

7 September 2020

Energy Security Board
COAG Energy Council Secretariat
Department of Industry, Science, Energy and Resources
GPO Box 2013
CANBERRA ACT 2601

Submitted via email: info@esb.org.au

Dear Sir/Madam

Re: ATCO Response to Consultation Paper and Draft Rules – Interim REZ framework

Thank you for the opportunity to respond to the consultation paper and draft Renewable Energy Zones (REZs) Planning Rules published on 11 August 2020. This submission outlines ATCO's response in respect to the questions identified in the consultation paper for stakeholder input.

Overarching comments

ATCO has made this submission from the perspective of a potential investor in generation, storage and transmission assets within REZs. REZs provide an opportunity for the private sector to bring new capital and competition to the marketplace, but the framework needs to support new entrants, provide revenue certainty and clearly allocate risk.

With this context we would like to emphasize the following key points which support a level playing field within the market for REZ development:

- Assigning responsibility to the Jurisdictional Planning Body (JPB) for the REZ design report needs to provide flexibility for the State Governments to select parties other than the incumbent transmission network service provider (TNSP) to produce design reports. For example, ATCO proposes an alternate approach that would require the State Government in each jurisdiction to appoint a master developer for each REZ or allow an independent body such as Australian Energy Market Operator (AEMO) to undertake the role across the national energy market.
- ATCO would like to see an alternative funding mechanism for REZ design reports in addition to recovery via regulated revenues, as the proposed approach provides an advantage to incumbents and will deter new entrants to the market. ATCO suggests a model for funding arrangements that is controlled by the State Government and allocated to the creation of design reports on a case by case basis for each REZ.
- ATCO supports the proposed staged approach to REZ development, however additional clarity is required as to whether an asset will change its classification between unregulated and regulated as a result of the staged approach.

Response to select questions

ATCO's response to a selection of questions from the consultation paper are detailed below:

Question 2 - Should the REZ planning framework promote a staged approach to REZ development?

ATCO supports the proposed staged approach to REZ development to enable coordination of generation and transmission investment and ensure efficient transmission costs.

Whilst we recognise the benefits of a staged approach, further detail is needed on the framework that will provide investors with certainty. The consultation paper recognises that a staged approach may lead to both the integration of transmission assets within the regulated framework, but also allow for unregulated transmission assets to develop in response to multiple user needs.

In order to attract the new private sector capital to REZs and facilitate competition in the marketplace, revenue certainty and clear risk allocation are key. ATCO understands that a staged approach could lead to a combination of regulated assets and unregulated assets. The move from unregulated to regulated asset as a result of the staged approach is unclear, however ATCO would like to see the asset proponent have a level of discretion in its ability to change classification of the asset. Any investment decision will take into account the impact of the framework and the possible reclassification of assets between regulated and unregulated in its decision-making.

Question 3 - Should the Jurisdictional Planning Body (JPB) be responsible for designing REZs?

ATCO would like to see the State Governments have greater flexibility in allocating REZs design reports to parties other than the nominated JPB.

From ATCO's perspective, the question of who is responsible for designing the REZs is key to attracting new capital to REZs and ensuring competition with the existing transmission network service providers.

REZ design should be undertaken by a party with the ability to plan the REZ to meet the needs of all users and interests. Whether this best lies with the TNSP or another independent body, depends on balancing the interests of the local community, energy consumers, the overall power system, the transmission and the energy markets with long term consideration of the emerging requirements for energy security and reliability.

The incumbent TNSP has an important role to play in planning a REZ given the integrated nature of transported electricity from generation to load centre, but does not require complete control over the process. ATCO recognises a role for TNSPs in the overall coordination and development of the regulated network within each jurisdiction; however, the TNSPs are also pursuing commercial interests through the development of unregulated assets and connection services, which may conflict with the interests of the shared network.

The preparation of a REZ design report will include coordinating expressions of interest from generation, engaging with the local community and preparing the initial cost estimate. The information gathered from this process will provide an incumbent TNSP an information advantage over any other party that may seek to invest in the REZ to provide transmission services, should the TNSP be conferred the responsibility for design planning. Furthermore, the proposed approach, creates the perception that the TNSP could skew design planning towards utilisation of their assets rather than an efficient design that would utilise assets in the REZ that may be owned by other parties. The proposed approach could result in a less optimal outcome for the REZ and may not deliver an efficient solution for consumers.

