

8 September 2020

Dr Kerry Schott AO
Independent Chair
Energy Security Board

Lodged via email: info@esb.org.au

ESB Consultation paper and draft Rules on Renewable Energy Zones Planning

Dear Dr Schott

Energy Networks Australia welcomes the opportunity to provide a response to the Energy Security Board (ESB) on the consultation paper Renewable Energy Zones (REZs) Planning and draft Rules.

Energy Networks Australia is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia. Energy Networks Australia supports the work undertaken by the ESB to develop a planning framework for REZs.

REZ planning regime is broadly supported

The development of REZs will improve the coordination of transmission and generation investment as the power system transitions away from coal-fired generation. By facilitating the efficient and timely connection of future generator investment, REZ development has the potential to lower overall system costs in the long-term interests of electricity consumers.

The REZ planning framework is an important step in this development process and Energy Networks Australia is supportive of it and of the broad proposals set out in the consultation paper. In particular, Energy Networks Australia supports the role of the Jurisdictional Planning Bodies (JPB) in preparing REZ design reports and the ESB's recognition of the importance of maintaining system security.

The cost of REZ design reports will be borne by customers, so it should not be incurred lightly

It is the ESB's intention that the Integrated System Plan (ISP) will trigger the commencement of preparatory activities as part of a REZ design report. It is also the ESB's intention that the costs associated with preparing REZ design reports are borne by customers rather than connecting generators, as occurs currently.

While we understand this approach of customers carrying the costs of REZ preparatory work, and certainly agree with the ESB that it should not be Transmission Network Service Providers (TNSPs) that bear these costs, Energy Networks Australia considers that a number of safeguards are required to prevent consumers bearing inefficient costs.

Therefore, our view is that, before specifying in the ISP that a REZ design report is to be prepared (or updated), there should be support from both the JPB and the relevant jurisdictional Government, with the JPB confirming any known local issues impacting the suitability of the REZ for development. There also needs to be genuine and sufficient interest from a mix of renewable generators expressing a willingness to connect to that REZ.

Energy Networks Australia also seeks greater clarity on the purpose of the REZ design report and the feedback loop with the ISP. These are discussed in our more detailed comments, which are attached.

We need flexibility in the engagement process to ensure it is fit for purpose

The REZ design report and development process should not be prescriptive in the rules and should avoid duplication. There should be flexibility to allow Governments to lead certain aspects of REZ delivery where they consider it is appropriate (e.g. consultation with local communities and generator proponents), and flexibility over the planning timeframes and staging so that the preparatory activities undertaken for the REZ design report are proportionate. This is necessary to accommodate the significant diversity that will exist between REZ design reports – while some will be quite preliminary and relate to projects ten years into the future, others will be very detailed and relate to imminent projects. Further, JPBs are best placed to determine the appropriate approach and time required to undertake consultation and engagement with proponents and communities.

A clear workable framework for cost recovery of REZ design reports is required

While the rules must be sufficiently flexible to allow the preparatory activities for a REZ design report to be undertaken ‘as appropriate’, any cost recovery processes should enable the JPBs to be able to recover their efficient costs of preparing REZ reports in the current and future regulatory periods. Accordingly, Energy Networks Australia supports the incorporation of a workable approach for doing this into the step one rules, which requires a different funding arrangement to that proposed. Energy Networks Australia suggests that the ESB seek guidance from the Australian Energy Regulator (AER) on the best approach to include these uncertain costs in revenue proposals and determinations.

Need to ensure that the whole REZ framework is workable end to end

The Rule changes for step one (REZ planning framework) are being proposed prior to the completion of step two (REZ implementation), yet the transitional arrangements are not clear in this consultation.

The step two implementation arrangements will be subject to a later consultation and cover the commercial and regulated aspects of the REZ delivery and access protections. It is important that before the JPB/TNSP is subject to regulatory obligations in relation to the Regulatory Investment Test – Transmission (RIT-T) for a REZ, there is firmer commitment to the REZ from Government and connecting generators, and the TNSP’s role and responsibilities are clear.

