



12 February 2021

Dr Kerry Schott AO
Independent Chair
Energy Security Board

Submitted via email: info@esb.org.au

Dear Dr Schott

Stanwell Response to Consultation Paper on interim Renewable Energy Zone framework

Stanwell appreciates the opportunity to provide feedback on the Energy Security Board's (ESB's) consultation paper on the interim Renewable Energy Zone (REZ) framework.

Please note, this submission contains the views of Stanwell Corporation Limited in relation to the interim REZ framework information provided to date and should not be construed as being indicative or representative of Queensland Government Policy.

1. Introduction

Stanwell supports the ESB's interest in REZs as a potential mechanism to improve locational signals for new variable renewable energy (VRE) investment in the National Electricity Market (NEM), and encourages further examination of the range of options for how REZs could be implemented in a way that benefits consumers.

However, Stanwell is concerned that REZs are being portrayed by the ESB as a stepping-stone to broader transmission access reform (TAR) rather than an alternative to TAR. This appears to be a marked change in the ESB's position on the potential role of REZs in coordinating generation and transmission investment.

Further, REZs do not address stakeholder concerns that TAR is complex, introduces additional risks to participants and additional costs to consumers. Stanwell maintains that the TAR currently being pursued by the ESB has neither a demonstrated need nor an expected net benefit for electricity consumers.

Stanwell suggests the ESB builds on the considerable work and consultation that has occurred to date to develop REZs as a stand-alone mechanism for addressing the purported issues with efficient locational decisions, dispatch and network use.

2. Interaction of REZs and TAR

Stanwell does not agree with the ESB's position that REZs are not a stand-alone alternative to TAR but are instead a stepping-stone to TAR. REZs are one of the levers available to the ESB in addressing the perceived issues with efficient investment,

dispatch and network utilisation. As recently as the REZ planning consultation paper and draft rules in August 2020, the ESB was highlighting the role REZs could play in co-ordinating transmission and generation investment:

“...a mechanism is required to co-ordinate the transmission and generation investments. Orderly renewables development will help to reduce risk associated with network congestion, low marginal loss factors and technical difficulties. REZs are a means of giving effect to orderly renewables development. They can promote more efficient and effective connection of generators including co-ordinated consideration of security issues.”¹

The locational signals provided by REZs, in conjunction with the other locational signals available (e.g. marginal loss factors, network congestion), will enable investors to determine the locations on the network that provide the highest expected returns from new generation capacity without further TAR. Stanwell suggests the ESB builds on the considerable work and consultation that has occurred to date to develop REZs as a stand-alone solution to the issues TAR purports to address.

3. Stakeholder support for REZs

Stanwell is concerned that ESB may be conflating stakeholder support for REZs (either as a stand-alone solution or as part of a staged approach to market reform) as stakeholder support for REZs as a stepping-stone to TAR.

To be clear, when Stanwell discussed *“the effectiveness of the ISP and REZs in guiding investment decisions”* in its October 2020 submission to the TAR interim report, it envisaged the implementation of REZs as an alternative to TAR.²

Examining the feedback provided in other submissions to the report shows some stakeholders explicitly recommended REZs as an alternative to TAR:

- AFMA: *“...alternatives [sic] approaches to addressing the issues that AEMC’s transmission access reform seeks to address include:
...
• Renewable Energy Zones.”³*
- Canadian Solar: *“Actioning the Integrated System Plan and the development of Renewable Energy Zones will assist to address congestion and provide locational signals for new generators far more effectively than COGATI.”⁴*
- Tilt Renewables: *“The obvious candidate for better coordination of future transmission and investment is a clear, national framework for REZs.”⁵*

Many of the participants that recommended a staged approach qualified this support by stating early stage reform should be given time to demonstrate its impact on the market before proceeding with additional reforms such as TAR. For example:

- CS Energy: *“Introduction of some form of LMP-FTR should be revisited only after the other major reforms and post 2025 design changes have been implemented*

¹ ESB, Renewable Energy Zones Planning consultation paper and draft rules, August 2020, p2.

² Stanwell submission to Transmission Access Reform interim report, October 2020, p21.

³ AFMA submission to Transmission Access Reform interim report, October 2020, p9.

⁴ Canadian Solar submission to Transmission Access Reform interim report, October 2020, p2.

⁵ Tilt Renewables submission to Transmission Access Reform interim report, October 2020, p4.

*and adequate time has been allowed for the reforms to establish and reveal any residual gaps...*⁶

- Origin: *“Origin does not support the implementation of COGATI and suggest that market bodies should instead:*
 - *Focus on resolving coordination problems, including through the renewable energy zone (REZ) work and the continued development of the Integrated System Plan (ISP).*
 - *Only consider broader changes to the access regime (including options other than COGATI) once coordination issues are resolved.”*⁷

Stanwell urges the ESB to clarify with the broad range of stakeholders that supported developing arrangements for REZs whether that support was for REZs as a stepping-stone or a stand-alone solution.

