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**Submission to the Issues Paper:  
Central-West Orana Renewable Energy Zone Access Scheme**

**Who is ACCIONA?**

ACCIONA is one of the world's largest renewable energy independent power producers with operations covering the development, construction, ownership and operation of renewable energy assets across 16 countries. ACCIONA owns and operates over 13,000 megawatts (MW) of renewable energy assets covering a range of technologies including hydroelectricity, wind, solar PV, solar thermal and biomass.

ACCIONA has been operating in Australia since 2002, where it has successfully developed its renewable energy, water and infrastructure businesses.

ACCIONA develops, builds and operates wind farms that produce clean energy for more than 285,000 Australian homes per year. It's installed capacity of 435 MW is distributed between Mt. Gellibrand (132 MW, VIC), Waubra (192 MW, VIC), Cathedral Rocks (64 MW, SA) and Gunning (46.5 MW, NSW). The company is currently building a wind farm south of Mortlake (157.5 MW, VIC) and in March 2020 announced plans to build the MacIntyre Wind Farm Precinct, (1,026MW, QLD), with construction to commence in 2021.

ACCIONA has a strong development pipeline of over 3,000 MW of wind and solar projects to support Australia's transition to a low carbon energy supply over the coming years.

ACCIONA has also constructed major infrastructure projects such as the Legacy Way tunnel in Brisbane, a 41km bypass for the Toowoomba motorway, a desalination plant in Adelaide, the Mundaring water treatment plant east of Perth, and the Sydney Light Rail. In Western Australia, ACCIONA is currently building the country's first waste to energy (W2E) plant in Kwinana and has been awarded a second W2E project in East Rockingham. The company is developing a number of rail projects in Victoria.

## **Introduction**

ACCIONA welcomes the opportunity to participate in the NSW Department of Planning, Industry and Environment's consultation on the proposed Access Scheme for the Central West Orana Renewable Energy Zone (CWO REZ).

As a participant in the National Electricity Market (NEM) since 2002, ACCIONA is committed to supporting efficient and transparent market operations and the security and reliability of the grid.

The NSW Government is consulting on policy options for implementing access regimes for new renewable energy generators seeking to connect to the CWO REZ. ACCIONA understands that the NSW Government is seeking to better coordinate investment in generation and storage projects with network investment, with two objectives:

1. More efficient use of REZ shared network and generation infrastructure, and
2. Greater investment certainty for generation and storage projects, through greater certainty about marginal loss factors and constraint risk.

ACCIONA supports the intention to progress the CWO REZ and to work with Transgrid to design and develop the network infrastructure to enable connection of significant new generation capacity in NSW over the coming decade.

## **Issues and context**

ACCIONA agrees with the NSW Government objective for developing REZs as about improving the efficiency of use of generation capacity and the transmission network, by making timely investments in the transmission capacity and system services when and where it is needed. ACCIONA does not, however, see a need for changes to the current access arrangements as part of this process in order to deliver greater investment certainty.

That said, the intent of the NSW Government to embed access reform within its REZ planning is clear. This submission responds to the proposals considering the objectives set by the NSW Government for these reforms (as outlined above) and the likelihood of the proposals to succeed in meeting these. ACCIONA is cognisant of the risk that the access schemes, as proposed in the consultation paper, will not necessarily achieve the objectives of greater efficiency and greater investment certainty. In particular, the complexity of the financial compensation mechanisms (Options 2a and 2b) gives rise to the potential for unintended outcomes.

## **Broad view on the access options**

Considering the three access options addressed in the Consultation Paper, ACCIONA is of the view that Options 1 and 2b have greater merit than Option 2a and so these should be further explored.

Option 1 is clearly much simpler, easier to implement, with little to no ongoing governance requirements, and has a lower risk of unexpected outcomes. The downside of Option 1 as outlined in the Issues Paper is the expectation it would be less efficient than Options 2a and 2b. However, if the quotas for REZ access rights for different technologies were set with regard to the complementarity of expected generation profiles (or actual P50 profiles) of those technologies in that region, then this Option 1 approach may facilitate a higher shared use of network capacity.

