8 November 2019

Mr John Pierce AO
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Lodged via AEMC website: www.aemc.gov.au

Dear Mr Pierce,

Renewable Energy Zones (EPR0073) – Discussion Paper

The Clean Energy Council (CEC) is the peak body for the clean energy industry in Australia. We represent and work with hundreds of leading businesses operating in renewable energy and energy storage along with more than 6,000 solar and battery installers. We are committed to accelerating the transformation of Australia's energy system to one that is smarter and cleaner.

The CEC welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC's) discussion paper on Renewable Energy Zones (REZs). We are pleased to see that the process to consider the REZ concept and a model for REZ development has been separated out from the work on the coordination of generation and transmission investment (COGATI) proposed access model. We support the AEMC maintaining a separate work program for REZ development going forward.

The CEC considers the categorisation of REZs into Type A and Type B, as well as brownfield and greenfield, is useful to better understand the types of REZs that may develop. This categorisation highlights how a one-size-fits-all REZ model is unlikely to be possible.

This categorisation is a great starting point, but more work is still required. The discussion paper describes the different work programs currently underway considering the implementation of REZs. In addition to these, the CEC understands that various state governments are also progressing work on REZ development. We believe there is a potential role for the AEMC to connect these different work programs. A REZ workshop consisting of energy market bodies, governments, Clean Energy Finance Corporation, Australian Renewable Energy Agency and industry representatives could be a valuable exercise to progress work on REZ development. The AEMC's REZ categorisation would provide a good frame for discussions in such a forum.

In relation to Type A REZs, the discussion paper notes that if a dedicated connection asset is deemed to be “large” (i.e. where the total route length for any power lines forming part of the dedicated connection asset is 30 kilometres or longer) then it is subject to a regime for third party access. We suggest the AEMC consider whether the 30-kilometre requirement needs to be revisited.

In relation to Type B REZs and the AEMC’s model of long-term hedges to fund transmission assets, this model appears to rely on the implementation of broader access reforms. While our submission provides feedback on the AEMC’s REZ model, please do not take this as implicit support for the COGATI access model. Our submission to the COGATI discussion paper articulates our concerns with the proposed access model.

The CEC supports in principle options for generators to fund transmission investment for a REZ provided the free-rider problem is addressed and subsequent generators cannot connect to take advantage of the REZ transmission investment thereby receiving the REZ benefit without contributing to the cost or potentially constraining off the REZ generators.

The AEMC’s model of long-term hedges to fund transmission assets appears very similar to its original COGATI access model but applied to a smaller area rather than the whole network. As a result, it is unclear how this model would overcome the problems identified with that model that led to the removal of the third pillar for the current proposed access model.

The discussion paper explains that these hedges:

- Would be differentiated from the financial transmission rights sold under the access reform model
- Would need to be close to the same length as the generator’s investment
- Would need to provide the generator with sufficient firmness to provide the generator with access to the regional reference price.

The CEC is unclear on how such a model and the proposed long-term product would be compatible with the short-term financial transmission rights under the COGATI access model. We suggest the AEMC elaborate on how the two models could practically work together.

A pertinent question relates to whether providing firm rights to the regional reference price (or regional volume weighted average price) is workable. For REZs that are in radial or lightly meshed parts of the network, it may be more appropriate that the long-term rights are to the edge of the network or somewhere else in the network (e.g. a less congested part of the network). For REZs within the meshed network, it is more complicated to establish to what point firm rights could be provided. Thought would also need to be given as to how the evolution of the network and the potential for it to become more meshed has a bearing on the point to which the rights would apply.

In addition to the Type A and Type B categorisation, the CEC would like to make two further comments.

Firstly, we would like to emphasise that a current key barrier to delivering REZs, particularly those identified in the Integrated System Plan, is the Regulated Investment Test for Transmission (RIT-T). The current RIT-T is limited in its requirement that new generation be sufficiently committed for the corresponding market benefits created by the associated transmission investment to be considered. As such, it does not allow transmission network services providers to give appropriate weight to expected but not yet financially committed generation. We encourage the AEMC to consider this matter further.

Secondly, the potential role for government is absent from the discussion paper. Federal and state governments could support the development of REZs, in particular through funding to facilitate REZs. The CEC supports the Energy Security Board's proposal to explore a fund to extend transmission assets to connect to REZs with the cost of this transmission progressively recovered from consumers if and when utilisation increases. We suggest the AEMC consider how it can assist the further exploration of this fund. This should recognise that there is the potential for REZs that may or may not pass a RIT-T and the fund could efficiently and economically support both cases. For example, for the latter case the fund could assist with achieving scale efficient connections.

If you would like to discuss our submission further, please contact me, as outlined below.

Yours sincerely,

Lillian Patterson
Director Energy Transformation
(03) 9929 4142
lpatterson@cleanenergycouncil.org.au