



Dr Kerry Schott
Chair, Energy Security Board
By email: info@esb.org.au

08 September 2020

Dear Dr Schott,

Renewable Energy Zone Planning Rules – Consultation Paper

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Energy Security Board (ESB) in response to the Renewable Energy Zone (REZ) Planning Rules Consultation Paper (“the Paper”).

The ENGIE Group is a global energy operator in the businesses of electricity, natural gas and energy services. In Australia, ENGIE has interests in generation, renewable energy development, and energy services. ENGIE also owns Simply Energy which provides electricity and gas to more than 720,000 retail customer accounts across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

Moving from a high-level Integrated System Plan to a detailed REZ design

The Paper correctly recognises that there is a difference between the outlines of a Renewable Energy Zone (REZ) within the Integrated System Plan (ISP) and the detailed design of an individual REZ.

The former is a biennial planning exercise that represents the “best estimate” at a moment in time of what an efficient National Electricity Market (NEM) looks like, based on a number of generic assumptions about the costs of network extensions and different types of generation. The latter is a specific project that should be aimed at efficiently connecting a number of specific (planned) generators in a region, noting that additional generation may subsequently connect as well.

Planning for a specific REZ also entails more detailed design of the configuration of the network extension, potentially including consideration of local provision of essential system security services, where necessary. It will necessarily need to take account of local issues related to access and community concerns that are not considered in the ISP.

It is thus the case that the work done in the ISP, while valuable in indicating likely candidate regions for REZs, cannot be a substitute for the detailed design work. While the existing regulatory investment test for transmission (RIT-T) also recognises this, it conversely doesn’t capture the co-ordination of generation and transmission investment that a REZ entails.





REZ planning arrangements should look where possible to ensure there are incentives for generation projects interested in connecting to the REZ to credibly signal their willingness to make *some* contribution to the investment, noting the challenges in seeking to get a REZ fully funded by generator contributions under the current arrangements. Otherwise, there is an unacceptable risk where all new transmission is funded under regulated arrangements by consumers, and consumers thus bear a stranding risk that they do not have any direct way to manage.

Notwithstanding this view, it is acknowledged existing arrangements have arguably stymied transmission access and funding reform for many years. Essentially, existing generators argue that there is no value in their bearing transmission costs as they cannot respond to the locational signals these entail and so there is no economic benefit. Accordingly, they argue for a maximal approach to grandfathering access. On the other hand, future generators (developers) argue that they should not bear transmission costs (beyond shallow connection fees) because they need to be on a level playing field with existing generators whilst ignoring the ability to make locational choices.

Finally, Transmission Network Service Providers (TNSPs) have demonstrated a preference for the predictability of regulated investment returns over the risks (even with higher reward) of commercial arrangements for transmission extensions or of competition for providing transmission network services within their region.

In light of this, anything that the REZ planning arrangements can do to move beyond this impasse would be welcome and likely to enhance the National Electricity Objective if it is able to shift some cost and risk of transmission investment away from consumers to those who benefit from a specific REZ.

To this end, it is notable that the stakeholder briefing presentation referenced the possible use of a special purpose vehicle (APV) for cases where “the viability of the development relies on higher investment risks”¹, but that this option is not mentioned in the Paper. ENGIE recommends the planning rules maximises flexibility and leaves the door open to this type of approach. Allowing scope for a REZ design report to be initiated by parties willing to fund a REZ would also assist, noting that the question of recovery of design report costs may need some consideration.

Importance of avoiding a REZ “lottery”

While the Paper remains open to the possibilities of commercial REZ development as opposed to regulated REZ development, the standard paradigm is still likely to be a regulated model where much of the cost of a REZ will be picked up by consumers. This will materially advantage generation development projects that are located close to the REZ over other projects located further from the REZ by minimising the scale of the grid connection they have to pay for regardless of the specific merits of one project or technology over another. Thus, while the ISP provides broad locational signals, the more granular signals arising from the REZ plan will be critical.

Additionally, government intervention may trigger earlier consideration of a REZ than proposed in the ISP, which project proponents will not know in advance. Consideration should be given to how the planning process can

¹ [ESB, Interim Framework for Renewable Energy Zones, May 2020](#)



minimise this “lottery” effect. This could include weighting design options based on project proponents’ willingness to contribute to the investment. In this way, they can have more influence over the design in return for offsetting the costs that consumers would otherwise bear. Such an approach could be recognised in the design principles and parameters.

Staging is important for right-sized investment

There are pitfalls in both under and over-investment, and the risks of both are likely to be borne by customers. ENGIE considers that the proposal to facilitate staged development of REZs is a useful approach to partially mitigate these risks. By breaking the development of a REZ down into efficient tranches of investment, the opportunity to develop a stage commercially increases, since the co-ordination challenges become smaller as fewer generation projects are required to participate to underwrite the investment. This is worthwhile even if other stages still require a regulatory process to proceed.

Transitional approaches

ENGIE considers that the REZ planning rules should allow due recognition of processes that are already in train at the time of implementation of the rules, such as the Central West Orana REZ. Nonetheless, there may be value in ensuring those existing processes do not pose extra risk to consumers than would be the case by applying the preferred ongoing approach.

Transitional versus enduring rules

ENGIE does not have a definitive position on whether the rules should be transitional or enduring. The fact that the ESB is unsure itself which of these is appropriate, suggests uncertainty as to how well the proposed arrangements may work. This is understandable, given the novelty of REZs in the context of the history of the NEM. This means that it would be useful to set up regulatory oversight of how well REZ development is working, specifically including whether there are barriers to commercial development as well as regulatory development.

Should you have any queries in relation to this submission please do not hesitate to contact me on, telephone, (03) 9617 8415.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Jamie Lowe".

Jamie Lowe

Head of Regulation