

Response to Consultation Paper and Draft Rules – REZ Planning
Energy Security Board
Via email: info@esb.org.au

Introduction

The Energy Users Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, food and materials processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and expect to see all parts of the energy supply chain making their contribution to the National Electricity Objective.

Our members are highly exposed to movements in both gas and electricity prices and have been under increasing stress due to escalating energy costs. These increased costs are either absorbed by the business, making it more difficult to maintain existing levels of employment or passed through to consumers in the form of increases in the prices paid for many everyday items.

General Comments

We welcome the opportunity to make a submission to the Renewable Energy Zones Planning Consultation Paper (Consultation Paper). We continue to involve ourselves in the broader Transmission Access Reform workstream having made numerous submissions, participated in technical workshops and engaged directly with AEMC and ESB staff.

The consistent theme of our engagement has been to challenge the assumption that consumers should continue to pay the entire cost for network augmentation that is required over the coming years, including that which is already identified in the AEMO Integrated System Plan (ISP). This is a significant issue for energy users who have no influence over decisions as to where new generation and network assets are located and have no means by which to manage risks associated with these investments.

We are also concerned that REZ's have specific risks over and above that which we see in traditional network augmentation (such as interconnectors). Specifically, the potential for REZ's to become stranded assets where the connection asset life is 40+ years while the generation asset life is 20 years with no guarantee the generation asset will be re-powered.

In addition, in the case of REZ we assume the capacity of the network asset will match the maximum dispatchable capacity of the variable generators located in it. Therefore, even with an average capacity factor of 40% (which is high) there will be significant underutilisation of the asset, yet consumers would pay a network fee associated with 100% of the asset cost.

It is for these reasons that consumers are compelled to take a keen interest in the development of rules to make the ISP and REZ's actionable and demand the highest level of transparency and independent assessment at every stage.

Therefore, in our responses to the questions asked in the Consultation Paper we are looking for greater certainty and increased risk assessment at the earliest possible time to ensure that REZ's are not only consistent with the ISP's optimal development path but deliver consumers a least cost, lowest risk outcome.

We note that in the Scale Efficient Network Extension (SENE) framework a mechanism exists that would allow project proponents to coordinate investments in shared network assets such as being contemplated by the development of REZ's. Much of the anxiety consumers feel about future costs and risks would dissipate if project proponents adopted this framework with the addition of firm access rights being granted that is equivalent to their contribution.

To be clear, we are not opposed to new network assets being built to facilitate new generation, for interconnectors and REZ's to be built that allow market participants greater access to the market and to provide the market operator with improved flexibility to manage the energy system, we simply seek a more equitable sharing of risks and costs.

We look forward to having more to say on this subject when the consultation on Step 2 (development of a policy framework for the staged development of REZ's with a REZ development plan) commences and via other policy and regulatory discussions associated with the ESB Post 2025 Market Framework.

Regarding Step 1, which this Consultation Paper addresses, we can appreciate the desire to provide REZ's with special considerations within the transmission planning framework and to synchronise REZ development plans with the AEMO Integrated System Plan (ISP). From a whole of system planning perspective this makes sense.

It is clear from the Consultation Paper and our observations of ISP development to date, that the ISP will not only be the key driver of total system planning but also the primary means of identification and prioritisation of REZ's into the future. This seems to be occurring without REZ's being afforded any special treatment.

Through the development of the 2018 and 2020 ISP's we have observed that a very high level of coordination between AEMO, Transmission Network Service Providers (TNSP's), state governments and new entrant generators already exists with each party feeding in various pieces of information and seemingly relying on the work of the other to justify desired outcomes. This has the advantage of achieving a level of coordination and planning efficiency but has the potential disadvantage of allowing a level of confirmation bias to negatively impact objective cost benefit analysis and risk assessment.

This is dangerous ground for consumers as it is becoming increasingly clear that once a grid augmentation project has been included in the ISP, and is therefore on the AEMO declared "optimal development path" that it is difficult for any party to arrest the investment momentum or to correct erroneous assumptions. If the ISP progressively brings REZ's into its optimal development path it could essentially guarantee additional costs for consumers where outcomes are assumed, but far less certain and where stranded asset risk becomes material.

Therefore, we need to ensure that each REZ is independently assessed on its own merit and not simply absorbed into an ever expanding ISP where total system costs are spread across a range of interdependent projects that make up the optimal development path. Striking a balance between planning efficiency, appropriate checks and balances and rigours third party assessment is a key aspect of the pathway that consumers are seeking.

The Consultation Paper rightly points out that local communities will be key stakeholders that REZ proponents (TNSP's or JSP) and AEMO (via the ISP) must engage with. We are concerned that the speed required by an actionable ISP (and by virtue of their inclusion, actionable REZ's) does not necessarily allow sufficient time for the responsible party to engage sufficiently with local communities, particularly where a large REZ is being contemplated.

