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South West Renewable Energy Zones Position Paper

AGL Energy (AGL) welcomes the opportunity to comment on the NSW Government Office of Energy and Climate Change (OECC) South West Renewable Energy Zones (SW REZ) Position Paper.

About AGL

AGL is a leading integrated essential service provider, with a proud 185-year history of innovation and a passionate belief in progress – human and technological. We deliver 4.3 million energy 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 10,330 MW, which accounts for approximately 20% of the total generation capacity within Australia's National Electricity Market.

Open Access

AGL supports open access. We do not consider that an adequate cost benefit analysis has been completed which justifies the considerable cost required to implement any of the proposed access schemes being considered for the NEM. We also consider that all access schemes have the risk of reducing network utilisation and causing overall detriment to consumers. Electricity generation investors are sophisticated and will avoid investments that will be prone to congestion where possible. While some congestion investment occurs under open access this is a normal part of the entry and exit cycle of supply and necessary for the market to evolve. Access schemes risk dissuading new investment and locking in inefficient investment to the detriment of consumers. We therefore do not support the implementation of an access scheme for the SW REZ.

Unlike the Central West Orana (CWO) REZ most transmission investment for the SW REZ will be under the RIT-T process, including Project Energy Connect (PEC), which the OECC has indicated will have slower more restricted connections if an access scheme is implemented. We consider these attributes provide further justification for not implementing an access scheme for the SW REZ, or for allowing the SW REZ to subject to whatever scheme is decided upon in the ongoing Energy Security Board Transmission Access Reform consultation.

In regard to the objective of improving developer outcomes and encouraging investment in the SW REZ we consider that the favourable investment terms made possible under the Long Term Energy Service Agreements (LTESAs) mean that these objectives have already been adequately met and an access scheme is therefore not required for this purpose.

We also do not consider access schemes to be a suitable mechanism for collecting and distributing employment and community purpose funds. We see no reason to link the objective of efficient network utilisation with host community outcomes and suggest these objectives should be met through separate mechanisms.



Access right and scheme design

If the OECC considers an access scheme is required for the SW REZ then we consider the proposed limited physical connections model, with a single tier of access rights, is superior to more complex access schemes.

We consider the proposed access right duration of 20 years is longer than needed to achieve the objectives of the access scheme, and given the certainty provided to investors by the LTESAs. We suggest 10 years would be adequate. While short to medium term certainty of access may encourage investment and discourage inappropriate investments, long term certainty is unnecessary and is too much of a departure from the normal functioning of a market. We expect it will raise barriers to entry and exit and undermine the normal ability of the market to replace investments that prove inefficient. A 20-year term risks locking in inefficient investments to the detriment of the market and ultimately consumers. This is particularly concerning given the pace of the transition and the likelihood that a new currently unforeseen technological development may occur. We suggest the REZ should be designed to be able to evolve with the transition, but that this will not be possible with an access rights duration of more than ten years.

We support the proposed transitional/grandfathering arrangements for projects that have received an offer to connect at the time the final access scheme declaration is made.

Target transmission curtailment level

AGL does not support the OECC's proposal to set the target transmission curtailment level for the SW REZ at a very low level compared to the CWO REZ (0.54% compared to 4.37%) to prevent excessive planting of new generation along PEC that would increase curtailment in the region and displace imports from existing South Australian renewables. Whether or not preventing connections to PEC in the SW REZ will ensure that energy can flow from South Australia to NSW, and vice versa, will lead to better consumer outcomes will depend on a huge number of variables including bidding behaviour, fuel costs, future weather patterns, entries and exits, and other interconnection upgrades. Given the complexity of this assessment, we suggest the target curtailment level should be no lower than the level applied in the CWO REZ, so that the volume of connections is more driven by market forces than a centrally planned decision. We consider this would lead to superior outcomes as market participants collectively have the best access to information and greatest ability to respond to changing market conditions. We expect that a higher curtailment level would drive increased network utilisation for the benefit of the consumers who will be paying for the new network infrastructure.

For the same reasons, we also support a higher aggregate maximum capacity cap and consider it will lead to more efficient outcomes than the initial aggregate maximum capacity cap of 1,220 MW based on an initial 800 MW transfer capacity.

Allocation approach

We strongly support the final design position that standalone short duration storage projects will be eligible to participate in the initial allocation alongside generation projects, given the importance of flexible capacity in supporting renewable investment and providing supply in peak periods. Forced bundling in markets reduces supply options and therefore reduces supply efficiency, so we appreciate that standalone short duration storage projects will be eligible.

We also support the decision to exclude existing transmission infrastructure within the geographical area of the REZ from the access right network.



Access control mechanism

AGL supports the decision to have no access control mechanism for the SW REZ as we do not consider it necessary to restrict projects that seek to connect to existing declared network infrastructure which does not form part of the intended network capacity of the REZ. The LTESAs and the aggregate maximum capacity cap will together ensure that REZ investments are adequately de-risked without the need for restricting projects connecting to infrastructure that is not part of the intended REZ network capacity.

Access fees

AGL does not support network access fees since network infrastructure costs are more efficiently recovered directly from the consumer rather than indirectly through impacting a generator's costs. We therefore consider the quantity of fees should be the minimum required by the legislation. There is no benefit for consumers if generators are faced with larger access fees since these fees will be passed onto consumers regardless. There is however potential detriment, as the fees raise barriers to entry since they represent a cost which is not faced by incumbent generators.

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

Yours sincerely,

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