Opportunity to review the drafted transitional arrangements and any drafting changes before rules finalised

Energy Networks Australia would welcome the opportunity to review the drafting of any transitional arrangements proposed or any other drafting changes before the final rule is made, to check that the detailed arrangements meet the policy intent.

The more detailed response to the ESB questions is included in the Attachment. If it would be helpful, we would be pleased to meet to discuss our comments in more detail.

Energy Networks Australia appreciates the engagement with the ESB to date on the interim REZ framework and looks forward to continued engagement with REZ implementation and protected access.

Should you have any queries on this response please feel free to contact Verity Watson, vwatson@energynetworks.com.au.

Yours sincerely,



Andrew Dillon
Chief Executive Officer

Attachment

Renewable Energy Zones Planning – Consultation paper and draft Rule changes

Consultation paper question	Suggested response
<p>1 If implemented, should the REZ planning arrangements outlined in Chapter 3 be a permanent feature of the regulatory framework or only apply on an interim basis?</p>	<ul style="list-style-type: none"> • The REZ planning arrangements should be a permanent feature of the regulatory framework, but only if: <ul style="list-style-type: none"> ○ the funding arrangements provide more certainty to the TNSPs that the costs associated with preparing REZ design reports can be recovered (refer response to question 11) ○ they are made subject to a review, in conjunction with the Australian Energy Market Commission review of the ISP framework (rule 11.126.10), to assess the efficiency and effectiveness of the REZ planning arrangements. In particular, that review should compare the generation development that will have then occurred in each REZ with the assumptions that were made at the time of preparing the REZ design reports. It should also compare the actual level of community support for the development of the REZ at the ISP stage, the REZ design report stage and the implementation stage.

Consultation paper question	Suggested response
<p>2 Should the REZ planning framework promote a staged approach to REZ development?</p>	<ul style="list-style-type: none"> • In our members’ experience some REZs are best developed in stages while others can be best done all at once. Therefore, Energy Networks Australia considers that the REZ planning framework should allow a staged approach to REZ development, but should be flexible to the possibility that staging might not suit all circumstances. • This will ensure an efficient outcome by providing the flexibility that will inevitably be required to adapt to changing market conditions, given the high level of uncertainty that will exist during the planning phases. • However, with a staged approach to REZ development, there will be significant diversity between REZ design reports, which is reflected in the flexibility provided for in the draft rules. The rules should be clearer as to the effort that JPBs are expected to commit to the preparatory activities for each of the different stages of REZ development. This is particularly important when REZ design reports might be updated multiple times before a stage of development proceeds, and to provide more guidance to the AER on the efficient costs associated with undertaking the preparatory activities for a particular REZ design report, as a wide range of costs could be appropriate in the circumstances. • For example, rather than requiring JPBs to undertake preparatory activities “as applicable”, the Rules ought to be clear that the effort required of JPBs in undertaking preparatory activities should be proportionate to the timeframe in which that stage is expected to proceed, the certainty with which that stage will proceed and the size of the REZ. For example, there may be more stakeholder engagement required in preparing a REZ design report for the stage of a REZ development that is imminent than for a later stage. • Additionally, greater clarity is required in terms of how early stage investment in REZs, which may be dedicated connection assets, become later stage shared transmission assets. This concern stems from the consultation paper, Figure 3 and the interactions of commercial and regulated development.



Consultation paper question	Suggested response
3 Should the Jurisdictional Planning Body (JPB) be responsible for designing REZs?	<ul style="list-style-type: none">• Energy Networks Australia generally agrees that the JPB should be responsible for designing REZs, subject to providing more certainty on the funding arrangements (refer response to question 11).• However there is an exception. Given that the early stage(s) of a REZ may be dedicated connection assets only, the JPB's role in designing them is unclear as is the way they may then transition to become shared transmission assets.• Additionally, as the JPB is not necessarily government-owned this, in and of itself, does not address the issue associated with the "potential for significant community impacts associated with the development of REZs". Additional actions will need to be taken, perhaps in the ISP, to ensure that there is the appropriate level of government support for the REZ design report.

