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Anna Collyer
Chair
Energy Security Board

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Energy Consumers Australia response to transmission access reform Consultation Paper

Dear Anna

We appreciate the opportunity to provide comments on the Transmission Access Reform Consultation Paper (the Consultation Paper) and apologise for the lateness of our submission. Our consultant David Heard's (Finncorn Consulting) submission should be read as expert evidence supporting our views.

Energy Consumers Australia is the national voice of Australia's residential and small business consumers. Our research consistently demonstrates that consumers' first priority for their energy service is affordability. Accordingly, we are focused on improving the efficiency of the electricity network and supporting the early and effective implementation of Transmission Access Reform.

In our view well-designed transmission access reform will reduce the need for unnecessary investments in transmission and generation, incentivise the location and optimal investment in storage capacity and reduce future total system costs, which ultimately will be passed through as savings to consumers. As consumers directly pay for the network – while generators and renewable developers do not – they have a stronger interest in all capacity in the grid being efficiently planned and operated.

Effective transmission access reform:

- aligns with the Integrated System Plan,
- provides clear, transparent prices to improve investment and operational decisions, and
- offers market-based signals to build the energy storage the system needs.

Energy Consumers Australia supports the Congestion Market Mechanism (CMM) and Connection Zones with Connection Fees options in the Consultation Paper because they will deliver the benefits that effective transmission access reform offers.

Rationale for our position

As the energy system transitions towards greater shares of renewable generation and increased use of electricity in transport and heating, the physical network that transports electricity becomes increasingly important. Today, the physical network accounts for 50% of the cost of delivering electricity and 50% of residential and small business consumer electricity bills (AEMC, Residential Electricity Price Trends, Nov 2021).

Three signs point to increases in electricity network expenditure in the years to come:

- a longer and larger transmission network connecting distant renewables to population centres;
- a more robust distribution network connecting more electric appliances (replacing fossil fuel gas for heating and cooking) electric vehicles, rooftop solar and local storage; and
- rising costs of capital.

We also note that the ageing of a number of the electricity distribution networks will also increase future expenditure and system costs.

These increasing costs will be paid for by all consumers. While low-cost renewables offer opportunities for meaningful cost savings in fuel costs relative to fossil fuel generation, an over-built and inefficiently operated network can compromise those savings leaving consumers paying more for electricity than is required.

Australia's transmission network is demonstrably inefficient, compared with its international counterparts. Unlike markets in New Zealand, the United States, Europe, most recently in the United Kingdom elsewhere, generators in the National Electricity Market (NEM) are unconcerned with the amount of congestion on the transmission network when they bid their energy, as it makes no difference in how much they are paid. More efficient markets overseas provide clear, transparent signals of the marginal price of energy at the closest transmission node – a concept known as locational marginal pricing. By contrast, in the NEM, all generators in each state that are dispatched receive exactly the same price (in \$/MWh), even if the demand in their local transmission node is a fraction of the energy supply available. In such instances, the transmission network becomes congested with more supply than is required to meet demand – but electricity prices received by such generators do not reflect it. This inefficiency raises prices for consumers, artificially increases the need for more transmission capacity than otherwise and eliminates market-based signals to promote the efficient location and operation of energy storage and other sources of flexibility that a high-renewables system requires.

As the enclosed submission from Finncorn Consulting makes clear, we support the Congestion Management Model with universal rebates (CMM) and Connection Zones with Connection Fees, because both provide transparent pricing of congestion via exposure to locational marginal pricing. The operational and investment timeframe price signals are likely to be very effective. Of the options outlined, CMM and Connection Zones with Connection Fees are the ones that will most effectively utilise the new and existing transmission network, allowing the system to deliver more efficiently for consumers.

The CMM model also best supports a vibrant market for new entrant storage and flexible load, by offering a clear and reliable price signal about the local value of electricity at the margin. This is critical to the long-term interests of consumers.

As Finncorn's submission states:

“efficient, competitive markets are essential to ensure the lowest-cost system eventuates AND that the benefits of this are passed through to consumers, not retained by investors or intermediaries as excess return.”

Importantly, such approaches would much more closely align generation location and dispatch with assumptions made about how the market operates in the Integrated System Plan (ISP). Both the status quo and the Congestion Relief Market (CRM) with a Transmission Queue options do not well align with the assumptions made by the Australian Energy Market Operator (AEMO) in the Integrated System Plan (ISP). The ISP is a critically important process for the electricity system transition. If consumers and government are going to trust and support investment in its infrastructure recommendations, the market design needs to reflect the transparent price signals that the ISP assumes are necessary to a least cost investment pathway.

Through engagement with industry in and outside the Energy Security Board's Technical Working Group, it is clear that while consumer advocates want transparent, market-based pricing incorporated into Transmission Access Reform, it appears that as a group industry representatives do not. The "Transmission Queue" option provides no price signal, and the CRM has been designed as a voluntary mechanism, meaning that whatever price signals it may produce are in no way binding, and in many cases may not even exist.

An inefficient market design that requires more transmission than necessary to be built does not impact the bottom line of generators, retailers, or developers whatsoever. An inefficient network that has no congestion is bad for those that pay for the transmission system, but good for the generator that relies on that transmission to get their electrons to market, just as a highway with no traffic is bad for those who pay for building the road, but good for the individual driver.

We are concerned that industry stakeholders appear to be misreading of Labor's *Rewiring the Nation* policy, and are increasingly arguing that the willingness of government to shoulder some of the necessary investment in transmission undercuts the need for Transmission Access Reform. This argument assumes that taxpayers somehow want an underutilised transmission network and are assumed to be willing to bear the additional cost. Regardless of who pays for network upgrades – the existing network has been and is being paid for by consumers – our electricity infrastructure needs to be efficiently operated. While developers are promoting a more efficient regulatory test for transmission investments, they are at the same time advocating against more efficient operation of the transmission system that would produce a similar outcome: enabling more, low-cost renewable energy to get to market more quickly.

In closing, it is important to recognise that the current Transmission Access Reform process builds on years of previous efforts to improve the existing transmission access regime. The CMM and Connection Fees approach represent a significant compromise of value from consumers to industry already, particularly relative to the Locational Marginal Pricing with Financial Transmission Rights option that was originally promoted by the Australian Energy Market Commission and supported by Energy Consumers Australia. Consumers deserve the infrastructure they pay for to be efficient in both its scale, scope, timeliness and its operation; Australia's transmission regime needs to join the growing number of international markets that include transparent pricing to effectively allocate limited network capacity.

We look forward to further engaging with the Energy Security Board to progress transmission access reform, that is demonstrably in the long-term interests of all consumers including households and small, medium and large businesses. Should you have any questions or require clarification, please contact Brian Spak at brian.spak@energyconsumersaustralia.com.au.

Yours sincerely,



Lynne Gallagher
Chief Executive Officer

cc: Jess Hunt, jess.hunt@esb.org.au