



15 May 2023

New South Wales Government
Climate and Energy Action
Office of Energy and Climate Change

Lodged via email to electricity.roadmap@dpie.nsw.gov.au.

Dear Office of Energy and Climate Change,

SW REZ Access Scheme Position Paper

The CEC is the peak body for the clean energy industry in Australia, representing over 1,000 of the leading businesses operating in renewable energy, energy storage and renewable hydrogen. We are committed to accelerating the decarbonisation of Australia's energy system as rapidly as possible, while maintaining a secure and reliable supply of electricity for customers.

We welcome the opportunity to comment on the Southwest Renewable Energy Zone (SW REZ) Access Scheme Position Paper

The CEC is committed to accelerating the decarbonisation of Australia's energy system as rapidly as possible, while maintaining a secure and reliable supply of electricity for customers across Australia. In line with that commitment, we have identified 10 areas that we find warrant further consideration or clarity to best support NSW's efforts to accelerate the energy transition.

We have engaged extensively with our members to gauge responses to the proposed access policy for the SW REZ. It is fair to say there is a diversity of views across membership in regards to the proposed approach. Generally however, many members have raised questions regarding the underlying rationale of the SW REZ, on the basis that this particular access scheme does not go towards the development of any new transmission infrastructure.

Another common concern is that adding an additional process on top of the existing connection and registration processes risks delaying much needed new generation – especially where this is not related to any meaningful investment in new transmission to meaningfully manage or prevent future congestion.

The CEC considers that the NSW and broader NEM transition is best served by focussing on the development of new transmission infrastructure to support rapid buildout of renewables – preferably on the basis of open access, or where considered necessary by the relevant jurisdiction, through schemes that coordinate transmission investment with access rights. On this basis we consider the Central West Orana (CWO) REZ represented a sensible approach.

Generally speaking while we recognise the specific drivers of the NSW government and EnergyCo in developing the SW REZ access scheme, we consider that a better outcome than seeking to slow down new connections in the SW REZ area would be to focus on building out needed transmission to tap this excellent renewable resource.

The focus should be building more transmission infrastructure.

The CEC considers the fundamental problem at hand is insufficient transmission infrastructure throughout the NEM, including the southwest region of NSW, to support the needed levels of new generation required to replace the NEM's aging and retiring thermal fleet.

Because new generation supply also lowers prices for consumers, the best policies to address the present problem are those that encourage the efficient and timely financing and construction of the needed transmission expansion. Timely and adequate build of new transmission is therefore critical to managing wholesale prices and ultimately reliability.

Given the significant potential renewable energy resources in the southwest of NSW that could be unlocked with adequate transmission, we are concerned that the policy position paper outlines managing the expected symptom – congestion – rather than addressing the underlying problem – the need for more transmission. In this way it appears a departure from the design of other REZs in NSW, as well as other states, which feature additional transmission network new build to support further renewable generation and storage investment.

Setting a problematic precedent

The CEC is concerned that restricting open access for shared transmission assets that are already underway and funded by consumers through existing NEM arrangements, without any investment in additional transmission infrastructure, could set a problematic precedent.

Most significant components of the transmission network are already classed as shared transmission assets. We expect that most new assets will also be part of the shared network.

While we recognise the underlying rationale of NSW in limiting access to the PEC interconnector, we also consider this approach of 'turning off' open access on part of the shared network - without any associated new transmission build - may have unintended consequences for broader investment across the NEM.

Given the fact there are fewer locations available on the current network, coupled with the urgent need for more investment in generation and storage to maintain reliability for consumers, we are deeply concerned that if this approach is adopted elsewhere in the NEM, it will become increasingly costly and risky to invest generally. At a time when supply chain limitations and growing international competition for renewable resources is making it harder to develop new projects, imposing further uncertainties and barriers to investment by turning off open access seems to run contrary to what is needed.

We are concerned that the consequence of the approach taken in the SW REZ could increase risk premiums for new investment – which are paid for by consumers through higher energy prices – and result a slowing of the grid's transformation – which will also ultimately have reliability implications.

Open access, or some form of physical access plus transmission, can better address the problem

The CEC's general position remains that open access remains the preferred approach for encouraging efficient levels of generation and storage investment, to deliver lowest prices to consumers. It fosters and supports competition with new investors bearing all congestion risk.

As some of our developer members have noted, generators understand the open access system quite well, *and* it proceeds faster than systems requiring additional steps such as initial tender rounds prior to obtaining the final investment decision (FID).

However, we acknowledge the role played by jurisdictions in coordinating transmission investment with new generation. The CEC has worked closely with EnergyCo, AEMO services and the NSW government in the development of the other REZs, particularly the CWO REZ, for this reason.