Consultation paper question	Suggested response
<p>4 Should the ISP be the vehicle for triggering a REZ design report?</p>	<ul style="list-style-type: none"> • If a REZ design report is triggered by the ISP, then the cost of preparing it will be borne by customers rather than generators as is currently the case. For this reason, a number of safeguards are required to ensure that the costs associated with preparing a REZ design report are not incurred unnecessarily. • In particular, before specifying in the ISP that a REZ design report is to be prepared (or updated): <ul style="list-style-type: none"> ○ there should be some level of government support for and renewable generators willing to connect to that REZ; and ○ the JPB should confirm any known local issues impacting the suitability of the REZ for development; and ○ there should be analysis and consultation with the JPBs on improving system strength issues, upstream network impacts etc. as part of any identified REZ. • The REZ design report and development process should not be prescriptive in the rules. <ul style="list-style-type: none"> ○ There should be flexibility to allow Governments to lead certain aspects of REZ delivery where they consider appropriate (e.g. consultation with local communities and generator proponents) ○ The approach to consulting or engaging with generators and communities should not be prescriptive so that fit for purpose or best practice approaches can be applied. • The proposed drafting of rules 5.22.6(f) and (h) should be reviewed in this light to enable flexibility and avoid duplication. Rather than requiring the JPB to undertake preparatory activities (which include council and stakeholder engagement) and to consult, the drafting should be amended so that the “JPB must ensure” that the preparatory activities and consultation are undertaken. This would allow governments to lead certain aspects of REZ engagement. • Energy Networks Australia notes that the requirement for a REZ design report is strongly influenced by government policies and these can change within the two-yearly cycle in which ISPs are produced.



Consultation paper question	Suggested response
<p>5 Are the proposed criteria for selecting REZs for planned development appropriate? Are there other criteria that should be taken into account?</p>	<ul style="list-style-type: none"> • The ESB has recognised that there is “potential for significant community impacts associated with the development of the REZs”. • Notwithstanding, it appears that the ESB has reached the view that a firm commitment from renewable energy generators is not a necessary precondition for preparing a REZ design report. Thus, those reports could be prepared without any genuine commitment by renewable energy generators to connect to that REZ and it remains to be seen whether generator proponents will follow the ISP or whether they will continue to be guided by other factors. It is also important to ensure that a mix of generator types are genuinely interested in connecting to the REZ to ensure efficient network utilisation. • From our discussions with the ESB, it appears that REZ design reports are seen as meeting a variety of needs. As such, there might be cases when REZ design reports can be used to identify the level of generator interest in a particular REZ. However, in other cases, REZ design reports would be at a level of detail that is not warranted unless generator commitment exists already. In these cases, Energy Networks Australia is of the view that a registration of interest does not represent a genuine commitment, and that a more substantial commitment from the future users of the REZ is required to ensure that the significant investment in REZ design reports, and the associated community concern that could potentially arise from those preparatory activities, is warranted. • Given the potential for community concerns, Energy Networks Australia is of the view that support of the relevant jurisdictional Government is required indicating that they support the preparation of a design report for a REZ in that particular location and the potential consequences of that report, including the use of land for the implementation of the REZ. • Additionally, Australian Energy Market Operator (AEMO) should seek confirmation from the JPB that the selected REZ is appropriate taking into consideration local network issues.
<p>6 Do the REZ design principles require amendments or additions?</p>	<ul style="list-style-type: none"> • Energy Networks Australia considers that an additional REZ design principle is required that explicitly refers to consistency with the National Electricity Objective.



