

30 April 2021



Mr James Hay  
Chief Executive, Energy Corporation of NSW  
Deputy Secretary Energy, Climate Change, and Sustainability,  
Department of Planning, Industry and Environment (DPIE)

Submitted electronically via [rez@planning.nsw.gov.au](mailto:rez@planning.nsw.gov.au)

Dear Mr Hay,

**RENEWABLE ENERGY ZONES ACCESS SCHEMES – ISSUES PAPER ON CENTRAL-WEST  
ORANA RENEWABLE ENERGY ZONE ACCESS SCHEME**

Endeavour Energy welcomes the opportunity to provide feedback to the DPIE's *Central-West Orana Renewable Energy Zone (CWO-REZ) Access Scheme Issues Paper* (the paper). We support the establishment of REZs to encourage investment in large-scale renewable generation and storage projects to preserve the security and affordability of electricity supply in NSW.

The DPIE has shortlisted three access models to govern the way renewable generation and storage projects can connect to and use the CWO-REZ network. For each model, access rights would be granted by the NSW Government through a competitive tender process. These models are:

1. Limited physical connection model (option 1): Limiting connection to a single class of access rights holders who can connect up to a specified capacity on the REZ network.
2. Financial compensation model (option 2A): Tier 1 (priority) rights holders are allocated fixed 24-hour access equivalent to the REZ network capacity with Tier 2 (non-priority) rights holders liable to financially compensate Tier 1 holders who have been constrained off due to the dispatch of Tier 2 projects.
3. Enhanced financial compensation model (option 2B): Identical to option 2A but with access rights allocated on a time-interval basis.

The broad objective of the CWO-REZ access scheme is to provide investment certainty for new renewable energy and storage projects whilst promoting efficient use of the REZ network infrastructure. We support the design features of each model to achieve this objective and consider the evaluation criteria outlined in the paper to assess the relative merits of the models is appropriate.

**Balancing investment certainty and utilisation objectives**

We consider each of the models will mitigate investment risk to prospective proponents associated with connecting to the NEM under 'open access' arrangements. Whilst rights holders are not provided firm dispatch rights, restricting REZ network access to a predetermined level of capacity should enable prospective projects to better evaluate congestion risks on the REZ network and lower the likelihood of export curtailments unexpectedly impacting forecast revenues and financing costs.

Notwithstanding the complexities of establishing a settlement process for administering compensation payments between REZ parties, the financial compensation models gives Tier 1 holders greater certainty over revenue streams. Whilst this should lead to strong demand for Tier 1 rights, the appeal of Tier 2 rights could be impacted if reallocations of revenue to Tier 1 holders are material and/or frequent thereby limiting the opportunity for Tier 2 projects to retain their dispatch earnings and achieve a commercial return on their investment.

Given Tier 2 projects would play a crucial role in optimising the utilisation of the REZ network by dispatching when Tier 1 projects do not, it is important that the incentives for holding Tier 1 and Tier 2 access rights are appropriately balanced to ensure the feasibility of the financial compensation models.

For instance, compensation payments may need to be lower than the proposed regional reference price if it is revealed by proponents through the tender process or prior that the limited benefits from holding Tier 2 rights is not sufficient to attract the optimal mix of generation technologies or desired Tier 2 capacity to the CWO-REZ. This matter needs to also be considered in the context of ensuring NSW customers benefit from the outcomes of the Roadmap.

In relation to compensation eligibility, we support the DPIE's position that Tier 2 holders responsible for the curtailment of Tier 1 dispatch will be liable for payments and that these payments 'do not extend to congestion outside the REZ Shared Network, or caused by projects connected outside the REZ Shared Network'. We interpret this to mean congestion caused by reverse power flows on the distribution network would be excluded from the compensation mechanism. Instead, these reverse flows will form part of the congestion risks outside the REZ boundary that projects will need to manage.

### **Coexisting with national REZ reforms**

Generation and storage project proponents are best placed to evaluate the relative strengths and weaknesses of each access model and their impact on commercial considerations in making decisions to invest in the CWO REZ.