4. REZs do not address concerns with TAR

Stanwell would like to understand why the ESB believes that REZs *“mitigate the important negative impacts [of transmission access reform] identified by stakeholders”*.⁸ As noted in the ESB’s consultation paper, stakeholders expressed a number of concerns with TAR:

*“Generators expressed concerns about complexity, uncertainty, and increased risk associated with this solution. Customer representatives expressed mixed views about whether the substantial benefits would be realised in the current environment.”*⁹

In its submission to the October 2020 TAR consultation paper, Stanwell detailed numerous material issues with the current iteration of the proposed TAR, including:

- *“Investor certainty and cost of capital will not be improved by 3 month Financial Transmission Rights (FTRs) available up to 10 years in advance;*
- *FTRs do not protect established generators from the inefficient locational decisions of new entrants;*
- *Race-to-the-floor bidding will not be eliminated;*
- *Dynamic loss factors will continue to reflect the physics of generation located on congested parts of the network far from major load centres;*
- *Generator revenue certainty is expected to worsen, as even generators holding FTRs are potentially exposed to price risk and volume risk; and*
- *Contract market liquidity is expected to decrease, reducing retail competition and increasing retail prices for consumers.”*¹⁰

Stanwell also expressed concerns about the purported net benefit of TAR for consumers. HARD software’s estimated IT implementation costs appear to vastly understate implementation costs of both the Australian Energy Market Operator (AEMO) and market participants. Conversely, NERA’s modelling of potential benefits appears to vastly overstate the expected benefits of the proposed access reforms.

⁶ CS Energy submission to Transmission Access Reform interim report, October 2020, p2.

⁷ Origin submission to Transmission Access Reform interim report, October 2020, p1.

⁸ ESB, Interim REZ framework consultation paper, January 2021, p23.

⁹ ESB, Interim REZ framework consultation paper, January 2021, p18.

¹⁰ Stanwell submission to Transmission Access Reform interim report, October 2020, p3.

Stanwell believes further work is required by the ESB to substantiate how the proposed REZ options address any, let alone all, of the important negative impacts on consumers of the current iteration of TAR raised by stakeholders.

5. TAR is not the only option

The ESB claims that TAR is the only option to drive investment and dispatch efficiency across the NEM:

“Locational marginal pricing with financial transmission rights is the only alternative put forward to date which can work across the whole of the NEM and drive both more efficient investment and more efficient dispatch and use of the network.”¹¹

Stanwell is concerned that over the course of recent transmission access reviews, market bodies do not appear to have considered alternative options put to them to address the perceived issues with current access arrangements.

Aside from support for the ISP and REZs as alternatives to TAR detailed above, participants have provided a number of alternatives to increase the locational signals available to potential participants to inform locational decisions, driving efficient investment and network utilisation. Submissions to the September 2020 TAR interim report included a range of recommendations for alternatives that would deliver the bulk of the benefits of TAR without the additional risks and costs, such as:

- *“Redeveloping the National Electricity Market Dispatch Engine (likely to be required for the implementation of the South Australia-New South Wales interconnector) to incorporate locational load, reduce model-induced inefficiency and increase locational signals for publication;*
- *Producing network congestion maps to show potential participants the areas of the transmission network where there is currently sufficient network capacity for additional generation capacity to be added”;*¹²
- *“Improved market visibility of forecasted transmission congestion, such as constraint information and transfer limits”;*¹³
- *“Changing dispatch during instances of tie-breaking during race-to-the-floor bidding”;*¹⁴
- *Introducing synchronous service markets; and*
- *Increase use of runback schemes.*¹⁵

Stanwell is concerned that the ESB is progressing TAR without considering and properly assessing potential alternatives. Failure to consider and assess alternative options to address the perceived issues with the existing transmission access scheme could result in a sub-optimal market design being adopted to the detriment of both consumers and market participants.

Further, the ESB’s apparent commitment to TAR also precedes finalisation of the high-level post-2025 market design reform package. Progressing individual reforms before the high-level design has been finalised means neither the market bodies nor participants can gauge consistency between the numerous aspects of the proposed market design

¹¹ ESB, Interim REZ framework consultation paper, January 2021, p22.

¹² Stanwell submission to Transmission Access Reform interim report, October 2020, p5.

¹³ CS Energy submission to Transmission Access Reform interim report, October 2020, p7.

¹⁴ AFMA submission to Transmission Access Reform interim report, October 2020, p9.

¹⁵ Hydro Tasmania submission to Transmission Access Reform interim report, October 2020, pp2-3.

package or assess the expected impact and benefits of either individual reforms or the package overall.

6. Conclusion

Stanwell supports further investigation of the potential role REZs can play in coordinating transmission and generation investment to the benefit of consumers but considers tying this work to TAR is neither necessary nor productive.

Stanwell encourages the ESB to progress the interim REZ framework on its own merits and continue work on identifying and assessing potential complementary measures that could be implemented if the substantial reforms currently in train do not adequately address the perceived issues with investment, dispatch and network utilisation.

Stanwell welcomes the opportunity to further discuss this submission. Please contact Evan Jones on (07) 3228 4536.

Yours sincerely



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