Care must also be taken regarding the planning approval status of individual projects and the capabilities of the proponent to obtain financial close. A poor outcome would be for a REZ to be incorporated into the ISP and commitments made only to find that connecting projects do not materialise or a significantly delayed.

Response to Questions

QUESTION	EUAA RESPONSE
Q1. If implemented, should the REZ planning arrangements outlined in Chapter 3 be a permanent feature of the regulatory framework or apply to an interim basis?	The answer to this question will depend on the level of transparency and robust independent assessment, demonstration of appropriate community engagement and the introduction of a more equitable framework to share costs and risks. Therefore, at this point in time we suggest the REZ planning arrangements are an interim measure with an independent review to be conducted by the AER (or ACCC) after 2 years (i.e. at the completion of the 2022 ISP) to ensure the framework is delivering least cost for consumers and just outcomes for impacted communities.
Q2. Should the REZ planning framework promote a staged approach to REZ development?	Yes. Given the significant variations to consumer demand, rapid changes to location and volume of generation and escalating cap-ex we have seen in recent months, a staged approach is an appropriate way to help manage some of these risks.
Q3. Should the Jurisdictional Planning Body (JPB) be responsible for designing REZ's?	Yes, provided the JPB is the regional TNSP and that a high level of transparency and independent analysis is undertaken. In addition to this, in Victoria where AEMO are the system planner, we think it more appropriate that the regional TNSP (AusNet services) is the JPB.
Q4. Should the ISP be the primary vehicle for triggering a REZ design report? Should there be other ways to trigger a REZ design report?	It is already our assumption that the ISP is the primary vehicle for triggering a REZ design report. However, this should not preclude other ways of triggering a REZ design report or for an independent party (or parties) to embark on a privately funded REZ as a merchant asset or for governments to support REZ's via asset underwriting or direct investment.
Q5. Are the proposed criteria for selecting REZ's for planned development appropriate? Are there other criteria that should be taken into account?	The proposed criteria is reminiscent of a "build it and they will come" approach and is insufficient to give consumers confidence that the REZ is both real and actionable. We suggest criteria around the likelihood of the proposed generation assets proceeding (land access, planning approval, evidence of financial viability, conditional term-sheet etc) and reasonable REZ cap-ex estimates with appropriate risk assessment on upper bounds.

QUESTION	EUAA RESPONSE
Q6. Do the REZ design principles require amendments or additions?	Yes. We would argue that what constitutes the “efficient development of the power system” depends on the perspective of the stakeholder and doesn’t necessarily lead to “least cost” outcomes for consumers. For example, it would be “efficient” for project proponents if REZ’s were included in the TNSP RAB, but not necessarily least cost for consumers. We are certain that if consumers were asked, they would prefer to see a more definitive “least cost” principle being pursued.
Q7. Do the REZ design parameters require amendments or additions?	Yes. We suggest criteria around the likelihood of the proposed generation assets proceeding (land access, planning approval, evidence of financial viability, conditional term-sheet etc) and reasonable REZ cap-ex estimates with appropriate risk assessment on upper bounds.
Q8. Is the proposed content of the REZ design report appropriate?	No. In addition to that which is proposed, we suggest criteria around the “firmness” of the proposed generation assets (planning approval, evidence of financial viability, conditional term-sheet etc) and reasonable REZ cap-ex estimates with appropriate risk assessment on upper bounds, assessment of community impacts and likely planning approval risks and timelines.
Q9. Is the proposed process for preparing a REZ design report appropriate?	No. Specifically the minimum 4 week time period for consultation is inadequate and should be at least 8-12 weeks. The JPB must also provide a detailed stakeholder engagement plan and demonstration of appropriate resourcing.
Q10. Do the draft Rules effectively integrate both local and system-wide considerations?	While there are benefits to the level of cooperation contemplated, we are concerned about the potential for confirmation bias to impact the critical analysis being undertaken and for REZ’s to gain a level of momentum that is difficult to arrest. We would also note that integrating local and system-wide considerations does not guarantee the best outcome for consumers, just that the outcome is coordinated.
Q11. Do the proposed funding arrangements support the delivery of the REZ planning framework?	The funding arrangements to support the delivery of the REZ planning framework essentially become a component of future TNSP op-ex, in which case consumers are likely to pay for the speculative activities of the JPB/TNSP. We suggest either (a) these costs can’t be passed through to consumers as they are part of the everyday work expected of the TNSP or (b) if these costs are particularly high in a jurisdiction and not reasonable to be absorbed by the TNSP, state governments provide a funding pool to support this activity given it is largely being undertaken as a direct result of policy they have put in place (there have been precedents for this).
Q12. What, if any, transitional arrangements are required to give effect to the REZ planning framework?	We are not in a position to comment on this question.

We look forward to continued engagement with the ESB on these important issues.

Sincerely,

A handwritten signature in black ink, appearing to read 'A Richards', written in a cursive style.

Andrew Richards
Chief Executive Officer