



12 February 2021

Dr Kerry Schott AO  
Chair  
Energy Security Board

Lodged by email: [info@esb.org.au](mailto:info@esb.org.au)

Dear Dr Schott,

## **RENEWABLE ENERGY ZONES CONSULTATION PAPER**

The Clean Energy Council (CEC) is the peak body for the clean energy industry in Australia. We represent and work with hundreds of leading businesses operating in renewable energy and energy storage along with more than 7,000 solar and battery installers. We are committed to accelerating the transformation of Australia's energy system to one that is smarter and cleaner.

The CEC welcomes the opportunity to comment on the Energy Security Board's (ESB's) renewable energy zones (REZs) consultation paper. We broadly support the intent of REZ development as a practical and efficient approach to network and generation investment. As such, we have been supportive of the ESB's work on actioning the Integrated System Plan (ISP) and Stage 1 REZ framework.

We are keen to see timely and low-cost REZ development across the National Electricity Market (NEM). We are also keen to see REZ development that can benefit consumers and generators (and the communities in which REZs are located, which is outside the scope of the ESB's REZ work program). For generators, this would include providing certainty to investors through the development stage as well as into the longer-term once a generator is operational. The CEC, however, is concerned that the proposals outlined in the consultation paper may not deliver these outcomes.

Please note that due to the timing of this consultation in relation to Christmas shutdowns for the CEC and many of our member companies and the large number of open consultations at this time across the market bodies our comments below may not be an exhaustive list of industry's questions and concerns.

### **The need for full access reform**

The CEC welcomes the ESB's decision to not proceed with broader transmission access reform in the near term. However, we are disappointed that the ESB is proposing to use REZs as a "stepping stone" towards locational marginal pricing (LMP) and financial transmission rights (FTRs) as a long-term solution for transmission access across the NEM.

To date, there has been significant stakeholder opposition, not just from the clean energy sector but more broadly across different energy stakeholders, to the LMP/FTR proposal. Whilst the ESB has acknowledged this opposition, the CEC is concerned that the ESB has downplayed or misunderstood this opposition. We note the consultation paper describes the proposed stepping-stone approach as “designed to mitigate the elements of LMP/FTR model that stakeholder found concerning, namely, the risks in transition and the impact on existing contracts”.<sup>1</sup> It is not these elements that stakeholders have taken greatest issue with.

Many, including the CEC, have questioned the underlying problem statement that the Australian Energy Market Commission (AEMC) and now the ESB have premised their access reform proposals on. The CEC does not agree that the fundamental issue that requires attention is access. Instead, we consider it is a pressing need for increased transmission capacity in order that new, lower cost generation can be built and deliver lower cost energy to consumers.

We appreciate the ESB acknowledging the issues of our members through noting in the consultation paper the results of a recent CEC poll that found the top two concerns for leading debt and equity investors in Australia are:

- Unpredictable grid connection process and associated delays in commissioning (84 percent)
- Increased risk and constraints placed on operational projects (74 percent).

However, we consider these challenges are the direct consequence of a network that is close to reaching capacity, rather than a consequence of the current access regime as suggested by the ESB. The CEC continues to support the effective actioning of the ISP as a means to address this network capacity issue and the associated connection, congestion and constraint challenges currently being experienced. We believe actioning the ISP will go some way to addressing current issues without placing significant risk, cost and complexity on all participants across the NEM as would occur with the NEM-wide implementation of the LMP/FTR model.

We urge the ESB to rethink its proposed access reform strategy and the commitment to move to full access reform in the future. Instead, consideration of the need for access reform could be revisited at a later date once the ISP and other reforms have been implemented to better understand the residual issues that may require such a significant market change. The ESB asserts that open access outside REZs is a real problem that warrants addressing. Deprioritising full access reform and considering it at a later date would test the ESB’s assertion.

## **REZ options**

It is unfortunate that so much of the consultation paper is dedicated to discussing broader access reform and the continued promotion of the LMP/FTR model at the expense of deeper development of the potential REZ options.

The CEC does not support option three – REZ as a region – as this option would be overly costly and unnecessarily complex, making it impractical to implement. We also do not support option four – early allocation of FTRs – because as we have previously stated, we do not support the introduction of an

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<sup>1</sup> ESB, Renewable Energy Zones Consultation Paper, January 2021, p. 46.

LMP/FTRs model and this model is dependent on the introduction of LMPs and FTRs at a known point in the future.

