

11 February 2021

Energy Security Board  
Level 15  
60 Castlereagh Street  
SYDNEY NSW 2000

*Submitted by email [info@esb.org.au](mailto:info@esb.org.au)*

Dear Sir/Madam

### **Interim Renewable Energy Zone Framework Stage 2 Consultation Paper**

Thank you for the opportunity to respond to the consultation paper on the implementation of Renewable Energy Zones (REZs) published on 5 January 2021.

This submission from ATCO follows a previous submission to the consultation paper on Step 1 of the framework. ATCO appreciates the ongoing work of the Energy Security Board in consulting widely on the framework for the development of REZs.

We make this submission from the perspective of a new investor in storage, generation, and potentially transmission assets within REZs. Our expectation is that the framework developed by the Energy Security Board will facilitate innovation and competition in the market across the value chain by encouraging new entrants to bring capital into the market.

In our recent submission to the Australian Energy Market Commission (AEMC), on its proposed rule change for dedicated network connection assets, we expressed concern that the preferred rule proposed by the AEMC appeared to favour incumbent transmission network service providers (TNSPs) with monopoly power over the new entrants. Our concern was that it provided for the operation, maintenance and control of access arrangements for new designated network assets to lie with the incumbent TNSP, further advantaging incumbents and potentially deterring new entrants to the market. Owners of dedicated network assets would be unable to exercise full control over their asset and would be reliant on the TNSP for connection.

### **Overarching comments**

ATCO makes the following overall comments on the concepts identified in the consultation paper to create the REZ framework:

- the creation of REZs will provide a pathway for new participants to enter the market and improve competition;
- the appointment of REZ coordinator, on a REZ by REZ basis is supported;
- greater detail is needed on the functions of the REZ coordinator and funding mechanism; and
- in the short term State governments are best placed to appoint an REZ coordinator that is independent and able to encourage new investors, while generating competition amongst all participants in the market. This arrangement should be reviewed after a period of time to ensure it is operating as expected.

## Response to select questions

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

### *Question 1 - Are REZs an appropriate interim solution to the challenges associated with open access?*

ATCO considers that the creation of REZs to be a pathway for new participants to enter the market driving innovation and improving competition. REZs provide an opportunity for the private sector to bring new capital and competition to the marketplace, however the framework needs to support new entrants, provide revenue certainty and clearly allocate risk. Investment signals provided by the framework need to promote coordination between investment in generation, connection asset owners and regulated network businesses.

As REZs are only a partial (localised) solution to the broader challenges of access reform, it is important that incentives to invest in REZs or outside the REZ are not distorted by the interim solution. Our preference is that a comprehensive solution applies on a market-wide basis, rather than in isolated pockets, to ensure that opportunities for new participants to enter the market through REZs are realised across the NEM.

### *Question 5 - Which party is best placed to perform the role of REZ coordinator where the REZ is being developed in accordance with the regulatory framework? Should the decision regarding the identity of the REZ coordinator lie with the State government?*

ATCO supports the creation and appointment of a REZ coordinator, on a REZ by REZ basis, by the State Government. ATCO considers that State Governments are best placed to balance the needs of the local community, State interests, the jurisdictional economic environment and have an inherent interest to attract new capital and maintain competition within the existing transmission network service providers.

The REZ Coordinator will need to balance 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 Consultation Paper identifies a range of parties that could be appointed the REZ coordinator, of which ATCO would support the Australian Energy Market Operator or a specialist government entity undertaking this role. In our view, it is crucial that the REZ coordinator is independent of the TNSP to ensure that REZ design, costs and connection scheduling achieve the best outcome for the REZ.

ATCO considers that the range of parties should be expanded to include an independent private body that could act as commercial master developer (subject to a certification process that ensures the developer has the appropriate organisation capability including technical and financial) to coordinate the development of the REZ. This will send a strong signal to investors seeking to participate in a coordinated development and give investors' confidence in light of perceived bias towards incumbents and the numerous challenges currently facing new generation developments. This option would perform a more active role in REZ development than the functions initially anticipated for the REZ coordinator and further consideration of the detailed functions would be needed.

### *Question 6 - Are the functions to be undertaken by the REZ coordinator in the regulated model appropriate?*

The Consultation Paper lists the functions of the REZ coordinator as overseeing cost and cashflows, holding a generator auction, allocate capacity to successful generators, and manage the access rights. Other roles of REZ Coordinator include:

- specifying minimum requirements for parties participating in the REZ process;

- selecting the successful tenderers;
- returning net auction revenue to customers;
- providing information to help transmission planners assess whether future REZ stages should proceed; and
- managing the access regime that applies within the REZ.

ATCO supports the creation of the role of REZ Coordinator as it provides a degree of independence to the administration of the capacity and access arrangement process. However, there is a level of uncertainty on the detailed responsibilities of the role. For example, it is unclear whether the REZ coordinator will also assume design for the REZ and how the costs associated with design will be recovered. As suggested in the response to Question 5, should the REZ coordinator undertake the role of an active master developer in the REZ, the functions of the coordinator will need to be expanded to include design, ability to own and construct assets and management of risks arising from conflicting interests.

Clarity is needed on the funding mechanism for the REZ coordinator. No information has been provided in the consultation paper on this mechanism. Auction revenue from capacity rights could be an efficient and fair method for funding. However, there may be a need a different cost recovery mechanism depending on which party is appointed as the REZ coordinator and to avoid distortions in generation investment in the REZ or outside the REZ.

*Question 14 - Should the REZ framework contemplate brownfields developments? If so, should developers have the ability to influence the location and configuration of the REZ transmission assets within a brownfields REZ?*

ATCO considers that the REZ framework should contemplate brownfields developments where a REZ can be built around existing generation assets and where an independent commercial master developer (subject to a certification process that ensures the developer has the appropriate organisation capability including technical and financial) coordinates the development of the REZ. These developments should be optimised for the benefit of resource efficiency in NEM and not be disadvantaged by changes in the REZ framework.

Thank you for providing ATCO with the opportunity to have input into this proposed regulatory framework.

If you have any questions or would like to discuss any of these issues further please contact me or Ben Bolot, Executive General Manager, Business Development on 0400 995 022.

Yours sincerely



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