



Meridian Energy Australia Pty Ltd
Level 15, 357 Collins Street
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8 November 2019

Australian Energy Market Commission
Attention: Mr Russell Pendlebury
PO Box A2449
Sydney South NSW 1235

Reference: EPRO073

Dear Mr Pendlebury

Renewable Energy Zones

Meridian Energy Australia Pty Ltd and Powershop Australia Pty Ltd (MEA Group or Powershop) thanks the Australian Energy Market Commission (AEMC) for the opportunity to provide comments on the AEMC's Renewable Energy Zones Discussion Paper (the Paper).

Background on the MEA Group

MEA Group is a vertically integrated generator and retailer focused entirely on renewable generation. We opened our portfolio of generation assets with the Mt Millar Wind Farm in South Australia, followed by the Mt Mercer Wind Farm in Victoria. In early 2018 we acquired the Hume, Burrinjuck and Keepit hydroelectric power stations, further expanding our modes of generation. We have supplemented our asset portfolio by entering into a number of power purchase agreements with other renewable generators, and through this investment in new generation we have continued to support Australia's transition to renewable energy.

Powershop is an innovative retailer committed to providing lower prices for customers and which recognises the benefits to customers in transitioning to a more distributed and renewable-based energy system. Over the last five years, Powershop has introduced a number of significant, innovative and customer-centric initiatives into the Victorian market, including the first mobile app that allows customers to monitor their usage, a peer-to-peer solar trading trial and a successful customer-led demand response program. Powershop has also been active in supporting community energy initiatives, including providing operational and market services for the community-owned Hepburn Wind Farm, supporting the Warburton hydro project, and funding a large range of community and social enterprise energy projects through our Your Community Energy program.

MEA Group sees this reform as both necessary and likely to lead to significant long-term benefits for consumers. As noted in the Paper, the current framework allows for generators to coordinate their investment in connection assets, such that the overall cost for each generator is less than if it were to fund its own connection to the grid. These are described as Type A Renewable Energy Zones (REZ) in the Paper. Consequently, the reform proposed in the Paper is focused on Type B REZs which will allow generators to fund some portion of an upgrade inside the declared shared network and receive a hedge in return for this investment.

MEA Group supports the proposed reform as it is likely to lead to the unlocking of much of the congestion that is currently prohibiting the connection of low-cost renewable energy to the grid. MEA Group does not advocate for the removal of all congestion as this would result in a very inefficient outcome for the National Electricity Market (NEM) and consumers. With a fundamental shift in the way electricity is generated and consumed, efficient investment in transmission is inevitable to some degree.

MEA Group believes that at a high-level investment in new transmission assets that is beyond the connection assets (Type B REZs) should be funded through a combination of government, private and consumer investment, where the risks are appropriately apportioned to those parties most capable of managing them. This model was developed and put forward by the Public Interest Advocacy Consumer group as part of its work on the COGATI reform process.

MEA Group holds a different view to the AEMC in relation to the vesting of real or tangible property rights to the party that funds the investment in the shared declared network. We believe that any such right acquired as a result of the proportional investment in the transmission asset be tradeable, in the same way as other property rights.

Please find below our responses to the questions raised by the Paper.

QUESTION 1: TYPES OF REZS

Do stakeholders agree with the characterisation of these two types of REZ?

Are there any other ways to characterise REZs?

MEA Group agrees these are the two relevant types of REZ that should be considered as part of this reform package. The Type A REZ arrangement, although rarely seen in the NEM due to commercial and confidentiality provisions when implemented, has been successful.

In 2012, MEA Group constructed the Mt Mercer Wind Farm in Victoria which connected to the declared shared network at the newly constructed Elaine Terminal Station (ELTS). Sufficient land was acquired, and preliminary civil and electrical works were funded by the Mt Mercer Wind Farm to allow for additional connections in the future by other generators. Additional generators have since connected to ELTS and the some of the costs associated with the additional land and site works have been able to be shared amongst the generators.