Consultation paper question	Suggested response
<p>7 Do the REZ design parameters require amendments or additions?</p>	<ul style="list-style-type: none"> • The design parameters in the consultation paper are slightly different to those proposed in the Rules. • In particular: <ul style="list-style-type: none"> ○ The consultation paper refers to the “MW of generation capacity projected in each stage of the REZ” while the draft Rule changes propose “the <u>minimum</u> generation capacity, in MW, that is projected to be developed in the REZ” (emphasis added) – while the minimum generation capacity is an important consideration in the design of the REZ, the <u>projected</u> generation capacity is more relevant to the preparatory activity than the minimum generation capacity to ensure that the REZ contributes to the efficient development of the power system. In addition, the projected generation capacity <u>by generation source</u> should be specified as this may influence the design of the REZ, while noting that a mix of generation sources is required to ensure network utilisation. ○ The consultation paper refers to the “the forecast timing for each stage under the optimal development plan” while the draft Rule changes propose “the forecast date or dates by which tranches of generation may be developed”. Energy Networks Australia supports the more flexible approach in the draft rules which allows a REZ to proceed on a different timeframe to the optimal development path as considered more appropriate by governments or JPBs. • The consultation paper indicates that the REZ design parameters would not be fixed. Rather, “they would be refined over time via the joint planning process, as new information becomes available”. There is the potential for these design parameters to be continually refined over an extended period of time requiring an almost continual process for updating the REZ design report. Energy Networks Australia is of the view that some constraints need to be placed on this updating process to limit the frequency with which they are refined, particularly for works that are long dated.
<p>8 Is the proposed content of the REZ design report appropriate?</p>	<ul style="list-style-type: none"> • The ESB proposes that the REZ design report must include, for each REZ stage, the reasons for the proposed engineering design and any consideration of non-network options. • If a REZ implementation stage is a long time into the future, it may be premature to consider non-network options at the REZ design report stage. This requirement creates an expectation by stakeholders that non-network options can and should be considered, potentially decades into the future, when the needs and feasible non-network options are highly uncertain. • Energy Networks Australia is of the view that non-network options should only be considered for REZ implementation stages that are expected to proceed within 12 years, noting that these would usually be considered as part of any actionable ISP project and RIT-T process anyway.

Consultation paper question	Suggested response
<p>9 Is the proposed process for preparing a REZ design report appropriate?</p>	<ul style="list-style-type: none"> • The purpose of the REZ design report (and update process) should be made clear. The objective of the REZ design report will inform the level of consultation/engagement, rigour, cost and time required. For example, for community engagement alone, there are different approaches that vary from an 8 week, desktop exercise through to direct landholder engagement that would require 12-18 months to undertake appropriately. • The Rules should allow enough flexibility for JPBs to engage with stakeholders in a meaningful way that aligns with the JPB’s stakeholder engagement approach and landholder relations protocols and also enable Governments to take the lead on community engagement. • The draft Rule changes indicate that the JPB must consult on the REZ design report over a period of not less than four weeks. Given the nature of the report, in particular, consideration of route selection for multiple stages of REZ development that may proceed over decades, four weeks would appear to be too short a period of time for consultation. The AER already has a comprehensive framework for stakeholder engagement which can also be considered in light of these lengthy and iterative processes.¹ • The proposed Rules state that a REZ design report must be published by the date set out in the ISP. This provides no indication as to whether the timeframe for publishing a REZ design report is reasonable given the nature of the preparatory activities that are required to be undertaken. • As a minimum the Rules should require AEMO to ensure a reasonable time period is given to the JPB to produce the REZ design report when setting a date in the ISP. This could be specified as a reasonable time agreed with the JPB or, if a specific time frame is to be specified, at least 12 months.

¹ https://www.aer.gov.au/system/files/AER%20Stakeholder%20Engagement%20Framework_2.pdf



