

Our ref: RN

12 February 2021

Dr Kerry Schott AO
Independent Chair
Energy Security Board

Lodged by email: info@esb.org.au

Dear Dr Schott

Submission on Stage 2 REZ Framework

CleanCo welcomes the opportunity to comment on the Energy Security Board (ESB) Stage 2 Renewable Energy Zone (REZ) Framework Consultation Paper.

CleanCo is Queensland's newest electricity generator. Our purpose is to support the reliable, affordable integration of renewable energy into the Queensland grid, and to provide firmed low-emissions energy at a competitive price for customers. We will contribute to the achievement of Queensland's 50 per cent renewable energy target by 2030 by supporting 1,400MW of new renewable generation by 2025 and will support new investment and jobs in regional Queensland. CleanCo supports rule and policy changes that facilitate an affordable, reliable supply of clean energy to customers into the future.

CleanCo sees a need for a practical framework to develop REZs in a timely and low-cost manner. We support the ongoing work in the Integrated System Plan (ISP) and ESB's Stage 1 REZ framework to set out a pathway to facilitate network investment in appropriate areas of the grid, and to provide guidance to investors on the most prospective areas to start investigating renewable energy developments.

We see opportunities to simplify the Stage 2 proposal and to provide greater certainty to investors through a more direct regulated approach. We hope the suggestions herein further support network investment in a timely manner, provide certainty to attract investors, and manage ultimate costs to consumers.

A simple proposal to facilitate REZs

There is currently insufficient transmission and connection infrastructure in the areas of the grid that have the potential to supply the lowest-cost energy to customers. A primary intent of Renewable Energy Zones is to support coordinated and therefore more efficient development of renewable resources – we believe the most urgent need is a simple framework to allow this to occur.

CleanCo believes the simplest way to facilitate REZs is:

- (a) To use the ISP to identify the lowest-cost (and most needed) REZ options across the National Electricity Market (NEM) and to propose high-level capacity/timing expectations;

- (b) To use the regulated investment test for transmission (RIT-T) to confirm the ISP findings, lock in capacity and timing and provide appropriate consumer protections (as for any transmission investment). Consider wind, solar, and storage capacity and interdependencies as part of the test;
- (c) Once the above mechanisms have been used to minimise costs, to distribute costs among generators in a way that draws investment to the REZ. One option is to use a regulated connection charge (similar to the proposal for system strength in REZ) and target a price that is lower than the cost of connecting outside the REZ. Structuring the charge as an annual fee rather than an upfront lump sum would further support proponents' involvement.

Open v Firm Access

Our discussions with industry participants suggest that access reform is not a critical issue and the lack of firm access has not slowed investment to date. In general, generators also appear willing to deal with an appropriate amount of congestion.

While firm access may allow generators to place higher bids in an auction, we expect the focus on firm access will lead to under-utilisation of the REZ infrastructure because the REZ coordinator will be cautious not to over-sell capacity and the barriers to entry for subsequent generation will be higher. This under-utilisation and reduced competition in the wholesale market would ultimately show up in increased cost to customers.

While firm access for generators is appropriate where generators fund the network infrastructure and bear the long-term risk of that investment, it may not be appropriate where consumers ultimately bear the risk of the transmission investment. If consumers are paying for (or at least taking risk on) the network, then they should receive the benefit of ensuring that the lowest-cost mix of generation will be connected, both now and in the future. In essence, our current regime gives firm access to customers, who ultimately pay for the grid and benefit from the network transporting the cheapest energy.

If access reform remains in scope for Stage 2, we consider Options 1 and 2 from the consultation paper appear to offer the most promise. Option 1 is simple but it could lead to under-utilisation of network/REZ assets if it is too restrictive. Option 2 appears feasible but may require complicated multi-party agreements. We would look forward to considering further detail on the potential implementation and benefits of these options.

Auctions and Staging

CleanCo prefers market-based solutions over regulated approaches wherever practical. However, we believe it will be challenging for a REZ coordinator to optimise auctions for REZs in a manner that provides the best outcomes for industry and consumers. This is because:

- (a) there is a disconnect between when a proponent needs to know they can access the grid and when they can commit to it; and
- (b) a staged or iterative process may reduce investor certainty and make it harder to plan projects.

Proponents invest millions of dollars into planning a project before they can commit to a connection. One of the benefits of the open access regime is that a proponent knows they will be able to access the grid once their project is ready. The staged, auction-based approach does not provide this certainty. The auction process means a proponent may not obtain a connection, and the staged process creates uncertainty as to whether future auctions will occur.

We believe the ISP and the RIT-T process provide sufficient oversight by identifying the lowest-cost options for connecting generation in the NEM and that iterative auctions are unnecessary. REZs exist to increase certainty and draw investment; an upfront clearly defined set of parameters for each REZ does this best. Increased uncertainty within REZ may make areas outside the REZ look more attractive to investors.

TNSPs could still draw on new technologies and hone energy mixes within a REZ to reduce costs to customers, within the frame of a total committed capacity and timing of that capacity. For example, a 'lessons learned' process could be formalised and applied to future REZs before commitments are made.

As outlined above, CleanCo views a regulated connection charge as preferable to auctions for the certainty it would provide to investors and the flexibility it would provide to connect generation in line with market requirements. If auctions are selected as the process to gain access, they should be committed and communicated as far in advance as possible.

REZ Coordinator

We support establishing REZ Coordinators to help plan and drive REZs in each jurisdiction. A national body would enhance alignment to the ISP, focus on total system costs and opportunities for sharing learnings. A model that delivers foresight and certainty may be compelling enough to tempt jurisdictions to grant this power to a national body.

We thank the ESB for the opportunity to make a submission on this process. If you have any questions about our submission, please contact Rimu Nelson, Principal Advisor, Regulatory at rimu.nelson@cleancoqld.com.au or on 0455 080 871.

Yours sincerely



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