



8 September 2020

The Chairman  
Energy Security Board  
C/- CoAG Energy Council

Sent by: email to [info@esb.org.au](mailto:info@esb.org.au)

### **Renewable Energy Zones Consultation Paper on Planning**

Major Energy Users Inc (MEU) is pleased to provide its thoughts on the issues raised in the consultation paper relating to the planning for Renewable Energy Zones.

The MEU was established by very large energy using firms to represent their interests in the energy markets. With regard to all of the energy supplies they need to continue their operations and so supply to their customers, MEU members are vitally interested in four key aspects – the cost of the energy supplies, the reliability of delivery for those supplies, the quality of the delivered supplies and the long term security for the continuation of those supplies.

Many of the MEU members, being regionally based, are heavily dependent on local staff, suppliers of hardware and services, and have an obligation to represent the views of these local suppliers. With this in mind, the members of the MEU require their views to not only represent the views of large energy users, but also those interests of smaller power and gas users, and even at the residences used by their workforces that live in the regions where the members operate.

It is on this basis the MEU and its regional affiliates have been advocating in the interests of energy consumers for over 20 years and it has a high recognition as providing informed comment on energy issues from a consumer viewpoint with various regulators (ACCC, AEMO, AEMC, AER and regional regulators) and with governments.

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Overall, the MEU supports there being better coordination between new and proposed generation with the transmission network so that there is an optimal development of the electricity supply arrangements.

What has been observed in recent years is that significant new generation (particularly variable renewable energy – VRE, which can be planned and installed very quickly) has been installed without there being sufficient network capacity to provide all this new generation capacity with uncongested access to the shared network. The MEU considers that this has been caused by the decision for transmission assets (other than for the generator's shallow direct connection assets) to be paid for by consumers. If generators were required to pay for all of the costs that are incurred by generators to enable delivery of their product to market (like all competitive industry is required to do), then the MEU considers that this would provide much better coordination between transmission networks and generators.

Until this basic issue is addressed, the MEU considers that there will continue to be excessively complex arrangements and delays in building needed transmission assets while regulators determine what is efficient regulated investment from a consumer point of view. We point out that the current rules do not prevent any generator funding their own transmission assets to remove congestion, but if they do so, the rules do not permit allocation of a property right to the generator for funding this investment. We believe a sensible change to the rules in this area should be addressed as a matter of priority.

While the MEU considers that the introduction of the Integrated System Plan (ISP) assists in identifying where potential new transmission investment might best be provided, the ISP does not decide on who should pay for the necessary augmentation. At the heart of the problem, the ISP is predominantly developed to provide better access to the shared network for new generation but the required subsequent transmission investments are paid for by consumers. Consumers have no power to decide where new generation will be located but are required to pay for whatever someone else (AEMO and/or new generators decide) at whatever capacity and cost the proponents consider is necessary. In our view this creates an incentive for new VRE generation to locate in areas of network congestion anticipating that any congestion will only be temporary until AEMO determines new transmission should be built. The Western Victoria Renewable Integration transmission augmentation is a clear example of such an outcome where the costs of poor locational decisions by generators (who now seek uncongested access to the shared network) have been transferred to consumers.

This current approach puts the regulator (AER) in the invidious position of tending to act as the agent of consumers to ensure that whatever is proposed will deliver net benefits to consumers. Unfortunately, the Regulated Investment Test for Transmission (RIT-T) and the AEMO ISP planning process only require a net market benefit to be calculated when assessing new transmission investment, so the question of an actual consumer benefit is not considered. If generators were responsible for paying for the network assets they need to deliver their product to

market, there would be a greater incentive for the generator to optimally locate for the lowest total cost and to coordinate their activities with other connecting generators to maximise transmission network scale efficiencies. This approach can be implemented with little of the difficulty that currently abounds.

The MEU notes that draft planning arrangements differentiate between the responsibilities of the Jurisdictional Planning Body (JPB) and the regional TNSP. Except for Victoria the MEU notes that the JPB and the regional TNSP are the same entity. While consumers might expect that an independent JPB should consider the long-term interests of consumers as its focus, a regional TNSP has an incentive to build new transmission assets, increasing its regulated asset base, as this is where the TNSP derives the bulk of its profits.

A TNSP (in its role as JPB) might consider the building of new transmission assets to service a REZ, but there is no clarity that implementing such a decision will deliver a benefit to the consumers that fund the augmentation. For example, there is a proposal to increase the capacity of flow between Victoria and NSW, primarily to offset the loss of supply after the closure of Yallourn Power Station (YPS). This loss of supply could be readily overcome by increasing the capacity of the existing interconnection (VNI) at a relatively low cost. However, the current proposals for increasing capacity between Victoria and NSW (designated VNI West) provide much more capacity than implied by the loss of YPS and at a significantly higher cost than the cost of augmenting the existing VNI needed to manage the loss. The MEU understands that the preferred more westerly route and higher capacity (resulting in more than twice the cost to consumers) has been selected primarily to facilitate the easier connection of REZs in central north and northwest of Victoria and south West NSW, providing a considerable benefit to connecting generators.