We expect that this type of 'hub' concept will continue to be endorsed by generators once the rule change relating to the transparency of new projects is introduced and in operation. MEA Group accept that the AEMC's free rider problem is not resolved through the development of Type A REZs alone and that further changes are required to resolve this issue.

QUESTION 2: SCOPE OF ISSUES

Do stakeholders agree that these are the relevant issues for REZs?

Are there any others? Which issue(s) do stakeholders think REZs should address?

MEA Group agree that the AEMC has accurately captured the relevant issues facing the establishment of REZs, specifically, the free rider issue where generators can currently connect alongside a generator that has funded some or all of a transmission upgrade. We believe this lack of incentive could be addressed through the apportionment of a tangible property right in the transmission asset to the party that funds the upgrade or construction.

QUESTION 3: TYPE A REZS

Do stakeholders agree with this assessment of type A REZs?

Have stakeholders experienced issues when connecting to a DCA?

If so, have they been managed or is a regulatory solution required for these issues?

Are there any other barriers to facilitating a type A REZ?

MEA Group agrees with the AEMC's characterisation of the Type A REZs and the operational and regulatory challenges that exist within them, especially the issue of a single shared connection point. Notwithstanding the issues identified by the AEMC, we do not believe these are prohibitive for generators to coordinate their investment decisions for the model to work.

MEA Group believes the key issue is that after funding some or all of the investment, a generator does not acquire any "rights" over the transmission assets it has funded. Therefore, any model the AEMC considers must in our view confer a tangible right to the party that funds the investment in a transmission asset.

Relevant connecting parties should be compelled to negotiate with that party to acquire some or all the rights to the transmission asset on their terms.

MEA Group does not expect that the incorporation of this “firm access right” into the National Electricity Market Dispatch Engine (NEMDE) would be overly complex, to ensure the party that had funded or acquired the right to the transmission asset, was always dispatched ahead of the party that had not funded or acquired any transmission rights.

QUESTION 4: TYPE B REZs

Do stakeholders agree with this assessment of type B REZs?

Are there any other barriers to facilitating a type B REZ?

MEA Group supports the AEMC’s assessment of the regulatory issues facing the establishment of Type B REZs. However we do not believe the earlier COGATI reform proposal, if implemented, would have resolved this issue through the Financial Transmission Rights auction process.

MEA Group believes (as with Type A REZs) the main barrier to their establishment is the lack of a tangible link between what is funded by a party – irrespective of which party that is (generator, government or the consumer) – and the resulting tangible “right” acquired in the transmission asset, as a result of that investment.

QUESTION 5: STAKEHOLDERS' VIEWS ON MODELS

What are stakeholders' views on the five models presented in this paper for REZs?

In particular, do stakeholders think the preferred model (described above) should be pursued further?

Are there any other ways of addressing the 3 issues identified in this paper that have not been considered?

MEA Group believe that for a model to be established and have wide spread uptake across the NEM, there needs to be a coordination of shared investment and risk between private parties, government and consumers. Those who are least able to manage the risk associated with over investment in transmission, the consumers, should be least exposed to this risk, whereas those most capable of managing this risk, TNSPs or private organisations seeking to underwrite transmission investment, should be most exposed.

The establishment of a model where generators make a financial contribution toward some of the costs of transmission investment in the shared network required for a new REZ, does provide some security for the party investing in the transmission asset but does not extend far enough. We are not convinced that the primary driver for selecting this model should be “to create an incentive for generators to invest in REZs that involve more than just their connection assets.”

Given the scale of investment required in the transmission system, there is a sufficient market for parties other than the generators benefiting from the investment to build out Type B REZs and receive a firm export capacity as a direct result of their investment. This can be traded to generators and be incorporated into the NEMDE to ensure those generators that acquire the capacity can be dispatched accordingly.

MEA Group believes there is a significant amount of work to be completed in order to develop a practical model that will resolve the free rider issue associated with investment in the transmission system. We look forward to further engagement with the AEMC as it seeks to address this issue.

If you have any queries or would like to discuss any aspect of this submission, please feel free to contact me.

Yours sincerely,



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