Option 2b also warrants further exploration. Options 2a and 2b are substantially more complex proposals than Option 1, and in our view, there are some important issues (discussed below) that must be carefully considered before progressing these options. Furthermore, given the complexity of these proposals, the inherent risks and the lead time and resourcing needs for their development and governance, these options can only be justified by expectation of a significant increase in efficiency. In our view Option 2b could warrant further investigation: with its greater flexibility including shaped/interval access rights to encourage greater 24-hour network use, and the potential for trading these access rights, it has potential for greater efficiency than Option 2a. Option 2a does not offer enough potential benefit relative to risk.

In further development of the Option 2b proposal, two key factors which require consideration are scenarios involving the implications and impacts of negative pricing events and compensation to Tier 1 capacity for lost opportunity to create Large-scale Generation Certificates (LGCs) or any other environmental certificates/attributes applicable in the future, due to Tier 2 led curtailment.

## **Financial compensation and environmental certificates/LGCs**

ACCIONA understands one of the key objectives of the Options 2a and b is to provide financial compensation to generators (Tier 1) due to Tier 2 generator induced curtailment within the REZ. ACCIONA notes that Tier 2 led curtailment would have implications beyond energy revenues for Tier 1 generators. The volume of environmental products able to be created by the Tier 1 generators would also be negatively impacted and therefore financial compensation should also consider lost opportunity to create environmental products and associated revenues of curtailed generation.

As such ACCIONA proposes that the value of curtailed generation, including the value of environmental products, will need to be considered in compensation to these generators.

Consideration will need to be given to valuation methodologies, processes and governance arrangements if the spirit of compensation for former access arrangements is pursued.

### **Financial compensation and negative pricing**

Financial compensation mechanisms during negative pricing also need to be given explicit consideration in the evaluation of the different access options. With increasing penetration of renewable energy in NSW the occurrence of negative priced trading intervals will likely increase.

Renewable generators may have incentive to generate under some negative pricing conditions. The main reason for this is if they have the right to create LGCs for that generation they may still obtain a net positive combined price considering energy and LGCs. Generators set their bidding strategies with this in mind.

ACCIONA believes the arrangement for compensation should take account of this incentive to generate at negative prices. The Issues Paper outlines that under the financial compensation models Tier 1 access right holders are entitled to compensation from Tier 2 access right holders. However, to maintain the status quo bidding and generation incentives, during negative pricing, two-way compensation may be appropriate

Further consideration should be given to how negative pricing events would impact the compensation mechanism, including various scenarios with worked examples.

### **Managing risk in the financial compensation options**

The complexity of Options 2a and 2b raise the risk of developing a mechanism unable to achieve its stated objectives or becoming overly complex in a practical sense. While financial compensation is designed to increase certainty of MLFs and reduce the financial risk of curtailment to Tier 1 generators, it appears to be essentially proposing to transfer this risk to Tier 2 generators, while also asking them to pay an access fee. ACCIONA understands that the NSW Government envisages that generators will not necessarily solely hold Tier 1 or Tier 2 access rights, but instead that some of a project's capacity could hold Tier 1 access rights and some may hold Tier 2.

The broad risk perceived is of investing considerable resources to develop a policy mechanism that is unable to attract Tier 2 participants and thereby unable to fully meet its objectives. It appears the main function of this option is the transfer of volume risk from Tier 1 to Tier 2 capacity. If this is the case, this raises the questions:

- what party will be willing to pay for any access rights that increase their risk of curtailment,

- and will capacity backed by Tier 2 access be financeable?

In the circumstance the risk is transferred from a party less able to manage the risk to a party more able to do so, such as battery storage, this may be of benefit. However, it is not clear that Tier 2 access would suit non-storage capacity.

It also raises the question of what the incentive would be, apart from a lower access charge, for storage projects to connect as Tier 2 generators in a REZ, paying for access rights and accepting a greater risk of curtailment, where there is an option to connect outside of a REZ.

### **Trading of access rights for Option 2b**

ACCIONA supports the proposed market-based trading of access rights to support greater flexibility, cost efficiency and use by those for whom access rights hold the greatest value.

