



Ms Anh Mai
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By email: REZDevelopment@delwp.vic.gov.au

31 March 2021

Dear Ms Mai,

Response to Directions Paper – REZ Development Plan

The Clean Energy Investor Group (CEIG) welcomes the opportunity to provide feedback on the Department of Environment, Land, Water and Planning (DELWP)'s Directions Paper published in February 2021 on the *Renewable Energy Zones (REZ) Development Plan*.

CEIG represents domestic and global renewable energy developers and investors, with around 5GW of installed renewable energy capacity across 49 power stations and a combined portfolio value of over \$9 billion. CEIG strongly advocates for an efficient transition to a clean energy system from the perspective of the stakeholders who will provide the low cost capital needed to achieve it.

KEY POINTS

- CEIG welcomes the release of the Victorian REZ Development Plan and commends the Victorian Government for showing leadership by seeking to fund network infrastructure that will help to unlock Victorian REZs.
- CEIG welcomes the proposed investments listed in Stage 1 (Categories 1 and 2) and supports their expedited rollout as they can be expected to have an immediate impact (once operational) to help remediate congestion and system strength issues, particularly in the Murray River and Western REZs.
- Regarding Stage 2 investments, CEIG would find it useful for the Victorian Government to outline how it will prioritise REZ development (such as using a staged approach with a focus on one or two REZs initially versus progressing the development of all REZs at the same time).

- Rather than default to investing in synchronous condensers and whenever there is sufficient lead-time (for example for Stage 2 projects), CEIG encourages the Victorian Government to consider the use of grid-supporting inverters and Battery Energy Storage Systems (BESS) so as to better leverage the advantages of the new digital renewable energy technologies that will form an increasingly greater proportion of the power system.
- CEIG welcomes the consideration by the Victorian Government of the provision of private investment for the funding of network infrastructure. CEIG's overall preference remains for greater contestability of transmission infrastructure investment. CEIG believes that this could ultimately lead to a lower cost of capital and could deliver valuable benefits to consumers.
- CEIG would like to clarify the proposed funding and cost recovery arrangements for projects in both Stage 1 and 2:
 - Although the Government intends to fund Stage 1 projects using the REZ Fund, it is unclear whether the Government will seek to recover those costs (and if so, how much) and who from:

The Government intends to release details of the Stage 1 RDP projects for immediate financing from the REZ Fund in May 2021, including procurement and cost recovery models for each investment, including local content requirements.
 - Regarding Stage 2 projects, CEIG finds that the lack of detail around the proposed funding and cost recovery pathways - which are proposed to be specific to each project - hinders the thorough assessment of the REZ Development Plan and its benefits.
- CEIG strongly recommends that the Victorian Government envisages the application of a special access regime for its REZs to provide some form of 'firm' access.
- Notwithstanding this recommendation, CEIG notes that a review of the existing open access regime is required to protect the expected benefits of REZ policies and to preserve the technical integrity of the network.

CEIG SUPPORTS THE VICTORIAN GOVERNMENT'S REZ DEVELOPMENT PLAN

CEIG welcomes the release of the Victorian REZ Development Plan and commends the Victorian Government for showing leadership by seeking to fund network infrastructure that will help to unlock Victorian REZs.

Enabling REZs is critical to a successful energy transition in Australia and to the decarbonisation of the economy. The Australian Energy Market Operator (AEMO)'s 2020 Integrated System Plan (ISP) has found 26-50 GW of new utility-scale wind and solar capacity is needed in the National Electricity Market (NEM) by 2040 for the optimal development of the power system at lowest cost to consumers, much of it to be built in REZs. REZs provide an effective way to prioritise and coordinate where generation investment should occur, allow to focus on the build-out of all required infrastructure in a planned and considered manner and will provide a strong siting signal to investors.

CEIG agrees with the Victorian Government's assessment of the Victorian barriers to transition:

Many renewable energy projects in Victoria are experiencing long and costly connection processes and/or restrictions due to a lack of thermal capacity and/or low network system strength in some REZs.

and

This framework [the current regulatory framework] does not encourage centrally coordinated scale efficient solutions and anticipatory investments that pave the way for the transformation required in Victoria by 2030, and results in complex connection processes, increased investor risk and therefore reduced incentives for renewable energy investment.

CEIG welcomes the proposed Victorian Government's investment in network infrastructure to help relieve congestion and remediate low system strength issues. These projects, once operational, will not only deliver benefits by helping to facilitate new investments but can also be expected to have immediate positive impacts on numerous existing projects in the broad Western Victoria region.

CEIG welcomes the recognition by the Victorian Government of the significant levels of risk faced by investors due to the complex and time consuming network connection processes. CEIG is aware of several instances where an incapacity to price and reasonably address this risk has resulted in projects being unable to proceed, as well as projects in the final stages of development incurring significant additional costs after final investment decision has occurred. Addressing this risk is critical to improving investability of the NEM.