ATCO considers a level of independence is needed in the design of REZs. ATCO proposes an alternate approach to co-ordinate the transmission and generation investments that has regard to the needs of communities and developers. Our alternate approach would require the State Government in each jurisdiction to appoint a master developer for each REZ which would be subject to a certification process that ensures the developer has the appropriate organisation capability (including technical and financial) or allow an independent body such as AEMO to undertake the role. The process must ensure the JPB, other TNSPs, AEMO and private developers have access to undertake this role. Once appointed the master developer will then be responsible for preparing the REZ design report.

An approach, such as above, that provides greater flexibility in allocating REZs design reports is consistent with considerations in the consultation paper, which contemplates a role for the State Governments in REZ development in that it states “State Governments with REZ developments located within their jurisdiction may wish to enter into a Memorandum of Understanding or other arrangement with their JPB to provide a clear framework for government input to the REZ design report”.

Question 4 - Should the ISP be the vehicle for triggering a REZ design report?

The biennial Integrated System Plan (ISP) should not be the only vehicle to prompt a REZ design report, which should be able to be triggered at any appropriate time.

The activity of renewable energy developers may also provide an impetus for design planning not prioritised in the ISP. It is acknowledged that the ISP would ultimately validate each REZ development as part of overall power system planning.

ATCO considers that State Governments should have the ability to nominate a master developer and commission a REZ design report for each jurisdiction as a matter of priority, in addition to any need identified and triggered by the ISP.

Any REZ design report and ultimately the REZ development would need to be evaluated and incorporated within the ISP, to ensure co-ordination across the entire power system.

Question 11 - Do the proposed funding arrangements support the delivery of the REZ planning framework?

The consultation paper suggests that the REZ design activities should be treated as core planning activities of the TNSP and included with the operating expenditure allowance as part of a revenue determination. In practice, this provides a funding arrangement for incumbent TNSPs only and does not provide new entrants or unregulated master developers with a direct mechanism for cost recovery.

TNSPs would be provided with a significant advantage in the market if this approach alone was adopted and a funding model that promotes new competitive investment would be preferred.

ATCO would suggest a model for funding arrangements that is controlled by the State Government and allocated to the creation of design reports on a case by case basis for each REZ to promote competitive new investment. The proposed mechanism should not affect unregulated projects and result in situations whereby the regulated entity subsidises the unregulated opportunity.

About ATCO

ATCO has been proudly operating in Australia and providing employment opportunities for almost 60 years. ATCO is a customer-focussed global company that develops, builds, owns and operates a range of energy infrastructure assets, supporting residential, business and commercial consumers. ATCO is

committed to investing in its people, innovation and technology to drive leading-edge application-based research.

In Australia, ATCO:

- owns and maintains the largest (Mid-West and South-West) gas distribution network in Western Australia, together with two non-regulated gas distribution networks in Albany (LPG) and Kalgoorlie (natural gas), servicing over 760,000 connections through more than 14,000 km of natural gas pipelines and associated infrastructure;
- owns an exempt retailer (Source Energy Co.) in the Wholesale Electricity Market that provides electricity to around 500 embedded network customers in strata developments through a combination of solar photovoltaic systems, grid purchases and battery storage;
- owns and operates two power generation facilities (a joint-owned facility in Adelaide and a wholly-owned facility in Karratha) with a combined capacity of 266 MW;
- is drawing on its established expertise in natural gas to explore the future role of hydrogen through a number of projects, including the Clean Energy Innovation Hub (an embedded hybrid microgrid system that incorporates renewable solar generation, battery storage, natural gas backup generation and blends green hydrogen produced with natural gas used onsite), are working in collaboration with Fortescue Metals Group to establish a hydrogen refuelling facility at the Hub, and are currently conducting a feasibility study into the development of a commercial scale renewably hydrogen production facility, the Clean Energy Innovation Park; and
- manufactures and delivers modular building solutions to a diverse group of customers.

ATCO's Australian businesses are part of the worldwide ATCO Group with approximately 6,500 employees and assets of \$22 billion. ATCO is a diversified holding corporation with investments in Structures & Logistics (workforce housing, innovative modular facilities, construction, site support services, and logistics and operations management), Energy infrastructure (electricity generation, transmission and distribution; natural gas transmission, distribution and infrastructure development; energy storage and industrial water solutions; and electricity and natural gas retail sales), Transportation (ports and transportation logistics) and Commercial Real Estate.

Yours sincerely



J.D. Patrick Creaghan
Managing Director & Chief Operating Officer