



12 February 2021

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Energy Security Board

Submitted via email: info@esb.org.au

Renewable Energy Zones – Stage 2 – Consultation Paper

Alinta Energy is an active investor in energy markets across Australia. With an owned and contracted generation portfolio of nearly 3,000MW and more than 1.1 million electricity and gas customers, we have a strong interest in transmission access reform and the development of REZ across the NEM.

Alinta Energy welcomes the opportunity to respond to the ESB's consultation paper, which outlines its proposal for a REZ access and operations framework. We understand this policy proposal forms an initial step towards an enduring solution for transmission access in the NEM. We support the ESB's decision to postpone implementation of major transmission access reforms in favour of smaller steps and a closer look at the coordination of state-based REZ developments.

Broadly, we support the concept of REZ and the benefits it can provide to local communities and the grid, by incentivising the co-location and coordination of renewable generation and storage investments. While this does provide some logistical and technical challenges associated with development, environmental, economic and social approvals, the overall scale-efficiency of connection/construction and creation of many local jobs is an attractive outcome.

However, as the ESB has described, implementation of a REZ framework in the NEM only provides a localised solution from an access protection perspective, and generators will need to determine whether the incentives to connect inside a REZ provide them with an overall benefit. This benefit is dependent on several factors including (but not limited to) the size (boundary) of the zone, the access protection model implemented, the number of foundational vs. subsequent REZ generators, state government policy, the prevalence of system stability impacts inside a REZ and across the broader local network, and most importantly the probability and severity of external constraint threats. We note that a number of these factors have not been fully explored in the consultation paper.

While we agree that REZ may be a suitable interim step to address increasing connection and congestion challenges in the NEM, Alinta Energy encourages the ESB to delay its decision to Energy Ministers until a clearer understanding of the policy framework, the access protection options and its broader interactions with the grid, are considered. If it is possible, we would support a review of these issues in the ESB's upcoming Post 2025 Review paper, expected in March 2021 or an additional separate consultation which examines the policy, technical and operation impacts that may arise from the implementation of the REZ framework.

Role of the REZ Coordinator

Alinta Energy supports the ESB's proposal that a REZ Coordinator be centrally appointed to organize and ultimately assume responsibility for the establishment and operation of jurisdiction REZ. We believe the REZ Coordinator should be the Jurisdictional Planning Body (or an equivalent body created and appointed by the State Government) to ensure harmonisation and consistency of planning, approvals, construction and operational rules within and across NEM states. Doing so will provide national oversight and oblige coordination with AEMO and the AER, whilst building the necessary skillsets to replicate its functions as new REZ are announced and deemed shovel-ready, having passed all necessary approvals including the economic regulatory framework test for investment.

Alinta Energy notes that several important issues with respect to the role of the REZ Coordinator should be resolved as part of the policy framework. These include:

- The implementation, operation and cost recovery of multi-jurisdictional REZ
- Critical factors for consideration in determination a REZ expansion (i.e. an addition stage)
- Development of suitable tender rules, with flexibility to account for unknown events such as over or under subscription, changes to capacity limits, government policy announcements etc.
- Treatment of existing generators located within an announced REZ (i.e. do they qualify for access protection or some other arrangements etc.)

REZ Access Options

Alinta Energy does not support the implementation of 'REZ as a region' or 'early allocation of financial transmission right'. From a principle's perspective, it does not make sense to consider these options as viable solutions, noting the ESB's decision to postpone the proposal to implement locational marginal pricing and financial trading rights across the NEM. In addition, neither of these options would appear to work for radial or meshed REZ designs.

Of the remaining options, Alinta Energy believes that 'financial access protection' would in theory provide for the most efficient transmission investment and provide suitable comfort to foundational REZ generators to protect their first mover advantage. This option also seems to be the simplest to implement and operate.

However, the application of \$0/MW payments during congestion would seem to overly penalize secondary generators that have connected post the REZ tender process. This appears counterintuitive to one of the framework's primary objectives of 'overcoming current problems with uncoordinated connection process'.

Instead, we believe that providing a 'carrot' to subsequent connecting generators by allowing them to recoup some of the settlement revenue during congested periods, although at a lower level to those with protection under the model, may better address this objective. In addition, enabling and encouraging greater generation, particularly in REZ that are undersubscribed (or those earmarked for future expansion) will also address a further primary objective of 'minimizing risk and cost to consumers.

We welcome further discussion with the AEMC as it works towards its final report. Please contact me on 0475 943 365 or at Dan.Mascarenhas@alintaenergy.com.au.

Yours sincerely

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