CEIG particularly welcomes government-driven actions that help to remediate system strength issues. The provision of sufficient system strength in the grid is of benefit to both generators and consumers who can enjoy using a reliable electricity system. CEIG believes that the breadth of those public benefits justifies the investment of public funds for their delivery, rather than seeking to recover their cost from generators only.

STAGE 1 & 2 PROJECTS

Proposed projects – Stage 1

Notwithstanding the lack of clarity around the proposed - if any - cost recovery mechanism for those projects, overall, CEIG welcomes the proposed investments listed in Stage 1 (Categories 1 and 2) and supports their expedited rollout.

CEIG agrees with the proposed Stage 1 eligibility criteria listed on p.8 as they effectively help to generate a list of 'no-regrets' projects that can have an immediate impact (once operational) to help remediate congestion and system strength issues, particularly in the Murray River and Western REZs.

CEIG however notes that while system strength has indeed been an issue in the west of the State, particularly in the proposed Murray River REZ, there is also a pressing need to invest in augmenting the transmission network to increase the thermal capacity in the area and allow more generation to connect.

Finally, to ensure that its investment delivers the maximum value, the Victorian Government may also wish to commission some modelling of the interactions between all the synchronous condensers once

they are all operational (i.e. 3 new proposed synchronous condensers funded in Stage 1 plus existing synchronous condensers) to check for any interference due to their relative close proximity.

Proposed projects - Stage 2

Regarding Stage 2 investments, CEIG would find it useful for the Victorian Government to outline its preferred prioritisation method for REZ development. For example, will the Government pursue a staged approach and focus on one or two REZs initially (in which case knowing which REZs, their planned capacity and timing for development would be useful) or will it seek to progress the development of all REZs at the same time? This would allow investors to provide more granular feedback around the prioritisation of proposed Stage 2 projects.

Opportunity to consider the use of grid-supporting inverters and BESSs to optimise grid performance
CEIG notes that three out of seven Stage 1 Category 1 projects are new synchronous condensers. CEIG supports this immediate solution to alleviate current problems, particularly in the Murray River and Western REZs.

However, rather than default to investing in synchronous condensers and whenever there is sufficient lead-time (for example for Stage 2 projects), CEIG encourages the Victorian Government to consider the use of grid-supporting inverters and BESSs so as to better leverage the advantages of the new digital renewable energy technologies that will form an increasingly greater proportion of the power system.

CEIG has made similar representations to the AEMC¹ and recommended that it pursues the possibility of broad, long term reform that could deliver flexibility and system support by leveraging digital technologies.

CEIG SUPPORTS THE ESTABLISHMENT OF VICGRID

Roles and powers

CEIG supports the establishment of VicGrid and the proposed roles and powers to be allocated to the entity. CEIG encourages the Victorian Government to ensure that the establishment of VicGrid aligns with the principles, rules and functions set out in the ESB's REZ Framework to maximise alignment between NEM regions.

Importantly, CEIG also recognises that obtaining a social licence from the community is critical to project success and VicGrid can have an important role to play in the coordination and set up of consistent frameworks for engagement with local communities, businesses and local governments across Victoria, as well as incentivising local economic development and community benefit sharing outcomes.

Long-term project selection and prioritisation

CEIG supports VicGrid being the nominated entity to coordinate REZ planning and to assess necessary network investments for Stage 2 projects.

¹ [CEIG Response to AEMC's draft rule determination on Connection to dedicated connection assets](#)

With regards to the long-term selection and prioritisation of projects, VicGrid should be clear about its list of future projects and distinguish between those that are ‘committed’ versus ‘possible’ projects that are still subject to further assessments.

Despite this need for clarity, VicGrid should still operate within sufficiently flexible frameworks to ensure that its prioritised project list can be responsive to changing ISP assessments over time. The energy transition is occurring at faster speed than originally anticipated by the market bodies and it should be expected that future ISPs, starting with the 2022 ISP, will be materially amended to incorporate:

- new government renewable energy programs such as the VIC, NSW and QLD programs, including the potential for the announcement of new State-initiated REZs (such as the Hunter Valley REZ) and more refined information on the scale of investment that each government expects to generate in each REZ;
- changing power dynamics (supply and demand; import and export, etc.) within and across States as a result of the above mentioned State-based programs; and
- updated coal-retirement schedules, such as the recent announcement by EnergyAustralia that it would retire the Yallourn power station earlier than previously advised to AEMO.

Without that flexibility, VicGrid may be committed to investments that are no longer necessary or may no longer generate sufficient benefits or returns. This is important for the provision of low cost funds, particularly if the private sector is expected to finance those network infrastructure projects on a commercial basis.