Consultation paper question	Suggested response
<p>10 Do the draft Rules effectively integrate both local and system-wide considerations?</p>	<ul style="list-style-type: none"> • The draft Rules integrate local and system-wide considerations from the perspective of the transmission network based on AEMO’s projections of investment in renewable energy generators. • However, Energy Networks Australia is concerned that there is inadequate consideration of local issues in the development of an ISP before committing to the preparatory works for a REZ design report. Before including a requirement in the ISP that a REZ design report be produced, AEMO must consult with the JPB to ensure that sufficient due diligence has been undertaken at a local level to identify any significant issues that could be a barrier to the development of the REZ and any supporting infrastructure required.
<p>11 Do the proposed funding arrangements support the delivery of the REZ planning framework?</p>	<p>The REZ planning rules transfer transmission design costs from capital to operating costs</p> <ul style="list-style-type: none"> • The proposed funding arrangements appear to assume that all costs associated with the existing transmission planning framework are expensed, and thereby included in a regulated TNSP’s base operating expenditure. This is incorrect. • The costs associated with the detailed planning phase of a transmission project are capitalised as part of that project. However, if the regulated TNSP has no certainty that the REZ design report will lead to a capital project for which it is responsible, the costs cannot be capitalised. • As a result, a TNSP’s operating expenditure forecast will not include the costs associated with preparing REZ design reports, unless this expenditure is specifically included in the TNSP’s revenue proposal. <p>Timing of Revenue proposals and 2022 ISP will not provide sufficient certainty of quantum of REZ design reports</p> <ul style="list-style-type: none"> • While the 2020 ISP identifies projects that facilitate the implementation of REZs, it does not identify any REZ design reports that need to be produced in the near future. The regulatory proposals for the next five year regulatory control period are required from most TNSPs prior to the publication of the 2022 ISP. Accordingly, it is unlikely that there will be sufficient certainty of expenditure associated with REZ design reports to be included as part of those revenue determinations. Additionally, given the uncertain nature of timing and quantum of REZs, these obligations can be increased or decreased over time and are not well suited to forecasting in revenue proposals with, for example consequential impacts on the Efficiency Benefits Sharing Scheme (EBSS) etc. • Energy Networks Australia suggests that the ESB seek guidance from the AER on the best approach to include these uncertain costs in revenue proposals and determinations.

Consultation paper question	Suggested response
	<p>Cost recovery via a pass through event mechanism</p> <ul style="list-style-type: none"> • The consultation paper indicates that the costs could alternatively be recovered through the pass through event mechanism in the TNSPs current regulatory period. • Energy Networks Australia understands that the type of cost pass through event that would be triggered is a regulatory change event – triggered first by the new rules and second by an ISP that requires a JPB to develop a REZ design report. This two trigger regulatory change event cannot be met in the final 2020 ISP but could be met in the next ISP some two years down the track. In the case of the 2022 ISP, which may indicate the quantum of REZ design reports, the rules need to provide an effective framework supported by the AER that ensures that additional opex in the latter years of the regulatory period is recoverable and these additional costs do not impact the EBSS. • Energy Networks Australia seeks confirmation of this advice from the ESB in the final decision paper and final rules drafting to ensure an effective cost recovery framework, and confirmation that a regulatory change event would be triggered each and every time a REZ design report is required. • Given the uncertainty of REZ design reports in relation to timing and potential number of iterations, Energy Networks Australia suggests that: <ul style="list-style-type: none"> ○ the Rules clarify that the specification of a REZ in an ISP or ISP update which requires the preparation of a REZ design report is a regulatory change event for the purposes of the definition of a regulatory change event ○ the materiality threshold should not apply to cost pass through events related to the preparation of REZ design reports, or alternatively that the materiality threshold should be applied to the total expenditure on REZ design reports in a year rather than to each individual REZ design report ○ the costs associated with REZ design reports should be excluded from the Efficiency Benefits Sharing Scheme. • Energy Networks Australia notes that the funding arrangements in Victoria are different to those in the other jurisdictions as AEMO is the JPB in Victoria, and is subject to a different cost recovery regime than the TNSPs in the other jurisdictions. Any conclusions that may be drawn on the adequacy of the funding arrangements in Victoria do not apply to the other jurisdictions.

Consultation paper question	Suggested response
12 What, if any, transitional arrangements are required to give effect to the REZ planning framework?	<ul style="list-style-type: none">• Given the work undertaken to date on the Central-West Orana REZ, and the commitment by the NSW Government to that REZ, Energy Networks Australia is of the view that the Central-West Orana REZ should be excluded from the REZ planning framework.• If the ESB does not accept that the Rules should clarify that a requirement to prepare a REZ design report is a regulatory change event and/or that the materiality threshold should not apply to cost pass through events related to the preparation of REZ design reports, then the transitional arrangements should include these provisions for at least the current regulatory control period.