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30 April 2021

Dear Chloe,

### **Central-West Orana Renewable Energy Zones Access Scheme Issues Paper**

AGL Energy (AGL) welcomes the opportunity to comment on the NSW Department of Planning, Industry & Environment (DPIE) Central West Orana Renewable Energy Zone (CWO REZ) Access Scheme Issues Paper and we look forward to ongoing consultation on the design.

AGL is a leading integrated essential service provider, with a proud 184-year history of innovation and a passionate belief in progress – human and technological. We deliver 4.2 million gas, electricity, and telecommunications services to our residential, small and large business, and wholesale customers across Australia. We operate Australia's largest electricity generation portfolio, with an operated generation capacity of 11,208 MW, which accounts for approximately 20% of the total generation capacity within Australia's National Electricity Market.

### **Access scheme design**

The open access design of the NEM relies on the forces of demand and supply to ensure the efficient allocation of generation investment. The proposed access schemes are interventions in the NEM market design and therefore the potential impact and unintended consequences of the schemes must be closely considered when determining their design. The issues paper seems to suggest that an access rights scheme will always reduce the cost of capital for investors, however this view does not account for the complexity of access rights schemes in practice and the unintended consequences that can occur when they are introduced.

A key risk of transmission access schemes is increased barriers to entry since access rights will typically be a prerequisite for entry and are only available in limited quantities. While access rights are designed to restrict entry, the rights procurement process should not advantage one type of investor over another, otherwise it may lead to an inefficient allocation of generation investment. The advantage may be increased knowledge in how to best participate in the process which allocates the rights (e.g., access to better data which allows better assessment of the value of the rights), an advantage in procuring the access rights due to better timing (e.g., an existing player will be more cognisant of allocation deadlines), or an advantage due to market share or portfolio effects. It's also possible that the rights allocation could be manipulated or gamed such that the costs of access will be increased as intermediaries profit from the allocation process.

A transmission access scheme could also undermine the efficient allocation of generation investment due to its inflexibility. With open access, generators are not constrained by the availability of access rights in decisions regarding their connection capacity and timing, while a transmission access scheme will necessarily have limitations. As generation and transmission assets commence, cease, or modify their operation this will impact efficient allocation of generation investment in an area. Under open access, the market will respond to the market forces driven by these changes, while if an access scheme applies a market response will only be possible to the extent that the availability of access rights can be modified in a timely manner.



'Use it or lose it' provisions of access schemes are also indicative of the inflexibility of open access regimes. The risk of losing access rights can increase the consequences of a delay in development of a new project and can therefore increase the cost of capital. This includes where an investor is unable to obtain needed access rights or is stuck with second tier rights which may be subject to compensation payments.

Under the shortlisted access schemes for the CWO REZ, the REZ administrator will have a central planning role in defining the technology mix for the REZ. Whereas if an access scheme did not apply market forces would determine the best technology mix, which is the intention of the NEM design. While this may be necessary given certain NSW government requirements are not, or not fully, priced into the market (emissions reductions, system services, firming etc), we request the DPIE provide further information on how the technology mix will be determined. We suggest that the technology mix might best be defined by system need, rather than specific technologies, to leave it open to the market rather than a central planner to determine the most suitable technology.

While an access scheme for the CWO REZ is mandated by legislation, we suggest that a full consideration of the potential negative aspects discussed above is necessary before determining the best scheme design. The shortcomings of an access scheme may only be evident in the detail and we therefore suggest DPIE provide further detail of all aspects of the proposed design and worked examples. This is particularly relevant given the recent broad industry concern regarding the proposed COGATI transmission access reforms.

While this consultation relates to a new access scheme for the CWO REZ only. We suggest that REZ access schemes should be uniform across the NEM, or at the very least uniform across NSW. We strongly encourage the DPIE to engage closely with the ESB and strive for alignment between its access rules and the proposed ESB national REZ framework.

