

NSW Department of Planning, Industry and Environment

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**Submission to NSW Department of Planning, Industry and Environment Infrastructure
REZ Access Rights and Scheme Design: Central-West Orana Consultation paper**

The Australian Energy Council (AEC) welcomes the opportunity to make a submission to the NSW Department of Planning, Industry and Environment (DPIE) Infrastructure REZ Access Rights and Scheme Design: Central-West Orana Consultation paper (Consultation paper). The AEC would also like to acknowledge the high level of consultation and professionalism of the DPIE staff.

The AEC is the industry body representing 20 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the majority of the electricity in Australia, sell gas and electricity to over ten million homes and businesses, and are major investors in renewable energy generation.

Section 1. Access at a glance

1. *What details should an access scheme declaration include to provide clarity and certainty for the access scheme?*

The AEC considers the details as set out in pages 49-51 of the Consultation paper to be adequate at this stage of the process and if it becomes apparent that additional information would be beneficial that could be implemented at a later date.

2. *What continuous or regular reporting information will be required to enable proponents to mitigate the risk of any New REZ Infrastructure delay?*

Proponents should be provided with regular project updates either monthly or quarterly depending on the length of the construction period. This reporting could utilise a traffic light style of approach. Furthermore, if the builder of the REZ identifies a serious delay proponents should be notified immediately.

In the case of significant delays that are due to REZ builder's negligence or incompetence there should be measures in place to allow for compensation to be paid to proponents. In essence the REZ builder should be the only party exposed to the financial risk of construction delays.

Section 2. Staying connected: allocation approach in detail

3. *What aspects should be considered in setting the time periods for the Project Maximum Capacity Profile?*

The AEC is broadly supportive of the proposed approach for setting the maximum capacity profile and notes that a physical access regime requires this approach. The AEC believes the approach could be improved by incorporating seasonality recognising the varying length of daylight.

4. *What approach should be taken to implement the Project Maximum Capacity Profile?*

Of the three approaches on page 20 of the Consultation paper either would appear effective if there is only one level of access, the AEC does not have any strong preference and will leave it to its members to comment on them in their submissions.

However, if there are multiple levels of access, then the amount of capacity presented to the dispatch algorithm is necessarily co-dependent, i.e. the capacity for the subordinate rights will need to be reduced that capacity available after the first tier's availability has been accounted for. In this case, bespoke software becomes necessary that will centralise all the projects' bids.

5. *Are there any unintended consequences of introducing a Project Maximum Capacity Profile, including implementation and/or operation implications?*

One challenge is that if a generator is generating below its maximum capacity profile, for example due to cloud cover on a solar generator, then another generator who is capable of generating above its maximum capacity profile (say a wind generator that has purchased only overnight access) will still be restricted and as a result the line will be inefficiently underutilised. This is a known inefficiency of a physical access regime.

It can be partially moderated by enabling two tiers of physical access, which is discussed later in the consultation paper.

6. *Does the approach to modifications to Project Characteristics pre- and post-project commissioning allow for sufficient flexibility?*

The AEC believes there should be an opportunity for a proponent to appeal a decision of EnergyCo NSW. Also as was raised in the forum (7 February 2022), consideration should be given to allow proponents to trade their capacity rights with one another.

7. *What factors will drive a project's decision to materially modify its Project Characteristics?*

No comment

8. *What additional factors should be considered when calculating the Project Expected Capacity Profile for a project?*

The AEC believes the approach for calculating project expected capacity profile as set out on page 22 of the Consultation paper is appropriate ie, “consistent with existing approaches”. However, as VRE forecasting techniques improve over time these should be incorporated in the assessment process. Also as noted in our response to Question 3, seasonality should be included.

9. *How should the Project Expected Capacity Profile of a storage or hybrid project be calculated?*

The AEC agrees with the approach set out in the Consultation paper, ie, standard AEMO and industry practice.

10. *Does the target transmission curtailment level provide value to proponents?*

The AEC supports the application of a specific non-zero curtailment target. The critical factor is that the methodology for determining the curtailment level is sound. However, more information on inputs and assumptions would be useful.

11. *What additional considerations are relevant to setting the target transmission curtailment level?*

The curtailment target appears to be for system normal conditions. If possible, it would be valuable to include a probabilistic outage rate on the REZ network assets in the modelling. A benefit of setting a finite curtailment target is that actual curtailment can be tracked against it and variances investigated.

12. *What additional considerations are relevant when forecasting if the target transmission curtailment level has been met or exceeded at the end of Allocation 1?*

a. *Should there be regulator oversight of the decision?*

The AEC believes there is no need for regulatory oversight if the methodology is sound.

13. *Does the proposed allocation approach:*

a. *allow an efficient level of generation and storage projects to connect above the transfer capacity of the REZ?*

b. *improve investor certainty for curtailment risk of their projects?*

The AEC is broadly supportive of the allocation approach as it appears to a well thought out and logical process for allocation of physical rights. However, the AEC does not understand why stand-alone short duration (ie under 8hrs) storage projects are unable to participate in Allocation 1. The AEC believes it would be better to let the market determine the optimal mix. The purpose of the REZs is to accelerate renewables and long-term storage investment,

however short duration storage should complement and facilitate this objective and therefore should not be disadvantaged in the access right scheme. Further clarification from DPIE on this matter would be helpful.