PROJECT FUNDING AND COST RECOVERY

Project funding

CEIG supports the proposed uses of the Victorian REZ fund outlined on p.16 and looks forward to receiving more details in coming months.

Considering the scale of future network infrastructure investment contemplated in the REZ Development Plan, CEIG also welcomes the consideration by the Victorian Government of the provision of private investment for the funding of network infrastructure. CEIG’s overall preference remains for greater contestability of transmission infrastructure procurement and investment². CEIG believes that this could ultimately lead to a lower cost of capital and innovative procurement solutions that could deliver valuable benefits to consumers.

The government’s decisions on cost recovery decisions should be publicly communicated, especially as they are proposed to differ for each project.

CEIG would like to clarify the proposed funding and cost recovery pathways for projects in both Stage 1 and 2.

Although it appears that the Government intends to fund Stage 1 projects using the REZ Fund, it is unclear whether the Government will seek to recover those funds, how much it might seek to recover and who from:

² [CEIG Response to AEMC’s consultation paper on Participant derogation – financeability of ISP projects](#)

The Government intends to release details of the Stage 1 RDP projects for immediate financing from the REZ Fund in May 2021, including procurement and cost recovery models for each investment, including local content requirements.

Regarding Stage 2 projects, CEIG finds that the lack of detail around the proposed funding and cost recovery pathways - which are proposed to be specific to each project - hinders the thorough assessment of the REZ Development Plan and its benefits.

It would be useful for the Government to clearly outline its framework for making decisions around funding and cost recovery pathways and to make those decisions public as soon as possible to enable a more fulsome discussion of the proposed Victorian REZ policy. Understanding the proposed parameters for funding and cost recovery would be useful for investors, particularly for those seeking to pursue investments in network infrastructure projects.

Overall, CEIG supports in principle the costs of investments in the transmission network being shared between generators, consumers and other REZ proponents (e.g. governments or commercial REZ proponents, as required), with each party only paying for the costs that are demonstrated to deliver net market benefits to them. In particular, CEIG supports generators paying for part of the cost of network investments when this can provide special access rights to that network since in this case, generators benefit from an improved ability to send out their plants' generation in the grid. A well-designed auction - by promoting competitive tension between proponents - could deliver low prices and enable an efficient price discovery process for those special access rights.

OTHER CONSIDERATIONS

Developing REZs is critical to the energy transition but it is not sufficient to solve the problems caused by the open access regime

CEIG strongly recommends that the Victorian Government envisages the application of a special access regime for its REZs and provides some form of 'firm' access within its REZs (including capping REZs' hosting capacities) to give investors some level of revenue certainty that will be in turn critical to securing the lowest cost of capital that consumers most benefit from.

Notwithstanding this recommendation, CEIG notes that without commensurate investment in the transmission infrastructure 'backbone' between REZs and network loads, a REZ special access regime will not provide sufficient certainty that a REZ output will not be unreasonably congested due to other generators establishing their plants between a REZ and a load. Since the open access regime continues to apply to the wider network beyond a REZ, the protection provided by a REZ 'firm' access regime will be very limited.

Although it is beyond the scope of this Paper, CEIG notes that a review of the existing open access regime is required to protect the expected benefits of REZ policies and to preserve the technical integrity of the network. A modified open access regime outside of REZs - with some form(s) of access restriction – will be needed and should be considered to ensure that the benefits of REZ policy development are not eroded away. This would support the integrity of REZ investments that are about to be undertaken for the ultimate benefit of consumers.

A broad review of Chapter 5 and part of Chapter 4 of the National Electricity Rules could more holistically capture consideration of changes to the access regime both inside and outside of REZs. Although CEIG acknowledges that this would be a significant undertaking, it could generate material benefits considering the scale of investment required over the next two decades to ensure the security and reliability of the power system as envisaged by AEMO in its ISPs.

Consistency with the ESB's REZ Framework

CEIG commends the Victorian Government for starting to implement the ESB's REZ Planning rules by requiring AEMO, as the jurisdictional planning body, to prepare a REZ development plan for Victorian REZs and more generally for incorporating some of the ESB's REZ principles to foster consistency across the NEM.

Although investors accept that REZ development will be driven by State-specific policies (which will implicitly create some level of divergence across the NEM), CEIG encourages all jurisdictions' governments and the energy market bodies to coordinate and communicate on an ongoing basis to ensure that sufficient clarity and certainty can be provided to investors across the NEM.

CEIG thanks DELWP for the opportunity to provide feedback on the proposed Victorian REZ Development Plan and looks forward to continued engagement with DELWP on this issue and on the broader Victorian Government Renewable Energy Program. You can contact us at marilyne.crestias@ceig.org.au if you would like to discuss any elements of this submission.

Yours sincerely,



Simon Corbell
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Clean Energy Investor Group