (i.e. the need to shed load) but can exacerbate system security issues (in particular cascading instability which may require more extreme load shedding).

Consumer observations on the CoGaTI Directions Paper

Energy Consumers Australia would like to thank the AEMC staff who have made themselves available for additional consultation with consumer representatives. Arising from this engagement with consumers, the following broad propositions were advanced.

- The objective of better coordinating generation and transmission investment is welcome as is the acknowledgement that the materiality is now high and is getting higher. The CoGaTI work needs to be integrated with the requirements for reliability and resilience. Better use of demand response needs equal consideration.
- The recognition that not all risk should be borne by consumers should extend from only considering risk that can be borne by generators or transmission operators to also recognise that government can bear risk, especially when it is a beneficiary.
- Government subsidies for generation and/or storage are complicating the task of coordinating transmission investment, and consumers should not be bearing excess risk based on government intervention.

More specific areas of concern were also addressed. These were:

- CoGaTI is only looking at transmission connected resources. As there is now a lot of solar investment that is directly connected to distribution (and not in conjunction with load), does the move to marginal locational prices adequately address the coordination of this investment.
- The discussion of how hedging may or may not work is largely speculative. Consumers want to see robust modelled examples including modelling to test for gaming of the new arrangements. In particular consumers are concerned there is a 'back door' to reintroduce risk.
- There is uncertainty about what the implementation date entails, specifically would Financial Transmission Rights (hedges) be created for existing investments or only new transmission (that is, transmission that is constructed because of the ability to sell the rights).

Overall consumers emphasised the modelling and big-picture issues. To assist in this regard, we believe the AEMC should use the Energy Connect (NSW-SA Interconnector) project and associated expected REZ development to demonstrate how the proposed reforms would operate in this environment.

An additional technical question is whether the move to locational marginal pricing should see settlement based on the load weighted average locational marginal price rather than a continuation of a reference price based on a reference node. This would also appear to be a matter best addressed by modelling rather than simple discussion of principles.

Overall consumers do not want to be excessively involved in the detail, we believe industry and market bodies are better placed to do this. Consumers do want clarity of expected outcomes, and clarity that these expected outcomes are robust against investor and business strategies.



Conclusion

The coordination of generation and transmission investment is critical to ensuring the twin objectives of reliable and affordable electricity. In considering options the AEMC should note that consumers' priority is in getting prices down.

We encourage the AEMC to identify the circumstances in which Government investment in transmission may be warranted as a means to assign risk to a party best capable of bearing and managing the risk. This is particularly relevant for transmission investment to service Renewable Energy Zones, where Government has other instruments (e.g. planning approvals, contracts for supply) that could ensure that the transmission is eventually fully utilized by generation built in the zone.

Thank you for the opportunity to contribute to the consideration of this important topic. Please do not hesitate to contact David Havyatt, Senior Economist, on 02 9220 5500 or david.havyatt@energyconsumersaustralia.com.au, if you would like to discuss this submission further.

Yours sincerely,

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