



Dr Kerry Schott  
Chair, Energy Security Board

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

12 February 2020

Dear Dr Schott,

### **Consultation Paper on interim REZ framework**

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Energy Security Board (“the Board”) in response to the Consultation Paper on interim Renewable Energy Zone (REZ) framework (“the consultation paper”).

The ENGIE Group is a global energy operator in the businesses of electricity, natural gas and energy services. In Australia, ENGIE has interests in generation, renewable energy development, and energy services. ENGIE also owns Simply Energy which provides electricity and gas to more than 730,000 retail customer accounts across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

ENGIE has interests in renewable energy projects that fall within and outside of proposed REZs.

### **Co-ordination of generator connections makes sense, piecemeal access reform does not**

ENGIE is supportive of what it considers to be the core purpose of the REZ framework; that is to facilitate the co-ordinated connection of multiple generators to a network extension. To that extent, the arrangements set out in chapter three of the consultation paper appear broadly appropriate subject to the comments below.

Conversely, ENGIE has serious reservations about the application of any of the four access models to REZs separately from enduring access reform that applies NEM-wide.

ENGIE has been one of the few market participants to have consistently expressed in-principle support for transmission access reform, but this support has always been predicated on the application of access reform across the National Electricity Market (NEM) at the same time.

The perverse incentives and consequences of ad hoc reform applying to parts of the NEM only, is likely to deliver limited benefits to REZ connecting generators and lead to widespread costs.





This is especially the case if states were also minded to progress their own forms of access reform.

### **Accurate problem definition is an important starting point**

Care should be taken with defining the problems that will be addressed by a REZ framework with or without access reform. While the consultation paper correctly cites low system strength, system curtailment and connection delays as challenges the NEM is facing, it is not clear that the reforms proposed in the consultation paper are either necessary or sufficient to address each of these. Further, multiple options for improving system strength are currently under consideration.

ENGIE notes the use of ISP analysis on congestion and curtailment to illustrate some of these issues. Notably, the amount of congestion (which presumes efficient development of appropriate REZs) is relatively low. Mostly the curtailment is either due to system management (including coal minima, which these proposals will do nothing to address) or low prices, which are simply economic signals working as they should, and thus the very opposite of a problem to be solved.

Another potential issue, disorderly bidding, has been a potential risk since market start. If it is deemed a big enough issue, then it should be addressed separate to REZs. Any access reform confined to REZs will not address instances of such that occur outside REZs. In any case both regulatory and commercial changes are seeking to mitigate the risks of the “race to the floor”, such as PPAs that don’t pay out on negative prices and the semi-scheduled generation rule change.

ENGIE notes the reference to international cases of transmission expansion to cater for new renewables investment and the fact that the instances cited are combined either with nodal pricing or with firm access. However, ENGIE understands that in each case, these are the prevailing transmission access regimes in the relevant jurisdictions, and that they are thus applicable to all generators, not just those connecting to the new transmission assets.

In any case the inclusion of Germany is a salutary reminder that locational decisions for both transmission and generation cannot simply be determined by electricity market rules that supposedly co-optimize the two. Germany’s access regime may well be best practice, but there have been significant delays in improving north-south transmission links to facilitate more renewables because of local concerns about the impact of new transmission infrastructure on their amenity.

### **Improving co-ordination is a sensible reform**

There is probably little need for the consultation paper to extol the virtues of a strategic, co-ordinated approach to network extensions for new renewable generation. Several state governments within the NEM regions have signalled their intention to promote such extensions in order to support meeting jurisdictional renewable energy targets and so it makes sense for a consistent framework to be set up within the National Electricity Rules (“the Rules”).



The Actionable ISP framework that is largely in place will drive development of several of the initial REZs, along with state government policy. The consultation paper justifiably strikes a note of caution regarding the likelihood that customers will bear the full cost of REZ assets, just as they do with both interconnectors and intra-regional transmission augmentation. In all cases, there is a risk that the resultant assets will be underutilised and thus consumers pay more than the benefits they receive – this is not a risk unique to REZs, though it may be more obvious when it eventuates in a REZ, and likely justifies a staged approach to REZ development.

In any case, it has long been argued by many market participants and affected stakeholders, that the most economically efficient solutions to these risks entail exposing Transmission Network Service Providers to greater incentives to find efficient solutions, including non-network options to meet particular requirements, but this approach has largely been eschewed by the energy market bodies to date.