14. *Does the proposed access right duration suffice for projects to reduce curtailment risks across its asset life?*

No comment

15. *Are there high-level elements regarding the interaction of the LTESA and REZ access right allocation processes that need to be regulated?*

No comment

16. *What are the primary considerations for a framework for subordinate access rights to ensure they do no harm to existing access right holders?*

The AEC is supportive of subordinate access rights that do no harm to existing access right holders. Subordinate access rights will improve network utilisation and the AEC is also supportive of them being tradeable which will help proponents manage their risk and improve the scope for adequate returns on their investments.¹

17. *What is the materiality of leaving in-REZ storage projects exposed to the potential for negotiated use-of- system charges related to the cost of shared network services up to the boundary point of the REZ?*

a. *Should additional measures be considered to address the uncertainty a negotiation process introduces?*

The AEC has concerns with storage projects having to seek a negotiated shared transmission service with TransGrid. In this situation the monopoly TNSP has all of the bargaining power and may have interests which conflict with conducting a reasonable negotiation process. The only other alternative for storage is to receive a prescribed transmission service and be subject to TUOS charges, which is an undesirable outcome for storage projects.

Section 3. Staying connected: streamlined connection process

18. *Which negotiated standards are often agreed during the connection process for generation and storage projects?*

a. *Are there any concerns or unintended consequences that arise from removing the option to negotiate Generator Performance Standards?*

¹ Consultation paper, p28, Footnote 31

Clearly there may be unintended consequences by removing this option. However, one of the key objectives of REZs is to streamline the connection process and ensure that NSW is able to meet the statutory requirements of the Act. Furthermore, if there is an adequate level of proponents that are prepared to meet the standards then proponents that are unable to meet these standards should not be allowed to hold up the process. If there is an inadequate level of proponent interest, then the option of negotiation may be necessary.

19. *Will the streamlined connection process, as currently proposed, provide developers with improved certainty of timeframes and technical requirements?*

a. *Will it minimise the amount of power system modelling required?*

The AEC considers the process outlined in Consultation paper will provide additional certainty for proponents. With respect to reducing power system modelling requirements we are uncertain.

20. *What level of risk or uncertainty is introduced by:*

a. *removing the option for system strength self-remediation for proponents when connecting to the REZ Scheme Network?*

b. *leaving any future system strength requirements for the REZ Scheme Network to the National Electricity Rules which opens the possibility that access right holders will be liable for future incremental system strength requirements?*

No comment.

21. *How will a centralised storage facility interact with an access scheme and will this provide value to access right holders?*

a. *Should it operate only where it benefits REZ projects or in the best commercial interest with the profits shared between invested parties?*

b. *Should funding a centralised storage facility be a network augmentation option for the creation of an Allocation 3 access right?*

The AEC understands that large scale long duration storage may need to be commissioned in a co-ordinated manner and ultimately may require governments or the government owned corporations to undertake these projects. However, this approach should only be adopted where the competitive market has failed to deliver a viable storage option.

The AEC is of the view that the allocation process should ensure an adequate mix of generation and storage to support the REZ and does not agree that it should be a network augmentation as part of Allocation 3 rights as it may violate the 'do no harm' principle for access right holders

22. *What would be the impact of the REZ Network Operator either providing or facilitating connection assets for access right holders?*

No comment

Section 4. Access scheme control mechanism

23. *What is your view on the materiality of the impact of Category C and D projects on REZ projects?*

The AEC is supportive of the proposal to effectively sterilise part of the shared transmission network surrounding a REZ where a connecting generator or storage facility would impair the participants with the REZ. However, we do not have a view on the materiality.

24. *Which of the two proposed options are preferred to manage connections to existing declared network infrastructure for Category C and Category D Projects?*

The AEC's preference is for Option 2 as it maintains the 'do no harm' principle. The AEC believes this is fundamental for the objective of reducing the risks for access right holders.

25. *Does the cut-off date for the application of the access control mechanism provide sufficient certainty to projects currently under development?*

No comment

Section 5. Setting and usage of access fees

26. *What is an appropriate format and quantity for access fees?*

The AEC concurs with the thinking presented in pages 43-46 of the Consultation paper and notes the risk and cost trade-offs depending on the approach adopted. The main point we would reiterate is providing proponents with cost certainty. One possible approach would be to offer proponents alternative cost recovery mechanisms as set out in Table 6 of the consultation report.

The AEC notes that if the access fee is clear and predictable, then all applicants will take that into account when developing financial models for bidding their LTESA parameters. LTESA parameters set the lifetime subsidies paid to the project by the NSW customer. Hence the total exposure of NSW customers to the combined cost of the LTESA and REZ should be the same regardless of the REZ access fee. Thus, the quantity of the REZ fee is perhaps less important as is suggested in the Consultation paper.

27. *Should this recover a component of the REZ network infrastructure costs?*

The AEC would prefer that REZ, as a network extension dedicated to new generators, was paid for by those new generators in return for access rights to it. However, noting the comment above, the access fee will re-appear in the customer subsidies incorporated in LTESA parameters, so the actual share is not critical.

On balance, for the purposes of making the split of costs transparent, the AEC suggests the access fees be set to provide full REZ asset cost recovery. There is no concern about such an access fee resulting in under-utilisation of the REZ as any access price will be recovered through projects bidding up LTESA parameters.

28. *How should regulations prescribe the minimum and maximum amounts or proportions for the community and employment components of the fee?*

The AEC considers these social objectives belong on-budget and should not be paid for to electricity consumers as would occur by diverting funds from the REZ access payment.

29. *What other principles should be prescribed by the regulations for AEMO Services to consider when setting the access fees?*

No comment

Section 6. Changing regulatory environments

No comment.

Any questions about our submission should be addressed to Peter Brook, by email to peter.brook@energycouncil.com.au by telephone on (03) 9205 3103.

Yours sincerely,



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