

19/10/2020

Dr Kerry Schott AO
Independent Chair
Energy Security Board

Lodged via email: info@esb.org.au

Dear Kerry

TransGrid response to the Post-2025 market design consultation paper

TransGrid welcomes the opportunity to respond to the Energy Security Board's (**ESB's**) consultation paper on the post-2025 market design project.

TransGrid is the planner, operator and manager of the high voltage transmission network connecting electricity generators, distributors and major end users in New South Wales and the Australian Capital Territory. Our network is also interconnected to Queensland and Victoria, and is instrumental to an electricity system that facilitates reliable, competitive and affordable electricity supply for consumers.

Australia is in the midst of an energy transition. It is critical to evolve the market frameworks in the National Electricity Market (**NEM**) to maintain the delivery of affordable and reliable electricity to consumers throughout the transition. We therefore support the work of the ESB to evolve the NEM market frameworks so it is fit for purpose for the future.

Approach to consultation

We note that the ESB has effectively ruled out a number of options from further consideration, including a capacity market and a compulsory ahead commitment market. These options could have posed significant risks for investment in new generation projects, and consequently for investment throughout the electricity supply chain.

The "ruling out" of these options is a welcome signal that the ESB's approach will support ongoing and needed investment in the energy supply chain throughout the period to 2025 and beyond. We urge the ESB to continue to provide information to the market on the evolving scope of proposed framework changes in a timely manner to support investment certainty.

Central role of transmission

The transmission system plays a central role in the transition of the power system. Throughout the transition, a well-planned and coordinated transmission system will facilitate the delivery of clean, reliable and low cost electricity to consumers.

A recent positive reform to the regulatory framework has been the new rules for the development of the Integrated System Plan (**ISP**) and the actioning of this Plan by the Australian Energy Market Operator (**AEMO**). In the ISP, AEMO identifies major transmission projects on the optimal development path for the NEM (**ISP projects**) that are critical to enable the energy market transition and ensure the power system meets its security and reliability requirements, at the least cost to consumers.¹

¹ AEMO, 2020 Integrated System Plan, July 2020, p. 8.

The ISP projects in NSW include Project EnergyConnect,² HumeLink³ and the upgrade to the Victoria New South Wales Interconnector which require an unprecedented level of capital investment. TransGrid understands the importance of ensuring that the ISP projects proceed for the benefit of consumers. We follow industry best practice competitive procurement processes to achieve the best price for the detailed design and construction of the projects in the market and all of our project costs are subject to rigorous scrutiny by the Australian Energy Regulator under the economic regulatory framework.⁴ In order to make this investment, TransGrid has submitted a rule change request to the Australian Energy Market Commission (**AEMC**) on 30 September 2020 to ensure the financeability of the ISP projects.⁵

TransGrid also supports the ESB's work to create renewable energy zones (**REZs**). In addition to actioning the ISP, the creating REZs is critical to facilitate the transition of the energy system in the lowest cost way for consumers. The benefits of scale efficient transmission to open new areas of high value renewable energy resources are well established and articulated in the ESB's consultation paper on the REZ planning reforms.⁶

Essential system services

TransGrid supports the creation of new system services that are required to manage the transition of the power system. Some of these services can be provided by market participants (e.g. ramping, energy reserves and fast frequency response). Valuing these services separately from the supply of bulk energy will ensure they are factored into investment and operational decisions, allowing the lowest cost of supply for each service.

Some other system services are not efficiently provided by market participants due to their physical characteristics. These services are more appropriately characterised as network services. This includes system strength and backstop inertia services. The jurisdictional transmission planner and operator is best placed to plan, procure and deliver cost effective and secure system strength services due to:

- > the existing jurisdictional planning functions and joint planning relationships which facilitate the ability to co-optimize with the provision of other services (such as thermal capacity and inertia); and
- > the oversight by the Australian Energy Regulator to ensure any expenditure is prudent and efficient through the existing economic regulatory arrangements.

The current arrangements to support system strength on the power system require urgent attention. The ESB should work closely with the AEMC to address this issue through the rule change proposals currently before them.⁷ Those rule changes should be enduring and not require further reform under the post-2025 market design program.

We appreciate the opportunity to make this submission. If you would like to discuss this submission, please contact Caroline Taylor, Head of Public Policy, on 02 9284 3715 or 0427 876 611.

Yours faithfully

Eva Hanly
Executive Manager, Strategy, Innovation & Technology

² A 330KV interconnector between Wagga Wagga in NSW and Robertson in South Australia.

³ An interconnection project to support the Australian Government's hydroelectric development know as Snowy 2.0.

⁴ Specifically, in the case of the ISP Projects, the contingent project approval process under rule 6A.8 of the National Electricity Rules.

⁵ See: <https://www.aemc.gov.au/rule-changes/participant-derogation-financeability-isp-projects>

⁶ See: <http://www.coagenergycouncil.gov.au/publications/energy-security-board-renewable-energy-zones-planning-consultation>

⁷ See: <https://www.aemc.gov.au/rule-changes/efficient-management-system-strength-power-system>