As such, access reforms that seek to extract greater contributions from generators are likely to be only a partial solution at best. Notwithstanding this, there is no reason not to expect that generators will pay to be connected inside a REZ, even if the access models below are not applied, because of other desirable locational benefits – quality renewable energy resources, community acceptance, and coordinated connection.

In such cases, where generators have paid to connect, ENGIE agrees that any surplus should be returned to consumers through lower TUoS as the bearers of much of the investment risk.

### **None of the proposed REZ-specific access regimes are fit for purpose**

ENGIE does not consider that any of the four models are appropriate solutions when applied only to REZs.

All of the models provide limited value when they only can provide access to where the REZ joins the rest of the network. Naturally it would be inequitable to provide firm access through to the Regional Reference Node, when non-REZ generation does not enjoy the same right, unless the full augmentation costs were recovered from REZ proponents. But this could both make REZ connection prohibitively expensive and represent a move to the kind of deep connection charge approach that was rejected at market start and again in subsequent AEMC reviews (see climate change policies review). It also creates an onerous situation for subsequent generators who wish to connect to the REZ.

It is curious that the consultation paper appears to commend a “do no harm” approach, analogous to that applying to current connections for system strength. Those do no harm provisions are widely disliked and are a contributor to connection delays. The best that can be said of them is that they are a stopgap while enduring arrangements for ensuring adequate system strength are developed.

An interesting exercise is to consider how recent investment would have been impacted if a firm access rights or deep connection cost model had been applied to the NEM at market start but only within zones featuring large amounts of thermal generation. Arguably, it would have significantly hampered the development of new generation, including new renewables, and would have been counter to the long-term interests of customers.



The new region model is a puzzling option. Aside from the abolition of Snowy region, the NEM regions have been stable since market start. It's not clear what value is added by creating new zones each time a REZ is created. It doesn't improve physical congestion in any way, and so underlying constraints are not addressed. It threatens to disrupt the contract market, especially given the loads served will largely be outside these new regions. Of course, interregional settlement revenue will help, but only up to a point.

Thus, if there was a push to create additional zones, these should be determined by the physics that applies to the entire network, regardless of state boundaries, not the arbitrary boundaries created for REZs.

Finally, the financial transmission rights model, as the consultation paper notes, is the most complex. The attractions and issues with this model remain the same as when it was canvassed as a NEM-wide solution by the AEMC under COGATI, and so there is no need to rehearse them here. However, the proposal to implement them only in REZs means that most of the cost and the disruption to contracting arrangements will be incurred, with only a portion of the benefits, since the reforms will only apply to a portion of the grid, and then potentially only for a transitional period if they are superseded by revised NEM-wide access arrangements.

ENGIE is still under the impression that there is an intent to implement NEM-wide access reform post 2025. Given the time it will take to develop REZs, there may be little if any gap between REZs becoming operational and access reform. In this case, bespoke transitional arrangements for REZs seem of little value. Conversely, if the Board now considers access reform to be delayed for some time, then these transitional arrangements risk becoming enduring by default, and there will be an ongoing mismatch between the treatment of generators inside REZs and those outside.

### **Preferred approach**

The open access regime should continue until enduring transmission reform can be implemented NEM-wide. This means project proponents will be subject to the same risks, and be required to assess those risks, in the same manner as renewable energy projects outside of REZs but with the benefits of expected lower connection costs and more coordinated connection processes. This is consistent with the open access regime and also the desire to expedite REZ development.

The exception is the current process to implement shared dedicated network connection assets. This approach - even if it is not applicable to all REZ configurations - more neatly solves many of the issues than any of the four models, including sparing customers the risk of funding underutilised assets; allowing generators to pay for the access they desire (at least to the shared network boundary, which is all the other models can offer); streamlining connection; and, facilitating a co-ordinated approach.

### **Transitional arrangements should not disadvantage committed projects**

ENGIE agrees that there needs to be a cut-off point for the application of any new arrangements. The proposal in the consultation paper that "Generators that have already reached a certain level of certainty (for instance, they



are a committed project) at the time that the decision to proceed with a REZ stage is made would be treated as if they are already there for the purposes of the REZ planning framework<sup>1</sup>.

Should you have any queries in relation to this submission please do not hesitate to contact me on, telephone, (03) 9617 8415.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "J. Lowe".

**Jamie Lowe**

Head of Regulation,

Compliance and Sustainability

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<sup>1</sup> Consultation paper, p33