

30 April 2021

Department of Planning, Industry and Environment,  
NSW Government  
Submission sent to: rez@planning.nsw.gov.au

Level 22  
530 Collins Street  
Melbourne VIC 3000

Postal Address:  
GPO Box 2008  
Melbourne VIC 3001

T 1300 858724  
F 03 9609 8080

## Central–West Orana Renewable Energy Zone Access Scheme Issues Paper

AEMO welcomes the opportunity to provide feedback on the DPIE's Consultation Paper on the Issues Paper for the Central–West Orana ("CWO") Renewable Energy Zone ("REZ"). The Issues Paper is a welcome discussion on how an access scheme could work within the CWO-REZ.

A REZ should more efficiently coordinate the building of connection and shared transmission assets with new generation and storage, reducing overall costs. The premise is that consumers accept some risk in this process because savings through coordination outweigh the risks from over or under supply in transmission that could come from the central planner's determination of where and how to build the REZ.

Noting that the context of this consultation is prior to finalisation of the regulations for Long Term Electricity Supply Agreement (LTESA) auctions and the design of REZ access pricing and auctions, please accept AEMO's submissions as provisional subject to further understanding of the interrelated incentives for investors in the NSW Electricity Infrastructure Roadmap.

Access pricing within the CWO-REZ would encourage efficient use of the REZ assets so the benefits of coordination are realised. If the access scheme charges too much the consumer is exposed with low levels of subscription possibly resulting in stranded assets or, if the access scheme charges too little, subscriptions may be excessive and the consumer may be exposed to costs of inefficiently enlarging the REZ to meet further demand for connection. An access scheme should provide confidence for subscribers to enter the REZ up to the planned, efficient level so they can benefit from the reduced costs of coordination, and then discourage further entry.

AEMO suggests an access charge with a subscription model: Option 1, the "Limited physical connection model" is worth investigating further.

This is because it is the rationing and pricing of connection and access that directly addresses the core problem of how to efficiently use the REZ assets, so the benefits of coordination are realised<sup>1</sup>. Ignoring the design of LTESAs, for Options 2A/2B, it is the pricing and allocation of Tier 1 rights which directly addresses the problem: if a REZ only has Tier 1 rights or Developers are only interested in Tier 1 rights, and if these are rationed, then it is the same as Option 1 - because there is no one (Tier 2 right holders) to pay compensation.

---

<sup>1</sup> AEMO understands the NSW Govt policy is also to issue Long Term Electricity Supply Agreements (LTESAs) to generators and these may also encourage connection within the REZ.

Noting it is the setting of access prices that will drive investment and improvements in dynamic efficiency through allocating capital, the incremental benefit of a real time financial compensation scheme, is in productive efficiency driven by differences in marginal cost. However, if the marginal cost between generators in a REZ are similar, it follows the incremental productive efficiency gains may be low, undermining the need for a compensation scheme in the first place.

In addition, Option 1 is preferable because of the complexity of implementing option 2A or 2B. If the NSW Govt is inclined to preference Option 2, AEMO prefers Option 2A as it allows for greater utilisation of the REZ without the additional complexity of a Trading Interval level set of access rights.

#### *Complexity associated with Option 2A and 2B*

AEMO highlights that Option 2A and 2B would require the definition of Constraints and Availability to be addressed.

Of the potential options discussed in the appendix, AEMO prefers Availability defined in terms of volume and settlement price which does not reward participants for bidding the plant out of the market. The last option would be very complicated to administer and would effectively create a new dispatch approach based on a bid stack. Inevitably this will produce different results to the NEM Dispatch Engine (NEMDE) which will be confusing for Market Participants.

Generators can be constrained for a variety of reasons not just related to transmission line capacity. There would be a need to specify which constraints are taken into account. There are also semi-scheduled dispatch caps for generators which apply for various reasons including testing and non-conformance with bids.

In essence, either 2A or 2B would mean performing an ex-post settlements reallocation function which would be administratively complex. There would also be credit and prudential issues to address. The compensation regime would also need to consider the LTESAs that are in place at the time as compensation may not just be a function of the RRP but may also need to reference the strike price of any derivative contract (depending on Terms and Conditions in the LTESA).

AEMO also observes the introduction of Tier 2 compensation does nothing to solve Tier 1 access holders from being constrained off by non-REZ generators. All else being equal, the introduction of option 2a or 2b may incentivise generators to connect outside of the REZ, to enjoy the same similar access as tier 1 REZ generators but without having to pay for access rights. This may be a further reason to use Option 1 over a financial compensation model.

#### *Immediate solution*

Whilst the price for access may be affected by many factors, including bidding competition, it is unlikely the price would be zero because connecting generators should be willing to pay at least the avoided costs of connection assets (which would likely be more expensive if connecting elsewhere i.e. outside the REZ) and instead be more likely to pay a premium for connection



inside the REZ due to the availability and speed of connection. AEMO notes that generators/developers are likely to reflect access charges into their offer price in the LTESA auctions.

The ESB is exploring options for the medium and long term solution. AEMO suggests the NSW Government liaise with the ESB on how Option 1 could be a transitional measure to these medium and long term solutions.

#### *Focusing on storage within a REZ*

An argument for introducing a financial compensation regime may be to incentivise the use of storage within a REZ. AEMO assumes the arrangements under Option 2 may result in storage charging, paying the RRP and then being compensated by Tier 2 access holders.

AEMO also suggests there may be opportunities for storage to be incentivised in a REZ, through the REZ generators investing in storage to reduce access charges under Option 1, or the network company using storage to improve the performance of the REZ network assets and reduce the amount of investment needed in them (a non-network option). This may be useful, because the network company could incentivise storage to charge by paying storage the equivalent of Tier 2 compensation under a non-network agreement, or it could pay it access charges equivalent to those paid by REZ generators and requiring the storage facility to support the network at times of constraint.

#### *Closing remarks*

In this submission AEMO has highlighted the difficulties of implementing an access scheme for the CWO-REZ within the broader NEM dispatch and access framework. Subject to further information on the auction arrangements for both LTESA and Access Pricing, AEMO suggests Option 1 may be more appropriate than Options 2A/2B. AEMO welcomes the opportunity to provide further input as the CWO-REZ access regime progresses. Should you wish to discuss any of the matters raised in this submission, please contact Kevin Ly, Group Manager Regulation on [REDACTED]

Yours sincerely



Tony Chappel  
**Chief External Affairs Officer**