## The shortlisted access schemes

Given the potential negatives of the introduction of an access scheme, and the legislated requirement for an access scheme, we suggest that **Option 1 – Limited Physical Connection Model** should be given further consideration as it may provide the least disruption to the market forces driven resource allocation which exists in the NEM. We suggest that the DPIE also explore opportunities for an access scheme which is even more simple, but still satisfies the statutory requirement.

We also suggest that the DPIE give further consideration to **Option 2B - Financial Compensation Model** as it allows access rights to be tailored to different generation/storage types, in contrast with Option 2A which would require generators to procure rights for periods in which they may not intend to generate. We expect that Option 2B would lead to a more efficient allocation of access rights and generation investment in the REZ than Option 2A.

Option 2A and 2B have the potential to distort bidding, since generators may bid on the basis of price and the access rights they possess, which may lead to a less efficient allocation of resources than would otherwise occur. While it is normal for generators to consider a broad range of factors in determining at which price they will bid, a distortionary affect on prices is more likely where the factor is a limited right which exists due to a market intervention.

The DPIE has requested ideas as to how storage may be best incentivised in the CWO REZ. In this regard, we note that Option 2A and 2B will each create incentives for storage. Under Option 2A VRE generators may be incentivised to build storage so that they can dispatch in periods in which they would not otherwise be able to provide energy since the rights are continuous. While under Option 2B VRE generators may be incentivised to build storage so that they can ensure they can dispatch in the specific hours in which they are allocated Tier 1 rights.



If the access scheme design is such that investors consider it necessary to bundle VRE generation and storage, then we consider this would be an inefficient outcome. The NEM is designed to combine different generation types without a requirement that generation be firm so that market forces determine the combination of different generation types required to meet the system need rather than individual firms or a central planner. We suggest that the DPIE ensure that this aspect of the NEM design continues, to ensure the best allocation of resources, and so that providers of low cost energy are able to participate in the market without the need for specific requirements such as dispatchability and flexibility. Further we note that if the access scheme design in effect requires investors to include storage or firming capacity this may increase barriers to entry.

## Trading rights

The DPIE has suggested that the ability to trade access rights may improve the efficient REZ network utilisation. We strongly support this notion because by making rights tradeable it allows the forces of demand and supply to assist in overcoming the potential inflexibility of an access scheme, which may otherwise undermine the efficient allocation of generation investment in a REZ (as outlined above). We suggest a central access rights trading platform would facilitate this trade as it could be designed such that it is accessible to all REZ investors.

## Existing generators

While existing generators are not expected to connect to the CWO REZ, some existing generators are located in the CWO REZ. For this reason, and because the CWO REZ access scheme may be adapted for other REZs, we suggest the DPIE consider the impact of access rights on existing generators in REZs and ensure that the scheme design does not increase costs or reduce transmission access for these generators.

Given the uncertainty regarding the likely final chosen access scheme design we also suggest that the DPIE clarify when participation in the access scheme will become mandatory. We suggest that the requirements of the NSW roadmap, including the requirement that generators hold access rights, not apply to existing generators, or generators which are currently in development, otherwise the uncertainty regarding REZ rules will increase risk and therefore the cost of capital for these projects.

## Coordinated connection

The DPIE has suggested that the implementation of a REZ access scheme may provide an opportunity to create an improved streamlined connection process for the CWO REZ. We agree with this objective and suggest that the proposed Energy Corporation of NSW (EnergyCo) could add particular value in adopting a connection coordination role through which it facilitates negotiations between developers, original equipment manufacturers, AEMO, and TransGrid. EnergyCo could for example assist with disputes regarding connection issues such as the need for system modelling, process transparency, scheduling of generator testing, determining inverter settings, and system strength concerns.

If you have any queries about this submission, please contact Anton King on (03) 8633 6102 or [aking6@agl.com.au](mailto:aking6@agl.com.au).

Yours sincerely,

Chris Streets

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