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Ms Anna Collyer

Chair

Energy Security Board

Submitted via email: info@esb.org.au

14 June 2022

Dear Ms Collyer,

AGL Energy (AGL) welcomes the opportunity to comment on the Energy Security Board's (ESB), Transmission Access reform consultation paper.

AGL is a leading integrated essential service provider, with over 180 years' experience of innovation and a passionate belief in progress –human and technological. We operate the country's largest electricity generation portfolio, are its largest private investor in renewable energy, and provide over 4 million electricity, gas, and telecommunications services to our residential, small, and large business, and wholesale customers.

AGL acknowledges that congestion may become a more significant issue in the National Electricity Market (NEM), in future years and supports the ESB's view that an efficient market mechanism may be needed to ensure co-ordinated investment in generation and transmission. However, AGL does not consider that this to be a significant challenge in the medium term (i.e., over the next 10-15 years). While it is well known that new generators being connected in the NEM over the last decade have often faced some network constraints, the improvements in access to important system information combined with the Integrated System Plan, Renewable Energy Zones, and the recently announced Labor party's Rewiring the Nation policy that will invest approximately \$20 billion dollars to build out the ISP would alleviate many of the short term issues that were identified by the ESB in their project initiation paper.

AGL suggests 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 still congestion issues that require immediate attention. If the ESB determines that there are significant congestion issues in the longer term, then AGL would suggest that the ESB directly implement a Locational Marginal Price (LMP) with Financial Transmission Rights (FTR) mechanism and focus efforts on the allocation of FTR and the rules on the grandfathering of current generation. AGL suggests that the ESB further explore the LMP/FTR model mechanism together with the models outlined in the consultation paper for further analysis, as AGL believe that this mechanism may be the most efficient market mechanism and potential solution to meet the ESB's concerns and objectives.

AGL appreciates the ESB listening to industry feedback by removing the CMM REZ adaptation design from consideration as AGL believes that this model would have caused market inefficiencies. The ESB's CMM model is based on a universal rebate mechanism and until this is properly quantified and further detail has been given on it, we are unable to comment on its effectiveness.

Please find below specific comments on each of the models presented in the ESB's consultation paper.

Congestion Zones with Connection fees:

AGL considers that this high-level model's design needs further investigation to determine what the congestion forecasts and associated fees would be for all of the three transmission processes featured in the consultation paper i.e., the development of a transmission statement of opportunities; the use of a traffic light system to signal the level of available hosting capacity and leveraging state-based planning documents. AGL is



supportive of greater accessibility to planning information as we move towards a market with a higher proliferation of VRE. The information available to stakeholders that sets out clear locational signals is a helpful first however the way these locational signals are modelled, developed and the associated cost allocation is a complex process that is quite opaque. Should this model include a locational fee (aligned with the ISP or congestion forecasts), this may complicate forecasting of congestion in the longer term by confusing the location signals.

In addition, this model suggests charging the new entrants a long-term congestion cost. This is calculated based on the expected long term location marginal price (LMP) and participation coefficient of new entrants in the constraints. This additional cost of capital is then used to incentivise new entrants to install their capacities in locations causing minimal congestion on the line. AGL believes that due to the inherent uncertainty in the calculation and forecasting for long term congestion costs, this congestion cost should only be calculated over a period of 4 to 5 years. AGL does not believe that allowing for congestion cost exemptions for incumbents will assist in alleviating congestion and will more likely just transfer the costs from the incumbents to customers which is not a desired outcome.

Transmission queue:

AGL does not support this use of this model. AGL would prefer the use of the access fee model from the investment timeframe as it calculates the costs based on a simulation of expected LMP. Although AGL agrees that the modified version of queuing model has improved this model compared to its original version, there are still lots of uncertainties. In particular these relate to the queuing position to dispatch and ensuring that the expected additional surplus for priority access holders in the dispatch is equal to the expected congestion cost (auction price) in investment timeframe among the three suggestions put forward. In addition, allocating long term queuing rights for more than a period of 4 to 5 years may result significant inefficiencies due to uncertainties in forecasting long term congestion costs. AGL believes that allocating priority rights to incumbents will also more likely just transfer the costs from the incumbents to customers which is not a desired outcome.

Congestion Relief Market (CRM):

AGL does not have any significant comments on this model but note that a formal cost benefit study should be undertaken to understand the implementation costs for this model and the actual benefit returned.

CMM with universal rebates:

AGL does not support the use of this model at this time as there is significant uncertainty about how the rebates will be calculated and AGL believes that the expected rebate that generators receive in dispatch needs to be equal to the expected congestion costs that they pay in the investment time frame.

In conclusion although open access reform may become a significant issue in the long-term, AGL is still not convinced that a change to the current open access regime is essential right now. There are many other ESB processes and AEMC rule changes currently on foot that will positively impact the energy market. AGL believes those should be prioritised over a reform of open access at this time.

Please contact Marika Suszko, Wholesale Regulatory Manager on msuszko@agl.com.au should you have any questions or queries about this submission.

Yours sincerely,

Elizabeth Molyneux

General Manager Policy and Markets Regulation, and Sustainability