



12 February 2021

Dr Kerry Schott
Chair, Energy Security Board

Lodged via email

RESPONSE TO ESB CONSULTATION PAPER DATED JANUARY 2021– RENEWABLE ENERGY ZONES

Dear Ms Schott,

Tilt Renewables is a leading Australasian renewables developer engaged across all stages of project development through to operations. Tilt Renewables currently has 366 MW of operational wind farms across the NEM and New Zealand, plus a further 469 MW in construction/commissioning and over 5 GW in its development pipeline.

Tilt Renewables (TLT) welcomes the opportunity to comment on the Energy Security Board's (ESB's) renewable energy zones (REZs) consultation paper.

TLT is supportive of the ongoing work on the Integrated System Plan (ISP) and the ESB's Stage 1 REZ framework in providing the much-needed network investment signals in the appropriate areas of the grid. TLT is keen to see REZ development that can ultimately benefit consumers and the communities in which REZs are located. TLT is concerned that the framework proposed by the ESB consultation paper will not deliver such benefits. We believe the Stage 2 proposal is trying to solve too many issues, whilst brushing over the real challenges and practicalities of the changes proposed, resulting in an overly complex model that will become impractical to implement and will lead to higher costs to consumers.

Need to Focus on Transmission Capacity

There is a need for further transmission capacity in the NEM to enable lower cost generation to continue to be built and through this to deliver lower cost energy to consumers. Fundamentally, the nature of generation investment has changed from the earlier years of the NEM, with a larger number of smaller-scale, decentralised renewable generators connecting more often. The best renewable resources are often found in areas with little spare transmission capacity and new generation facilities can be developed in much shorter timeframes than traditional thermal generation and transmission infrastructure. Generators have shown that they can be flexible and rapid in responding to, and investing in, areas where there is a coincidence of transmission capacity and renewable energy resources.

The key challenge in this context at the system level is a lack of transmission in regions where the cheapest forms of new generation would naturally locate. Whilst we appreciate the ESB is attempting to address this challenge in the consultation paper, TLT does not believe that the fundamental changes to NEM access arrangements proposed will in any way assist in this. The paper claims that whilst ISP reforms will assist in delivering the needed transmission investment, "*they cannot solve these problems without changes to the access regime*". The justification for this statement, a proposition on which many of the subsequent elements proposed in the paper are based, is simply not apparent.

We appreciate the ESB acknowledging the issues of a recent Clean Energy Council (CEC) poll, that found the top two concerns for leading debt and equity investors in Australia were:

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



However the ESB focuses a significant portion of the consultation paper on Transmission and Access reform. We note that majority of stakeholders have questioned and discredited the underlying problem statement that the Australian Energy Market Commission (AEMC) based these proposals on, and which seems to now form the basis of the ESB's proposed solutions. TLT does not agree that the fundamental issue that requires attention at present is access - we believe it is a distraction and is not helpful in the context of the other relevant reforms which are progressing in the NEM.

TLT urges the ESB to refocus the REZ workstream on the problem at hand, that is facilitating further transmission capacity in areas of strong renewable energy resources, rather than seeking to extend this workstream to incorporate the proposed CoGATI transmission access reform, which has been overwhelmingly rejected by market participants and consumers alike.

REZs Will Not Solve Connection Issues

As previously mentioned, the consultation paper quotes the CEC poll which found that *"unpredictable grid connection processes and associated delays in commissioning"* was the number one issue of concern for renewable energy investors. It then goes on to claim that this, along with congestion constraints, is *"a direct consequence of the current access regime"* - the second challenge may relate to the current access regime, however the first is a completely different issue. It appears that in misunderstanding the true nature of the concern regarding unpredictable grid connection processes and delays in commissioning, the ESB is proposing solutions which will not at all address the real issue that generators and investors are concerned about. Worse, the attempted solutions, due to their far-reaching nature, could cause significant negative consequences in other areas.

We question the ESB's proposition that REZ rules will somehow make the connection process itself much simpler (eg. *"increased certainty during the connections and approvals process"*, *"reduced connections uncertainties"*, *"simpler connection process"*). It is not at all clear as to how the models proposed would actually address this issue. The key challenge at an individual generator level is delays in receiving the necessary AEMO and TNSP approvals to connect, and then commission new projects, with delays typically based on concerns regarding system security issues arising from theoretical modelling of the wider network. TLT would welcome the ESB focussing on ways to address this challenge, which is a very real one for many investors who have built generation assets but are not able to fully connect or operate them, however assuming those frustrations and delays in connection are simply due to congestion is erroneous, and the proposed REZ framework simply does not address the real issues generators face in connecting to the grid.

Transmission Access Reforms are Not a Priority Now

TLT welcomed the ESB's decision in the Market Design 2025 Directions paper to not proceed with broader transmission access reform in the near term. However the ESB has subsequently shifted the focus of the REZ workstream towards locational marginal pricing (LMP) and financial transmission rights (FTRs) as an assumed long-term solution for transmission access across the NEM. There is no justification provided for this approach and it is a distraction from the task at hand.

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, and viable options to achieve such reform effectively, could be revisited at a later date once the ISP and other reforms have been implemented. This would allow a better understanding of any residual issues that at that time may require such a significant market change.

Options for REZs



A significant portion of the consultation paper is focused on broader access reform at the expense of meaningful development of practical REZ options. The lack of information provided on the options and how they would practically work in the NEM makes it extremely hard for TLT to provide considered comments or to lean towards any preferences at this stage of the consultation. However at the outset, TLT does not support option three – REZ as a region- or option four – early allocation of FTRs – these options appear to be overly costly and unnecessarily complex, making them impractical to implement.

We believe the ESB should consider a much simpler approach which includes:

- Using the ISP to ISP identify the lowest-cost (and most needed) REZ options;
- Actioning the ISP rule change with a particular focus on the RIT-T reforms which includes locking in capacity and implementing consumer protections;
- Following through the Dedicated Connection Assets (DCA) rule change underway by the AEMC;
- Addressing system strength, for example as suggested in TransGrid's rule change and under consideration in the AEMC's investigation into system strength frameworks in the NEM; and
- Focusing on the development of the jurisdictional REZs already underway in NSW and VIC as a "trial and learn approach".

The above workstreams, already in progress, would appear to have strong probabilities of facilitating efficient use of the NEM's renewable energy resources and providing for optimal outcomes for consumers as a result. It would seem appropriate to see how these developments play out and revisit any further work that may be required on REZs or other market changes at a later date, once the ISP and other reforms have been implemented.

Such an approach would also alleviate the challenges associated with extremely compressed timeframes for consultation and development of major reforms, where those reforms may not be necessary and where they risk causing major impacts and unforeseen consequences on the NEM through complex and impractical solutions.

Conclusion

TLT reiterates that it is very concerned by the proposal to use REZs as a means to a NEM-wide LMP/FTR model. TLT recommends the ESB supports existing initiatives which are underway to address transmission infrastructure deficits and to better facilitate shared transmission usage under certain scenarios, and monitors the effectiveness of these programs before proposing further wide-ranging reforms which may result in unanticipated consequences to the NEM and consumers more broadly. We would also welcome the ESB taking a role in addressing the connection challenges that generators are facing in the NEM, however note that this would be a different project from the current REZ workstream.

Tilt Renewables will be pleased to meet with you to discuss this submission in more detail and provide ongoing support through the consultation process. Please contact the undersigned or Rhys Albanese at rhys.albanese@tiltrenewables.com or 0423 423 797.

Regards,

A handwritten signature in blue ink that reads "Nigel Baker".

Nigel Baker

Executive General Manager, Generation and Trading
Tilt Renewables