In addition to ACCIONA's specific comments on the proposed Access Options under consideration, we would also make the below comments in relation to proposed aspects of the REZ:

### **'Use it or lose it' provisions and the coordination of project connections**

ACCIONA supports the use of milestone requirements in project development to enable better coordination of project connections and prevent hoarding of access rights for future yet-to-be-developed projects.

Renewable energy projects competing for grid access within a REZ are likely to be at different stages in the development cycle as existing projects are finalised, and many projects will still be in the process of securing their planning and environmental approvals. It would be difficult to completely align the development stages of competing projects, nor would it be productive for labour markets and equipment suppliers, if projects were to proceed to construction at the same time.

A two-stage commitment process could be explored – such as a 'commitment to develop' and a 'commitment to connect', with set milestones. This would increase the field of eligible projects and allow substitution of projects should certain development milestones not be met, or unforeseen circumstances occur. At the same time, this would allow developers to have greater certainty that the transmission infrastructure will be delivered in line with the timeframe for development of their projects.

A 'Commitment to Develop' offer could be made by developers through an auction process at the time that existing projects are finalised. Potential generators could provide

commitments in the form of financial security and various milestones for development of a proposed asset, in return for securing future connection rights.

Once the potential generating asset receives all necessary approvals, a 'Commitment to Connect' could then be offered around time of Financial Close. Similar to above, this will include commitment milestones for build schedule of the asset and the bulk of the financial securities for connection now payable. Should any generators be unsuccessful in obtaining approvals or not meet their committed milestones, their earlier 'Commitment to Develop' financial securities are surrendered, and the connection capacity is opened up to the market.

### **Improvements to enhance certainty in connection processes**

The establishment of REZ signals to developers that the NSW Government supports the development of renewable energy projects in those regions. However, as many of these REZ hinge on as-yet unbuilt transmission assets, uncertainty for developers is still high. The NSW Government could harness developer interest in the REZs by considering opportunities that would allow developers to have a greater degree of certainty over the connection process. The greatest value could be delivered by:

- facilitating the submission of early Connection Enquiries with TNSPs in order to allow earlier progression of grid connection studies for potential projects, and
- allowing credible projects to be prioritised in the connection process, if certain development requirements and timelines are met.

Furthermore, ACCIONA would like to emphasise the importance of close coordination with TransGrid in the design and build out of the REZ network infrastructure to ensure it is fit for purpose considering both existing and future network, generation and load requirements.

### **Common connection assets**

ACCIONA welcomes the focus on reducing the barriers to coordinate connection assets for multiple projects and facilitating discussions between connecting generators. We encourage the NSW Government to continue to explore how this might be implemented.

For projects located on the fringe of a REZ, the NSW Government could facilitate the development of:

- shared transmission assets to connect multiple projects on the fringe of an REZ, or
- dedicated connection assets for high value fringe-of-REZ projects.

## Transparency and information sharing

In conclusion ACCIONA notes the importance of earliest possible information sharing on the planning of the REZ, including:

- the planned capacity (access rights) of the REZ by technology
- the process and timing of allocation of access rights (including if applicable the breakdown between Tier 1 and 2), and
- how the access fee will be structured and levied.

## Conclusion

ACCIONA supports the objective of better coordinating transmission and generation investment with the objective to enhance the efficiency of use of network infrastructure. As stated ACCIONA believes there is merit to Options 1 and 2b and supports their further consideration. That said, Option 2b as outlined in the Consultation Paper requires deeper exploration and potentially entails risk to the NSW Government that it will not attract investment to improve efficiency and reduce consumer cost as envisaged.

ACCIONA would like to thank the NSW Government for the opportunity to participate in this consultation process. We would welcome the opportunity to assist the development of these proposals further in consultation with NSW Government and contribute our experience to date in developing, constructing, owning and operating renewable energy assets in Australia.

If you have any questions in relation to our response, please contact Melanie Sutton [REDACTED] to discuss further.

Yours sincerely



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ACCIONA