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**UPC\AC Renewables Australia Submission to Energy Security Board (ESB) for Renewable Energy Zone consultation stage 2.**

UPC\AC Renewables Australia (“UPC”) is an Australian entity, established in early 2017, that is headquartered in Tasmania. We have a development portfolio of several GW of renewable energy projects within the National Electricity Market (NEM). UPC is part of the global UPC Renewables Group that was established in the early 1990s. The UPC Renewables Group has developed, owned and operated over 4,500MW of large scale wind and solar farms in 10 countries across Europe, North America and Australia-Asia, with an investment value of over \$5 billion USD. We have always been a pioneering renewable energy developer, developing the first commercial wind farms in Italy and Indonesia as an example. Our mission is to meet our world’s growing energy needs with clean electricity and improve the lives of local people and communities. As a developer, owner and operator, UPC is vested in the community for the long term.

UPC welcomes the opportunity to comment on the Renewable Energy Zone (REZ) consultation paper stage 2 (Jan 2021). UPC’s current portfolio covers over 10 projects (with capacity over 3,000 MW) across four of the five National Electricity Market regions. Most of these projects will predominantly be located in currently declared REZ’s and as such the structure and process used to develop REZ is of critical importance to UPC.

UPC are supportive of the ESB developing a robust framework to support the efficient development of REZs and offers the following discussion in regard to the consultation paper and the questions raised. While the paper helps move this debate on, there is a lot of detail still required on how some of the mechanisms would work.

As an overarching starting comment regarding the regulatory reform process for transmission and generation investment, UPC would like note that it broadly supports a move to a framework based on Locational Marginal Pricing and Financial Transmission Rights for the wider network. Whilst we

have previously expressed concerns about rushing these complex reforms through without due consideration for the impacts of change on existing investments, contracts and have encouraged the AEMC through its COGATI process for example to carefully consider the net benefit and optimal path for such a transition, we do believe that significant reform to the regulatory framework is needed. This is worth noting, as it sets the basis for our cautious support, as expressed below, for the introduction of a mechanism to protect the investments and access rights of REZ “foundation investors” from being impacted on by future generation projects that connect after the REZ is committed.

Specific comments in response to the consultation paper:

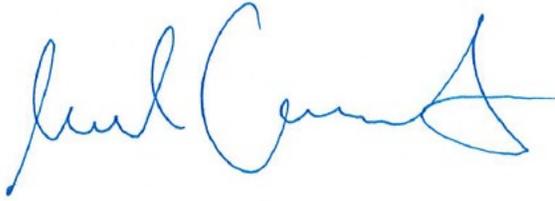
- UPC supports the introduction of a mechanism to ensure that the access rights and transfer capability of projects *within a REZ* are protected; specifically for projects that are committed as part of the foundation of that REZ, through the auction or tendering process for its defined capacity.
- However, we would also encourage the ESB to consider options for mechanisms that would allow this capacity, at least for a pre-defined initial time period, to be able to be dispatched without significant constraints within the relevant pricing region. The initial time period in which participants within a REZ would have their access rights protected from subsequent generators connecting *downstream of the REZ* might be, for example, 5 years.
- Some form of risk and cost sharing arrangement would logically need to be considered to enable this, with participating generators (within the REZ), presumably being willing to place some value on such protection, incoming generators outside of the REZ being willing to pay for some “right to impact”, and consumers via TNSP contributions or State Government funding, being logically also open to bearing some of the burden if it helps ensure security of supply and cost-efficient energy.
- These arrangements would by definition be transitional, and should be replaced by the broader changes to regulatory reform process to address congestion and price signals for investment in transmission and generation (be that COGATI or some other process).
- Without this protection, designing a REZ from the outset that could be significantly constrained “downstream” (outside of the REZ) doesn’t appear to deliver a significant value proposition for investors relative to the status quo. Investors will have to assess this risk, and despite all of the best intentions of developers, TNSPs and State Governments to facilitate investment in the REZ, if that risk is too great it may result in lack of willingness to invest. Hence, when developing a REZ, effort should also be made to ensure robust networks more generally in order to maximise the value of the REZ.
- We agree that the REZ model be developed to support meshed network solutions. Radial solutions for connecting one (or possibly more than one) generator to the shared network should be considered as either a DCA or DNA depending on the current rule change process.

- UPC considers that the most practical and beneficial option of those presented in the Consultation Paper in terms of ensuring protection of access rights is the **Financial access protection model**. While the Connection Access Protection Model could in theory deliver the same outcomes in terms of protecting access rights, there would need to be strong oversight to limit over build and optimisation of capacity for the REZ and additional safeguards put in place to ensure that the build out of congestion does not result in delays which could deter investment.
- It is unclear in the paper how time increments for financial rights would be defined and how the optimisation of solar/wind/battery capacity would be delivered in a REZ. UPC considers that if the capacity is defined on a time of day (e.g. hourly or smaller increments) and potentially seasonal basis this may help optimise the utilisation of the REZ transmission capacity. This may also help encourage investment in stand-alone storage in the REZ, unrelated to solar/wind farm developments, if the available financial access rights better match the potential discharging/generation pattern of storage technologies.
- We are concerned that some of the discussion indicates that more work may be needed to ensure the eventual access rights mechanism also supports other initiatives in the NEM (i.e. Retailer Reliability Obligations (RRO)). For example, if storage cannot access financial access rights will this impact its ability to provide capacity for the RRO now or in the future? If the access rights arrangements implemented for the REZs do not allow storage to participate effectively then this could be a barrier to investment, particularly in stand-alone storage, while also impacting the effectiveness of the RRO mechanism and potentially inhibiting the provision of other storage-related services (grid-support services for example).
- In terms of project eligibility, screening and selection in the REZ, UPC would like to see more detail provided on the intention and implementation of this aspect of the rules. To avoid “squatting” or “hoarding” of access rights by parties that either don’t have the capability to deliver projects or simply intend to speculate on the value of those rights on a secondary market, some reasonable financial commitment should be required up front, in conjunction with demonstration that the project has a path to financial close. This could be in the form of a bid bond that could be put towards the REZ transmission development costs and the eventual cost of transmission access for successful projects. The ESB should consider this and potentially a phased approach - an initial (smaller) bond for the EOI stage and a second (larger) bond for full binding bid phase to ensure reputable and real projects are developed.
- It would seem the development of the rules for the NSW Pilot REZ in the Central West Orana region, under the umbrella of the *Energy Infrastructure Investment Act (NSW)* legislation, is proceeding in parallel with the ESB’s post-2025 work on REZs. We would encourage the ESB to ensure the framework and rules being designed at the national level have been at least “concept tested” with the NSW and other State governments developing REZ concepts (Victoria for example), so that the industry sees a well-aligned direction on regulatory reform and the rules for investment in REZs resulting from those reforms.

## Conclusion

UPC is highly supportive of the development of a robust framework and process to ensure efficient REZ development. If you would like to discuss any of the comments in this submission further then please contact me at [michael.connarty@upc-ac.com](mailto:michael.connarty@upc-ac.com) or on 0407 368 174.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Michael Connarty". The signature is fluid and cursive, with a long horizontal stroke at the end.

Dr Michael Connarty  
Manager Strategy and Stakeholder Engagement  
UPC\AC Renewables Australia