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Chloe Hicks  
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Via email ([rez@planning.nsw.gov.au](mailto:rez@planning.nsw.gov.au))

Dear Ms Hicks



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## **Issues Paper: Central-West Orana Renewable Energy Zones Access Scheme**

AusNet welcomes the opportunity to make this submission in response to the NSW Government's Issues Paper on the Central-West Orana (**CWO**) Renewable Energy Zones (**REZ**) Access Scheme (the **Issues Paper**).

AusNet is one of Australia's largest and most diverse utilities with almost \$13 billion of assets. We are responsible for three core regulated networks - electricity distribution, gas distribution and the state-wide electricity transmission network for Victoria. We also have an unregulated business which provides a variety of contracted transmission and distribution services and is currently investigating the feasibility of various augmentation projects including Victoria's first renewable energy zone; Gippsland REZ (G-REZ) Project.

REZ access schemes are being developed as a mechanism to coordinate generators' connection and investment in the network while managing the risk of over or under investment in transmission network for the CWO REZ. We understand the CWO Access Scheme would represent the first REZ specific access model in the NEM and may deliver lessons that can be adopted for future REZs in NSW and other states.

AusNet commends the NSW Government's efforts to design a workable framework; recognising this is a complex undertaking involving the coordination of multiple parties and a departure from current open access arrangements. In this context, we see the CWO REZ Access Scheme as a trial to investigate the feasibility of REZ specific access models and their applicability to REZs with different concept designs, architecture (i.e. meshed or radial) and shared network conditions.

Delivering value and confidence to renewable energy investors will be critical to the success of REZ specific access schemes. Our own market intelligence suggests investors are yet to be convinced of their benefits. We would encourage the NSW Government to conduct further analysis (e.g. congestion modelling, cost and constraint analysis) to demonstrate to investors the relative benefits of participating in the CWO REZ compared to locating on the existing shared network.

AusNet also encourages the NSW Government to outline the access schemes interactions with other related processes. This includes clarity around the decision process should generator contributions towards funding REZ infrastructure fall short of the full REZ costs, and details of the proposed rights allocation process. This would provide greater transparency to consumers and industry around who will bear the costs and risks of investment.

AusNet is a member of Energy Networks Australia and supports that submission. The remainder of this submission provides further detail on AusNet's perspective on the CWO REZ Access Scheme based on our experience working with generators to deliver large connection projects and in operating the Victorian transmission network.

### **1. AusNet commends the NSW's Government efforts to design a workable access scheme for its CWO REZ.**

REZ access schemes are viewed by policymakers as an important concept to address complex planning processes and misaligned investment timeframes between generation projects and transmission infrastructure. These problems have been exacerbated by the scale and pace of the energy transformation, which has meant many committed projects across the NEM have been unable to energise or are constrained from sending their full output to market without incurring network remediation costs. Generators' limited means to mitigate these problems have contributed to investor

uncertainty, which risks insufficient investment occurring to meet the gap left by the progressive closure of coal fired generation, or that the investment occurs but with significant risk premiums; increasing costs for consumers.

The CWO REZ Access Scheme seeks to resolve these problems by limiting connections to specified REZ infrastructure and running processes to allocate and manage access rights to that infrastructure. In doing so, the scheme aims to make it more attractive for generators to connect to and invest in the network, and seek to lower overall system costs through more efficient development and use of transmission and generation capacity. Key benefits to generators include improving revenue certainty and predictability, faster connections and approval processes, and lower connection costs via the procurement of scale efficient connection assets.

AusNet commends the progress made by NSW Government to design a workable REZ-specific access model for the CWO REZ and welcomes continued engagement on this matter.

## **2. We support the CWO REZ Access Scheme as a trial to investigate the feasibility and broader applicability of access schemes across the NEM**

AusNet recognises that developing a REZ specific access scheme is a complex undertaking and that the CWO REZ scheme is expected to be the first scheme developed and delivered in the NEM.

A REZ access scheme involves the coordination of multiple parties – developers, existing generators, network and non-network service providers, government bodies (e.g. EnergyCo, DPIE) and energy market bodies (e.g. AEMO). These parties build, own, and/or operate a variety of different assets (generation, network, non-network), and/or deliver a range of services that support the REZ and access scheme. Coordination is complicated by each party having its own implementation requirements and timeframes (e.g. network investments typically take longer to deliver than generation projects, and make investment decisions on the basis regulatory rather than commercial processes).

The REZ access schemes being proposed by both the ESB and NSW Government also involve prohibiting access to and use of the specified network within a REZ from the open access arrangements on the existing shared network (rather than applying access scheme provisions across an entire NEM region). This 'carve out' approach will be difficult to apply to REZ's where the proposed infrastructure provides benefits to generators located outside the REZ boundary (e.g. reduced network impedance) or the REZ boundary is hard to define. An example of this is when the REZ infrastructure meshes with key parts of the existing shared network.

In this context, we support the CWO REZ Access Scheme as a trial to investigate the feasibility of REZ-specific access schemes and their applicability to future REZs in NSW and other states. This includes the extent to which access schemes can be applied to REZs with different concept designs, architecture and shared network conditions.

## **3. AusNet's own market intelligence suggests renewable investors are unconvinced that locating within a REZ subject to an access scheme will provide them with adequate benefits, and suggested cost and complexity of access schemes may increase development costs compared to locating on the shared network.**

During the Issues Paper consultation period, AusNet held conversations with a select group of generators to gather their views on the CWO REZ Access Scheme. We did so on the basis that delivering value and confidence to renewable energy investors/generators will be critical to the success of REZ specific access schemes, and that market bodies previous attempts to review the NEM's open access framework have not been well received from investors.