Nevertheless, we consider an access model which closely aligns with the Energy Ministers / Energy Security Board's (ESB) interim REZ recommendations<sup>1</sup> would best enable the NSW REZ framework to coexist with the national REZ framework. This would facilitate broadly consistent administrative and operational arrangements across REZs and avoid added costs and complexities from tailoring projects to comply with bespoke arrangements which might deter participation in REZs and reduce access fee revenues.

We understand the ESB continues to work closely with the market bodies and stakeholders including the DPIE to develop a principle-based approach that would allow jurisdictions to undertake REZ programs that are aligned with the efficient long-term development of the energy system. This collaboration should help to promote cohesiveness between frameworks whilst providing jurisdictions with flexibility to promote Government policy objectives for REZs and incorporate learnings from completed REZ projects.

### **Interactions between REZs and the distribution network**

We welcome the DPIE recognising that distribution networks will play an important role in the general success of REZs and believe consideration of the capabilities of the distribution network to host REZs will be critical in reducing whole-of system costs.

A REZ access design which is cognisant of the energy flows, available capacity and forecast investment on the distribution network (either downstream of the REZ or which the REZ is directly connected to) will inform efficient decisions on REZ infrastructure including REZ network sizing, commissioning timing and generation technology mix. This includes decisions to increase the REZ generation capacity from the initial cap set by the REZ Administrator. The paper indicates this will only be permitted where the 'connecting party fully funds the network augmentation required to ensure that they do not adversely impact the access of any existing connected project'.

To the extent that new connections could trigger thermal capacity, power quality, demand management or other constraints outside of the REZ network and add to the risk of curtailment from congestion on the shared network, we consider clarity is required on whether these parties, including distribution networks, would be required to fund the requisite upgrades to network infrastructure located outside the geographic area of the REZ (i.e. the distribution network) and under which mechanisms. From a network perspective, doing so would best align with cost-reflective pricing principles which in broad terms require costs to be allocated to those parties that cause them.

An alternative would be to allow the respective distribution network the discretion to address and manage these new constraints. A decision by networks to invest would conflict with the pricing principles

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<sup>1</sup> <https://energyministers.gov.au/publications/stage-2-rez-consultation-energy-security-board>

and hinder the Electricity Investment Roadmap's objective to deliver electricity bill savings to customers. Conversely, not investing would prevent benefits of increasing REZ capacity from being realised and add to the risk of REZ connected projects being curtailed due to congestion on the shared network, potentially reducing the value of their access rights.

Irrespective of which party is responsible, REZ enabling investment on the distribution network can be minimised through a detailed analysis of the interactions between the REZ and adjacent distribution network. A holistic understanding of the power system will also inform efficient connection of generation, storage and load within the REZ and can be achieved through early and regular collaboration with affected distributors to help establish fit-for-purpose REZ design characteristics and technical settings.

#### **Incorporating load into REZ access schemes**

The paper recognises the potential for load (other than storage) to increase the utilisation of the REZ network by reducing losses and increasing REZ export capacity. Options being considered to integrate load into the CWO REZ Access Scheme include: excluding load connections initially; developing an incentive scheme to encourage load to connect and operate to reduce congestion; and addressing access arrangements on a case-by-case basis.

We agree that the role of load should be considered within REZ access scheme arrangements, particularly given the dynamic nature of the emerging market, where it is a cost-effective way to improve the use of the REZ network. Notably, the benefits of connecting load directly to the REZ network can in many instances be achieved by connecting the same load to the 'electrically' adjacent transmission or distribution network. Where this is the case, any incentive scheme adopted should be agnostic to where the REZ enhancing load is connected. Such a scheme should also align financial rewards with the value of the additional capacity created for generation and storage in the REZ and provide for levels of reliability and safety.

We welcome the opportunity to discuss this submission with you in more detail at your convenience. If you have any queries or wish to discuss our submission further please contact myself on [REDACTED] or Colin Crisafulli, Manager Network Regulation at Endeavour Energy on [REDACTED] or via email at [REDACTED]

Yours sincerely

A handwritten signature in black ink, appearing to be 'FM' with a flourish and a period.

**Francoise Merit**

**Chief Financial Officer**