



Ms Jess Boddington
Australian Energy Market Commission
Level 6, 201 Elizabeth Street
Sydney NSW 2000

8 November 2019

Dear Ms Boddington

RE: Renewable Energy Zones Discussion Paper EPR0073

ENGIE appreciates the opportunity to respond to the discussion paper on Renewable Energy Zones (“the Consultation”) that forms a part of the Commission’s COGATI implementation process.

ENGIE 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.

Classification of Renewable Energy Zones

ENGIE considers that the Commission’s classification of Renewable Energy Zones (REZs) into Type A and Type B provides a useful framework for analysis of the barriers facing multiple (prospective) generators looking to connect to the shared network in a geographic area, noting that the underlying concept of a REZ is not formally defined in the Rules.

Further, the Commission’s separation of barriers into those that appear to be essentially commercial issues of co-ordination between generators and those that have a regulatory dimension because they entail co-ordination between generators and transmission network service providers (TNSPs) is a useful way to determine the focus of reforms.

While the focus on REZs is understandable in the context of most forecasts about what types of generation are most likely to be built over the next few decades, ENGIE recommends that this framework be expanded to encompass all generation types in order to maintain a technologically neutral approach.





The Commission's reform proposals

The Commission appears to have broadly identified the situations in which co-ordination may be challenging and that regulatory reform can appropriately assist in this co-ordination, namely generator-funded augmentation of the shared network.

Its preferred model requires considerable detailed design work to ensure it works as intended. Much of this relates to the financial commitment. The Consultation proposes that "the deposit could be as much as 50% of the cost of the generator's share of the proposed REZ". At the point at which the generator is required to make this commitment, which is potentially a multi-million-dollar commitment, it will not have any certainty that the transmission investment will go ahead or whether it will be sufficiently large to ensure all the access that the generator is seeking.

The Commission envisages that the lumpy nature of such investments may mean a RIT-T process is required *after* commitments have been made in order to determine whether to oversize or undersize the augmentation project relative to the total level of commitments.

Moreover, this substantial underwriting of the investment only entitles the generator to the opportunity to participate in the auction for long-term hedges. This implies uncertainty both about the price it will have to pay to secure the hedge and the volume (MW). Depending on the complexity of the hedge instrument there may also be uncertainty around other details such as variable levels of access at different times. It seems unlikely that a generation project could reach financial close without more clarity on the hedge it is entitled to, which in turn makes it difficult to fund the initial commitment.

Energy Networks Australia's proposed model appears designed to preserve the very low risk nature of transmission investment. It is assumed that incentives to complete the augmentation in timeframes consistent with completion of the generation project are not envisaged in the model. As a result, the generator faces further uncertainties such as timing of completion of the transmission augmentation and the risk of jurisdictional planning policy changes. An example of the latter is the abrupt nature of Victorian reforms to wind farm planning guidelines a few years ago.

Options that the Commission could explore to mitigate these issues include:

- Awarding at least an initial tranche of long-term transmission rights in return for the financial commitment.
- Staggering the generator payments to match the milestones of the transmission project, i.e. lower capital up front, but then further payments once the commitment to build the transmission project has been made and again when construction commences and is completed



Fundamental issues remain

While the Commission's proposed model represents a modest step towards better co-ordination of generation and transmission, fundamental issues around efficient investment remain. It is unclear how the long-term hedges will influence transmission planning and investment, given the Commission has retreated from its earlier approach to better integrate the signals arising from its proposed access reforms with transmission investment decisions. The basic challenge of co-optimising transmission and generation will not be fully addressed while the funding models for these two types of investment remain so different.

The impact of the different funding models is exacerbated by the heightened level of political and policy uncertainty the sector has experienced in recent years. Such uncertainty has a far greater impact on generation investment decisions than transmission investment decisions, given the insulating effect that a model of regulated returns has on the latter. Unfortunately, it appears unlikely that the Commission's proposals will, on their own, be sufficient to break the cycle of political intervention inhibiting private investment and potentially leading to further political intervention in pursuit of new investments.

Finally, ENGIE wishes to draw attention to an apparent anomaly in the COGATI reforms. The REZ proposal envisages a long-term hedge will be required to support generator investment where generators are also contributing to the shared network. Under the FTR model proposed in the discussion paper released concurrently, hedges are only going to be made available three or four years in advance. So, a new or existing generator that only has access to the FTR auctions to hedge transmission access, faces hedge availability and price risk. The longer term hedge contemplated in the REZ proposal is considered superior to the COGATI approach and should be featured in both models.

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

Yours sincerely,

Jamie Lowe

Head of Regulation