A summary of the feedback received during our select group conversations with renewable investors can be found in the box below.



### **Summary findings: Investor market intelligence**

**Investors are yet to see the benefits of investing inside a REZ.** Many investors considered that access schemes do not guarantee against constraint risk and MLF volatility, both of which are functions of network conditions within the REZ and on the shared network. As a result, investors viewed access fees incurred as 'connection cost', for which the benefits to them are uncertain, and could make them unviable when competing with generators located outside of a REZ.

**Costs and complexity of access schemes may increase development costs and/or deter investment within REZs compared to the shared network.** Renewable investors make investment decisions based on multiple factors, such as the quality of resource, equipment costs, land access, expected network conditions, connection timeframes, community support, wholesale prices and the ability to secure an energy offtake. Investors viewed access schemes as adding a further layer of cost and complexity to their decision-making processes – at least until benefits of locating within the REZ were confirmed. For example, investors would have to conduct additional due diligence to understand their project constraint risk based on multiple anticipated connections, restricted access and use of capacity within the REZ, and existing shared network conditions. The costs and complexity of access schemes were expected to increase project risk premiums or deter investors away from REZs in favour of the shared network where development risks are better understood.

**Preference for open access framework to be retained, and governments to expediate both urgent and anticipatory network investment to retain investor confidence.** Investors commented that access schemes do not solve the primary problem, that is, the scale and pace of inverter based renewable generation connections is resulting in limited available network capacity and emergence of technical issues impacting grid performance. In this context, there was a preference to retain the NEM's open access framework and instead focus government's efforts on expediting planning and procurement processes to improve the timeliness of urgent and anticipatory shared network and non-network investments.

**If a specific access scheme was implemented for the CWO REZ, investors typically favoured the limited physical connection model.** While not the most economically efficient option, investors preferred option 1 as the model that most resembled open access and considered most feasible to implement in NSW Government's proposed timeframes. Further, many of the REZ features proposed such as trading or 'use it or lose it' provisions, were not viewed as providing an upside or fundamental to the development of physical network. Instead, generators suggested they were financial tools that created additional timing and competition risks.

### **4. Greater consideration could be given to the costs of generators participating in the REZ compared to the next best alternative**

Regardless of what preferred access model is selected, renewable energy investors will at some point in the REZ development process be required to make investment decisions around whether or not they want to participate in the REZ, and the amount they are willing to pay for greater certainty about constraint risk and stability of transmission losses.

In making this decision, investors will compare the cost of participating in the REZ (including cost of access rights) relative to locating on the existing shared network. The alternative option for investors would be to pay for their own private connection (or negotiating use of an existing connection) to a relatively unconstrained part of the existing shared network (noting opportunities for this are increasingly rare due to capacity constraints).

In some situations, investors will continue to pay for connection assets to facilitate their generation project and will not be willing to participate in the REZ. In other situations, the cost of paying for their own private connection will be prohibitively high (or benefits of the REZ sufficiently clear) that investors are willing to pay to participate in the REZ.

In the context of the CWO REZ, it would be useful for the NSW Government's to:

- (i) **Release congestion modelling to demonstrate the likelihood that the REZ's capacity may or may not be constrained by the existing shared network.**
- (ii) **Compare the benefits of connecting to the REZ Shared Network versus a private connection asset to the existing shared network.** This could be in the form of build costs and constraint analysis for a range of different projects (wind, solar, with or without battery storage) comparing outcomes where each connects to the REZ Shared Network or proceed individually; drawing on a clear set of assumptions (e.g. size of REZ and extent to which it will be oversubscribed).

This analysis would promote greater transparency around the relative benefits of the CWO REZ. It could also promote more equitable outcomes by assisting smaller investors, with less resources and capability than some larger investors, to better value access rights before they are auctioned.

#### **5. There would be value in the NSW Government further clarifying its decision process should generator contributions fall short of the full REZ costs, and how rights will be allocated.**

The Issues Paper identifies renewable energy projects contributing to the REZ Shared Network costs and reducing cost to consumers as key benefits of the CWO REZ Access Scheme. There would be value in the NSW Government outlining its decision process should generator contributions towards funding REZ infrastructure fall short of the full REZ costs and whether the level of funding required from other services is justified. This would provide greater transparency to consumers and industry around who is bearing the costs and risks of investment.

If generator contributions are seen as part of a suite of tools to fund CWO REZ, there may be simpler design choices that could be made around the preferred access model that enable the NSW Government to achieve its objectives, specifically timely implementation. For example, in the first instance pursuit of a physical limited connection model may be more feasible to deliver a 'shovel ready' CWO REZ by end of 2022.

While outside of the scope of the Issues Paper, the effectiveness of the access scheme will be closely tied to the process by which rights are allocated by the Consumer Trustee. Providing further information on the allocation process (i.e. auction design, when and under what conditions access rights will be sold, structure of access fees) may help to identify other key concerns, such as risks around access rights being disproportionately allocated to larger more sophisticated investors (relative to smaller players), and gaming or market power issues.

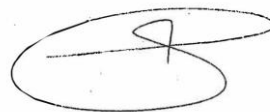
AusNet welcomes further engagement with the NSW Government on the design and implementation of REZ access scheme models, and related matters.

If you have any questions regarding our submission, please contact Jason Jina, Energy Policy Lead by email at [REDACTED]

Sincerely,



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