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Anna Collyer
Chair
Energy Security Board
Submitted by email to: info@esb.org.au

Energy Consumers Australia's submission to the Energy Security Board's Transmission Access Reform Directions Paper

Dear Anna,

Thank you for providing an opportunity to share our perspectives on the most recent Directions Paper. We have contracted Finncorn Consulting to provide detailed comments on our behalf, and you should consider their comments to be expert evidence in support of our submission.

As you know, Energy Consumers Australia is the national voice of residential and small-business energy consumers. We regularly asked consumers about their expectations, values, and needs, and when we ask them about what their priority is in the energy transition, they consistently rank affordability higher than any other issue. In our most recent survey in December, affordability was three times more likely to be identified as the top priority relative to the second choice (a rapid transition to renewable energy).

This focus on affordability is the primary reason why we remain focused on Transmission Access Reform. This reform is crucial to ensuring the market is designed in a way that aligns with the Integrated System Plan and that the market appropriately signals the right combination of new renewable energy generation, new storage and firming resources, and new transmission. If we design the market incorrectly, we will get more transmission, renewables, and storage than are required, and consumers will pay more. We will take longer to achieve our greenhouse gas emission reduction commitments than anticipated, and we will further erode consumer trust and confidence in the market.

While much of the future of the energy system is difficult and uncertain, a unique aspect of Transmission Access Reform is that there is little debate about which approach is best and most consistent with the National Electricity Objective. Locational Marginal Pricing with Financial Transmission Rights was identified several years ago as the first best policy approach. It provides the most benefits to consumers and uses market forces to properly place risk of congestion on the developers and generators who are best positioned to manage it. Other countries around the world use this market design, and many of those countries enjoy a significantly better environment for renewable energy investment than Australia.

In fact, Locational Marginal Pricing is used throughout the organised electricity markets in the United States, and the Clean Energy Investment Group has stated that "the Australian market [for clean energy investment] is risky and attracts a higher cost premium…the cost of capital is higher in Australia compared to…the US."[1] Along with several other nations, Chile also uses Locational Marginal Pricing. Chile was recently identified as "the most attractive country for investment in renewables" among emerging markets and the ninth best market overall. (Australia ranks 28th.)[2] Any industry argument suggesting that investment in renewable energy will dry up in response to a mandatory locational pricing signal needs to explain why clear evidence shows that markets with locational pricing are better placed to attract investment with low costs of capital than Australia.

As we have explained to the Energy Security Board several times, we are willing to negotiate with industry on this reform and have offered the Congestion Management Model as a reasonable middle-ground. It establishes a mandatory market for congestion management, and yet takes the extra revenue due to transmission congestion – which exists because of the transmission network that consumers pay for – and allocates that revenue back to industry. This is an enormous concession that would provide a perpetual revenue stream back to generators away from consumers.

We continue to believe that any mandatory market leveraging the existing Locational Marginal Prices already used in the National Electricity Market's dispatch engine is a much more reasonable and intelligent policy solution than the Congestion Relief Market (CRM). The CRM is a "Rube Goldberg machine" of a market design: it is overly complicated and complex in order to act as a voluntary market. It will cost much more to implement and will be more difficult to operate. If few generators participate – and there is no clear evidence that many will – it may not actually achieve any meaningful reform. The ESB has identified several serious design flaws within the CRM relating to disorderly bidding and creating new perverse incentives for poor investment decisions.

The clear, though unstated rationale for supporting the CRM relative to the Congestion Management Model or other versions of a mandatory congestion mechanism is because there is industry support for the CRM. A more balanced approach for the next step in reform may be to compare the Congestion Management Model and the Congestion Relief Market with an investment timeframe approach against one another, highlighting their benefits and costs – both quantitively and qualitatively, including the support of industry for one model and consumers for another.

[1] Clean Energy Investment Group, Unlocking low-cost capital for clean energy investment, Clean Energy Investment Principles, August 2021

[2] Bloomberg New Energy Finance, *ClimateScope*, November 2022, available: https://global-climatescope.org/

Clearly and fairly articulating the strengths and weaknesses of these two approaches may be a more fair and effective way of making progress on this contentious reform. It would position the ESB as primarily presenting evidence to Ministers. Such an approach would also help focus stakeholders on ensuring that the ESB has accurately represented the design features, strengths, weaknesses, and costs and benefits of the various approaches, rather than on choosing one model against another – or pushing to delay reform altogether. If the preference for one model against another primarily relates to stakeholder management or industry (or consumer) support, let that be clearly stated so that Ministers can make a clear decision with the best and most complete information before them.

Nevertheless, given the urgency of this reform and the limited resources of the ESB and stakeholders, the most effective use of the remaining time to recommend a solution is making sure that we put in a place a smart, durable market design that can operate safely and definitively address the problems with the status quo that the Direction Paper does such a good job at identifying. For these reasons -- and many more articulated in Finncorn's submission -- we support a mandatory approach to congestion management, such as Locational Marginal Pricing with Financial Transmission Rights or the Congestion Management Model.

Again, thank you for the opportunity to provide feedback on the Directions Paper and for your on-going efforts to progress reform in this critical, though contentious policy area. If you have any questions or concerns, please feel free to contact me.

Yours sincerely,

Brian Spak
Director, Energy Systems Transition