

12/02/2021

Dr Kerry Schott AO
Chair
Energy Security Board

Lodged by email: info@esb.org.au

Dear Kerry,

Submission to consultation paper on renewable energy zone stage 2 reforms

We welcome the opportunity to respond to the Energy Security Board's (**ESB**) consultation on stage 2 of its reforms to provide an interim framework for renewable energy zones (**REZ**).

With over 60 years' experience as the transmission operator and manager in NSW and the ACT, we are uniquely placed to deliver the transmission investment required to provide a reliable and low emissions electricity supply at the lowest cost to consumers.

We understand that the stage 2 reforms are focused on developing arrangements to incentivise the orderly development of generation and storage in REZs approved for investment through the rules to action the Australian Energy Market Operator's (**AEMO**) Integrated System Plan (**ISP**).

We strongly support the work of the ESB in developing an implementation plan that will promote the efficient development of REZs to complement the actioning of the ISP rules. The efficient development of REZs identified through the actionable ISP process will result in lower overall system costs and lower prices for consumers.

We support the overarching framework put forward by the ESB in the consultation paper to provide for the orderly development of generation and storage in REZs approved for investment through the actionable ISP rules. That framework being:

- An auction or tender process would be undertaken to allocate transmission capacity to generators up to the capped transmission capacity of the REZ.
- Successful bidders in the auction or tender process would be provided access rights up to where the new REZ transmission connects to the existing shared network.
- Proceeds from the auction or tender process could be used to lower transmission use of system charges for consumers.
- A REZ Coordinator will manage the auction or tender process and any access regime as necessary.

Within this framework, it is important that the arrangements for REZs provide flexibility and enable fit for purpose approaches for the delivery of each REZ. We expect that each REZ will have unique circumstances and challenges in terms of how it is planned and developed.

The remainder of this submission comments on some specific issues on the arrangements proposed and issues considered in the ESB's consultation paper. We have also contributed to Energy Networks Australia's submission on the ESB's consultation paper and support the views raised in that submission.

The REZ Coordinator role will help to provide oversight but a single point of accountability is critical for the planning of the transmission network in a region

We support the creation of a REZ Coordinator role to manage the tender or auction process and any access regime for a REZ.

We also support the relevant State government appointing REZ coordinators in a national electricity market (NEM) region. This will appropriately recognise that State governments may have specific economic and social policy objectives for REZs. We consider the relevant State government should also have the flexibility to allocate specific aspects of the role to different parties, with the transmission network service provider (TNSP) being able to fulfil any elements that involve network planning.

While there are likely to be benefits from a REZ coordinator providing oversight of REZs, it is essential that there is still a single point of accountability for the planning of the transmission network, including REZ transmission investment, in each NEM region. The benefits of a single point of accountability include:

- the efficient design of the transmission network in each NEM region and the NEM as a whole,
- avoiding unintended reliability and security concerns due to the added complexity associated with having multiple parties involved, and
- having an experienced operator in times of crisis or emergency.

TransGrid has the responsibility for planning the shared transmission system in NSW and the ACT. We urge the ESB to consider the interaction between the REZ Coordinator and existing planning responsibilities further in preparing its final advice to Energy Ministers.

The ESB's access arrangement options one and two for REZs should be further explored

The decision around access arrangements is a key issue to resolve for implementing REZs. The ESB has outlined four options at a relatively high level. Of the access arrangements put forward in the ESB's consultation paper, option one (connection access model) and option two (financial access model) should be considered further by the ESB. We do not support options three and four as we do not consider that they would have the desired effect of encouraging generators to locate in a REZ.

We support the further exploration of options one and two, including a cost benefit analysis, to ensure that the final option recommended by the ESB provides strong incentives for generators to locate in a REZ.

While we note the benefits of having nationally consistent access arrangements for REZs, we also consider the arrangements may need to be flexible for different REZs to accommodate State government objectives. This flexibility may also include resolving the issue of how to treat subsequent generators where the REZ is fully subscribed. We urge the ESB to consider this issue in preparing its final advice to Energy Ministers.

The ESB's stage 2 reforms should not undermine the actionable ISP rules framework

The ESB considers that if anticipated revenues are not generated from an auction or tender process associated with a stage of development of a REZ, then future stages of the REZ would be reassessed and potentially modified or ceased.¹ The ESB considers this could provide some additional protection for consumers against the risk of asset stranding associated with REZ transmission investment.

We submit that information on revenue proceeds from the proposed auction or tender process is of minimal value in determining future REZ transmission investment and should not determine whether future stages of REZ transmission investment should proceed. Revenue proceeds from an auction

¹ TNSPs are required to consider the staging of REZ transmission investment under the REZ planning rules recommended to Energy Ministers by the ESB under stage 1 of its reforms.

or tender of access rights only provides information on generators' willingness to pay for those rights in the market conditions at that time, and are not a reliable indicator of future transmission utilisation.

By comparison, the level of generator participation in the proposed auction or tender process would be of some value for planning future REZ transmission investment. Consistent with this, we note the number of connection enquiries in an area is a factor considered by AEMO and TNSPs currently in defining REZs under the actionable ISP rules framework.

It is important that the arrangements being developed by the ESB to incentivise the orderly development of generation and storage in a REZ do not undermine the actionable ISP rules framework which has recently been developed.

The stage 2 REZ reforms should not be predicated on what broader changes may be made to the access regime in the future

We note that the ESB's REZ reforms are proposed as an interim measure to facilitate REZs until broader access reform is developed. The ESB states its preference for the introduction of locational marginal pricing and financial transmission rights as part of broader access reform in the longer term.

We consider it is important that the ESB's stage 2 REZ reforms are designed as standalone arrangements and not predicated on what changes may be made to the broader access arrangements in the NEM in the future.

There is currently limited to no capacity on the existing 132kV and 330kV elements of the network in or near the areas of NSW that have good wind and solar resources. Increasing the capacity of the transmission network, including REZs, through the actionable ISP rules framework will resolve many of the issues currently being faced in the NEM.

Broader access reform may be a useful complement to the actioning of the ISP in the longer term. However, it is essential that any reforms do not become a barrier to investment in the new generation required for the energy transition.

We appreciate the opportunity to comment on the ESB's consultation paper. If you would like to discuss this submission, please contact me or Caroline Taylor, Head of Public Policy at caroline.taylor@transgrid.com.au.

Yours sincerely

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