These types of models may adopt different combinations of restrictive limitations on open access with build out of transmission. However, we consider models that focus solely on limiting access, without purposeful transmission investment, do not capture any of the benefits associated with more balanced schemes.

While restricted access schemes may be appropriate under specific conditions, such as where a majority of power transmission is from specific generators to specific load centres, we consider the SW REZ area does not meet these conditions. Rather, the area in question has good renewable resources and should be more purposefully integrated into the NEM.

State support is therefore essential to driving transmission investment in this area, which will enable the most effective functioning of the grid in the SW. In interconnector situations such as Project Energy Connect (PEC) and other assets shared with several states, such further intra-regional transmission investment will encourage efficient levels of investment in generation and lower consumer prices.

The CEC notes the following considerations regarding the proposed access scheme and other elements raised in the position paper.

Confirm that the modelling considered impacts across the entire NEM

The position paper references the modelling outputs but does not clarify if AEMO Services conducted the modelling for the full NEM or for NSW assets within the NEM. Given the integration into the full NEM, it is critical that modelled scenarios consider the REZ's impact across the entire NEM since it will directly impact the full NEM with potential for indirect nationwide impact.

Clear communication that the TTCL is a target with risks of higher curtailment

The CEC is of the view there may be a potential risk the TTCL may be interpreted as a guarantee, not a target. If the access right scheme goes ahead, we encourage clear and targeted communication that it is a target and clarity showing the risk around AEMO's ability to impose constraint limits that result in curtailment higher than the TTCL.

Empirical data suggests a good chance AEMO will impose new curtailment as system limits change. This is backed by the fact that PEC and other transmission assets in the SW REZ are shared interstate. Wind power from SA is expected to remain cheap relative to NSW and the rest of the NEM. Load growth is expected to remain small in SA compared to NSW.

We also note the significant number of connections already planned for the PEC in SA with expectation of further growth.

Developers have commented that should NSW go forward with the proposed SW access rights scheme, they will further shift their plans for projects away from NSW and to SA and Vic.

In a scenario with 800MW in the SW REZ, these trends and facts suggests a risk of greater levels of congestion and thus constraints on the PEC than the TTCL. If that happens, we expect it will diminish the value of the REZ Access Scheme, *and* slow NSW's progress toward its own decarbonisation goals.

Consequently, we encourage more consideration of these risks, probably to include sensitivity analyses if they have not already been conducted, or communication of them if they have.

Clarify evidence for expected oversubscription

The position paper cites registrations of interest from 2021 as the evidence that the SW REZ will be oversubscribed to an inefficient level if left to open access. We do not see in the position paper any consideration of plausible other outcomes given the ROI *and* continued developments across the NEM or drivers of generator willingness to submit an ROI. Much has happened in Australia and around the world since 2021 to change the investment landscape. A more robust market analysis may lead to different conclusions.

Desire for more detail on some aspects of the modelling

We encourage providing more detail regarding the modelled scenarios and some assumptions.

First, the discussion of the modelling focuses on the transmission assets within or immediately adjacent to the SW REZ. Hopefully the modelling exercises, though, considered the need for transmission assets and interaction with them across the entire NEM. For example, to reach its full potential, the SW REZ will require completion of even more augmentation across the NEM than mentioned in the position paper, e.g., Sydney Ring.

Second, we are concerned that the modelling treats batteries at max capacity. It may be preferable to treat them differently to generating assets that may lead to congestion. A potential congestion relief market as currently considered by the ESB, may change the operational profile of storage assets.

Third, consideration of NEM-wide impacts, and the uncertainty those raise for the value of the access right and how to manage the impacts if they deviate widely from model outputs.

Overall, we agree with other requests for greater visibility into modelling inputs and scenarios. The position paper and discussions suggest the high level of reliance on model outputs to determine the REZ design.

Desire for more transparency regarding access fees and options for co-design of community benefits

We encourage the Consumer Trust to provide full transparency regarding how access fees will be determined. Developers already have expressed confusion regarding whether the cost of PEC will be recovered through bill charges to end consumers following standard RIT-T practice or if some portion will be recovered through REZ access fees.

Similarly, industry has communicated that community benefits arrangements are best considered within the context of each community and project. For some communities, the benefits are maximised through directly distributing from developer to the community. This enhances visibility on the impact and benefit of the project while also supporting relationships of trust between communities and developers.” In a similar vein, communities generally want the ability to direct funds to where they see most benefit.

A co-design process with communities and developers would allow parties to design a system that works for them, and likely at lower cost than other processes while minimising frictions that may occur.

As always, the CEC welcomes further engagement from the Office of Energy and Climate on this position paper and the pending REZ. Further queries can be directed to Paul Beaton at the CEC on pbeaton@cleanenergycouncil.org.au

Kind regards,
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