There could be some merit to option one – connection access protection model – and option two – financial access protection model. However, both models lack sufficient detail to allow a well-informed evaluation of either model at this time. The CEC suggests the ESB should develop more detail for both options. This should include an assessment of the pros and cons of each option and examples or case studies that can more clearly illustrate the commercial and public policy implication for each option. Regarding the latter for instance, option one could be desirable in principle, but in practice could lead to the types of connection delays for new generators in a REZ that occur currently as a consequence of the ‘do no harm’ assessments required under existing connection rules, particularly given the fact that a regulated REZ, the focus of this consultation, will be meshed with the shared transmission network. Therefore, the ESB’s deeper exploration and assessment of options one and two should consider the risks under each option specific to pre-existing generators in the relevant NEM region (both inside and outside the subject REZ), initial connecting generators in the subject REZ and subsequent connecting generators in the subject REZ.

The consultation paper describes the benefits from participating in a REZ tender process for generators as: cheaper connections due to scale economies, increased certainty during the connection and approvals process, and improved investment certainty as they would receive access rights within the REZ. Grid connections are a significant issue for CEC members at present. There is an eagerness across our membership for a simpler, faster and less costly grid connection process. However, at this stage in the ESB’s REZ development work, it is unclear what a cheaper and more streamlined connections process in a REZ would look like. The ESB should provide more detail to practically demonstrate how these grid connection improvements could be realised.

Some members have even suggested that the coordinated approach may lead to an even longer connections process given the coordinated need to undertake technical studies, negotiate performance standards and demonstrate these performance standards. This should be further evaluated. This leads to a further question that requires exploration: how will coordination be achieved?

As part of this further development of options one and two, the ESB should also consider the status quo and whether the proposed REZ options would provide a material benefit above the status quo. This should also answer the question of whether some of the proposed benefits of participating in a REZ tender process, namely cheaper connections due to scale economies and increased certainty during the connection and approvals process, can be achieved without access reform.

In relation to option two, a particular aspect that should be considered is how the model would operate when there is negative pricing. Given the co-location of a number of weather dependent resources (particularly solar), it is likely that negative pricing periods will be prevalent. It is important that a worked example in relation to negative pricing is explored to ensure this is a workable option.

The consultation paper focuses on generator connection in REZs. Little thought has been given to load connecting to REZs. Some governments, such as the Queensland Government, have indicated they will work to attract new industries to these zones. As a result, the ESB should consider the integration and implications of new load connections to the REZ options.

We understand CleanCo is proposing a simpler model whereby if a generator contribution is desired, then a regulated connection charge should be developed similar to what is being proposed through

the AEMC's current system strength work. Rather than targeting cost recovery, the regulated charge could target a price that is lower than the cost of connecting outside the REZ, thus funnelling investment towards the REZ. We see value in the further exploration of this model.

### **What is a successful REZ?**

A fundamental question that has not been sufficiently discussed in the consultation paper is 'what would constitute a successful REZ?'. The ESB appears to be pursuing a large number of objectives for REZs, including:

- Minimising the risk to consumers of network underutilisation
- Reducing costs to consumers (both if the REZ network is underutilised and fully utilised)
- Addressing current generator connection issues
- Reducing risks to initial REZ generators by maximising generator access rights
- Acting as a stepping stone to NEM-wide access reform.

Deeper development of the potential REZ options should make clear assessments against a well-defined set of REZ objectives (or indicators of success) as there are options that may better deliver certain objectives and there may also be trade-offs between different objectives. This would also require that the ESB make clear what it considers the priority objective/s as it is unlikely that any model can perfectly deliver all objectives.

### **Next steps**

The consultation paper outlines that the ESB intends submitting recommendations to Energy Ministers in April 2021. The CEC is concerned by this timing as it suggests the ESB will progress to a preferred model to present to Ministers in only two months' time from now although the proposed options are currently very underdeveloped, which has made engagement in this process difficult. In addition and as already mentioned above, we are also very concerned by the proposal to use REZs as a stepping stone to a NEM-wide LMP/FTR model.

Consequently, the CEC does not support a preferred option being presented to Ministers in April 2021. We consider more work is required to ensure stakeholders are comfortable with the ESB's position in relation to an interim REZ framework and its broader access reform strategy. We appreciate there is a keenness from a number of Ministers to progress REZs as a priority. We share this keenness for the swift development of REZs. However, we also support ensuring robust stakeholder engagement on the development of the REZ model. Therefore, the CEC recommends the ESB undertake a further step of consultation that will delve deeper into the options before presenting a preferred model to Energy Ministers.

Thank you for the opportunity to comment on this consultation. If you would like to discuss any of the issues raised in this submission, please contact me on [lpatterson@cleanenergycouncil.org.au](mailto:lpatterson@cleanenergycouncil.org.au) or (03) 9929 4142.

Yours sincerely,



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