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*John* November 2019

John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

By email: [John.Pierce@aemc.gov.au](mailto:John.Pierce@aemc.gov.au)

~~Dear Mr Pierce~~

*John*

**Coordination of generation and transmission investment – proposed access reform model**

Thank you for the opportunity to comment on the Australian Energy Market Commission's (AEMC) discussion paper outlining the proposed model to implement dynamic regional pricing and financial transmission rights.

The AEMC's paper highlights that the National Electricity Market (NEM) is in a period of transition, particularly with regard to the changing mix and characteristics of generation technologies. Australia is also facing a serious affordability challenge in relation to electricity costs. High prices and bills have placed enormous strain on household budgets and business viability. As you know, the Australian Competition & Consumer Commission (ACCC) is currently conducting a public inquiry to monitor the prices, profits and margins in the supply of electricity in the National Energy Market (NEM).

The ACCC supports the reforms proposed by the AEMC. We support both the introduction of more granular pricing to improve price signals and the introduction of financial transmission rights, a consequential risk management mechanism for market participants. More broadly, we support the aims of these reforms to deliver a more efficient operation of, and investment in, generation and storage assets.

The ACCC considers this review to be an important piece of work that has the potential to have a long-term impact on the market and affect all types of market participants. In light of this, it is crucial that both the design and implementation of these reforms are considered and executed carefully.

While we broadly support the direction of the proposed changes, we would like to emphasise the importance of considering the implication of these reforms on competition and consumers.

We acknowledge that the AEMC intends to undertake specific impact analysis to determine the significance of market power considerations under dynamic regional pricing. We believe this analysis is critical as even short-lived incidents of market power in an energy only market have the potential to significantly increase end prices for consumers.

We also acknowledge that the auction of financial transmission rights are an important component of these reforms, but note that many details of the auction design are still to be worked through. We consider the auction design to be crucial. An inappropriate design could give rise to hoarding of the transmission rights, or be used anti-competitively to drive up the cost of entry for prospective new generators. We consider that the auction design should aim to promote certainty for participants while still allowing scope for new entrants.

The ACCC's specific role in the electricity market is to examine the operation of the NEM from the standpoint of affordability. We found in our most recent report that energy affordability continues to be a key concern for Australians, with households and businesses having felt the pressure of rising energy costs for a number of years. We understand that the AEMC's reforms aim to improve the efficiency and effectiveness of the wholesale market and we are concerned to ensure that the benefits flow through to end customers. In keeping with this intention, we support the AEMC explicitly considering the impact of these reforms on affordability for end users.

We look forward to the AEMC's work in this important area.

If you have any questions in relation to this submission, please contact Lyn Camilleri, General Manager Electricity Markets Branch, on (03) 9290 1973.

Yours sincerely

A handwritten signature in black ink, appearing to read 'RS' followed by 'i ms'.

Rod Sims  
Chair