The proposed draft rules do not address any of the above concerns but entrench increased consumer risk.

The MEU is aware of the Scale Efficient Network Extension (SENE) rules that currently exist and were the outcome of considerable debate in 2010 and 2011. Initially, the proposed SENE rule change was for consumers to fully fund network extensions as planned and submitted by TNSPs. However, during the rule change process it became clear that it was inappropriate for consumers to bear this risk, and it was decided that if a generator wanted to connect to the shared network the generator was responsible for the costs of doing so. The SENE rule change instead put in place a framework for generators to engage with TNSPs to examine the potential for SENEs. It is unclear to the MEU why use of this framework has been frustrated to date and we are disappointed that no SENE studies have been undertaken by TNSPs. It would appear that this sensible approach is to be watered down by these new draft rules so that consumers will also now be responsible for the costs of any design studies that generators need to enable their connection.

Consumers have no ability to manage the costs of these planning studies yet are to be made responsible for the cost of them. This is at odds with the current RIT-T

process where network augmentation studies are funded by the proponent. In contrast, the generators seeking access have the ability to determine the need for the connection and the TNSP has the ability to control the costs associated with the planning study. The MEU considers that generators seeking connection must be responsible for the costs incurred by the TNSPs for any design work needed to assess the viability of the proposed connection, including to REZs.

The MEU also notes that a TNSP can already commence a RIT-T process for extending the shared network to a REZ, raising the question as to why there is a need to include this to be restated in the draft rules, or indeed, for this proposed rule change at all.

If the proposed rule change is to be made, the MEU considers that there needs to be a clearer requirement for wide stakeholder consultation at the commencement of the process to examine “the what, the where, the when and the how” the shared network will be extended to the REZ. Current consultation practices commence well after decisions have already been made as to how, where, what capacity and when the augmentation to the REZ is to be connected, with the result being that the current consultation process merely acts at the edges after the major cost design elements have already been decided. The MEU therefore considers that the draft rules need to include for wide stakeholder consultation at the time consideration is being given to extend the shared network to REZs. This requirement would allow input into the decisions as to which REZ should be targeted first and for what capacity.

The MEU is very concerned at what is used to determine when a REZ should be considered for development. Currently, the proposal is that such an assessment is made by the JPB (or TNSP) with, potentially, input from the ISP to help inform the decision. The MEU considers that the decision to extend the shared network requires a high degree of confidence that generators will decide that a particular REZ is preferable and to locate at the identified REZ. If consumers are to absorb any of the costs for providing service to a REZ, there have to be commitments from generators as to the amount of generation they will install, and when, so that the logic of the REZ is demonstrable.

This issue was originally the intent of the Coordination of Generation and Transmission Investment (CoGaTI) process, and the MEU provided a significant voice on behalf of consumers at the AEMC sponsored discussions on CoGaTI. Unfortunately, the AEMC process has degenerated into a mechanism for allocation of transmission access and generators buying access to existing assets. In contrast, the original intent of CoGaTI was to look at a framework which provided a mechanism for generators to fund their own transmission infrastructure to connect to the shared network and so have certainty of being able to deliver their product to market<sup>1</sup>.

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<sup>1</sup> The MEU notes that in its original concept CoGaTI was to build further on the proposed Optional Firm Access (OFA) approach discussed at length in 2014 and 2015. OFA was based on generators paying TNSPs for firm access to the shared network by TNSPs building new assets to meet the needs of the generator(s).

As noted above, there is still the core problem that has not been discussed – that of who should pay for the connection of REZs to the shared network. Currently all discussion implies that all of the costs will be fully allocated to consumers as the transmission assets would be built as regulated assets, providing connecting generators with “free access” to the shared network and for TNSPs to have a guaranteed revenue stream from their investments.

This is a critical concern to consumers as overbuild of network capacity will be required to meet the installed capacity of VRE generation, yet this network capacity will not be effectively utilised all the time with VRE generation output only averaging around 35%, and much less than this at times of the critical consumer reliability need.

The MEU is very concerned that the draft rules do not address this “elephant in the room”. Until this issue is addressed (eg along the lines of beneficiary pays) the MEU considers that the process is merely “tinkering at the edges” and the MEU fears that by not addressing the issue, consumers will end up at the default position where consumers pay for decisions and investments that primarily benefit others, including generators and TNSPs.

What is a further concern is that by consumers providing free access to the shared network at the location chosen by the generators, this reduces locational signalling for generators and so introduces the risk that there will be capacity provided that will not be fully utilised, resulting in inefficient transmission network investment.

We do not believe the proposed framework results in a fair and equitable allocation of costs to consumers.

The MEU is happy to discuss the issues further with you if needed or if you feel that any expansion on the above comments is necessary. If so, please contact the undersigned at [davidheadberry@bigpond.com](mailto:davidheadberry@bigpond.com) or (03) 5962 3225

Yours faithfully



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