

3 May 2020

Ms Chloe Hicks
Director, Energy Infrastructure and Zones
NSW Department of Planning, Industry and Environment

By email to: rez@planning.nsw.gov.au

Dear Ms Hicks,

CENTRAL-WEST ORANA RENEWABLE ENERGY ZONE ACCESS SCHEME – ISSUES PAPER

Enel Green Power (EGP) appreciates the opportunity to provide a submission in response to the Department of Planning, Industry and Environment (DPIE) issues paper on the Central-West Orana (CWO) Renewable Energy Zone (REZ) access scheme.

Founded in 2008, and part of Enel Group, EGP builds and operates large scale renewable generation capacity in energy markets around the world. EGP operates in 32 countries across 5 continents with a managed capacity of over 49 GW of renewables and over 1,200 plants. EGP is the largest privately owned renewable energy company in the world, generating renewable electricity from hydro, solar, wind and geothermal resources across the globe.

Our detailed responses to the questions posed in the Issues Paper are attached.

In summary, we broadly support the DPIE's proposed high level planning framework and approach to implementing REZs across the state. We consider this framework will lead to a faster, simpler and more predictable transmission connection process and lower overall connection costs.

While we are disappointed that a market wide framework for nodal pricing and financial transmission rights has been put on hold for now, we believe DPIE's proposed financial access models hold promise for delivering a workable access framework in the interim. We commend the NSW Government for developing what we consider to be an innovative framework for access, Option 2B, which is our preferred model.

Option 2B would benefit from a key modification however, which we consider necessary to make the Tier 1 and Tier 2 rights workable and attractive to investors. That is, Tier 1 rights must be made financially firm. The DPIE's proposed access models only provide protections against congestion caused by generators within a REZ, they provide no protection against congestion caused by generators outside a REZ. Tier 1 access rights are therefore essentially non-firm and will get less firm over time as more generation enters into parts of the grid near and around REZs and REZs become increasingly meshed with the shared network and with other REZs.

Tier 1 access rights could be made fully financially firm, as they are in many markets around the world (UK, EU and North America), by requiring NSW customers to make top up payments (through their transmission charges) that reflect any degradation of Tier 1 access that is attributable to power flows outside the REZ.

Making this change to Option 2B would significantly enhance its value to the market. It would increase incentives for developers and investors to fund transmission, while a more effective mechanism for hedging future congestion and curtailment risk would lower entry barriers, increasing future competition in the generation market. As a consequence, we expected any increases in transmission charges to customers would be offset by lower wholesale prices in the long run.

We see such a shared compensation model as potentially having a general applicability and could be transformed into an enduring access model for REZs across the NEM.

Please feel free to contact Con Van Kemenade, Head of Regulatory Affairs, on [REDACTED] to discuss anything we have raised in this submission.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'WE' followed by a stylized flourish.

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Country Manager

Enel Green Power Australia

Submission form

Access Schemes are a key part of the NSW Government's work to coordinate and encourage investment in Renewable Energy Zones (REZ) and realise the objectives of the Electricity Infrastructure Roadmap and enabling legislation. The Central-West Orana REZ Access Scheme will be the first of its kind in the National Electricity Market.

The Department has published the Central-West Orana Renewable Energy Zone Issues Paper (the Issues Paper) to facilitate consultation on the access scheme models being considered for the Central-West Orana REZ. This form is for use by stakeholders who wish to make a submission on the Issues Paper to provide feedback to the Department. This form is not required to have your say on the Issues Paper - the Department also welcomes free form submissions.

Submission response options

We encourage stakeholders to use this form to respond to the specific questions raised in the Issues Paper. This will help us interpret and incorporate your responses into our decision making process.

We also welcome free form submissions and responses instead of, or in addition to, this submission form.

Please email your submission form and/or free form response to: rez@planning.nsw.gov.au with 'CWO REZ Access Scheme Issues Paper' in the subject line. Please identify if you would like your submission to be confidential or anonymous.

Disclaimer

The Department encourages publication of submissions to build transparency in the decision-making process and ensure that a variety of views are understood by the public and relevant stakeholders.

Providing submissions is voluntary, is not assessable, and will not impact an entity's participation in, or be used in the assessment of, any future procurement or competitive process regarding the Central-West Orana REZ or other NSW Government programs.

All submissions will be made publicly available on the Department's website unless a submission author indicates a preference below for confidential treatment. In the absence of an explicit declaration to the contrary, the Department will assume that all information can be made public.

The Department may disclose appropriate confidential information provided by stakeholders to:

- the NSW Minister for Energy and Environment or Minister's office
- the NSW Ombudsman, Audit Office of NSW or as may be otherwise required for auditing purposes or Parliamentary accountability
- directly relevant Department staff, consultants, professional service providers and advisers
- other parties where authorised or required by law to be disclosed.

Participants should also be aware that provisions of the *Government Information (Public Access) Act 2009 (NSW)* may apply to any documents submitted (and information should be submitted on that basis) and to any summary report compiling key information and feedback.

Submissions may also be shared with the Australian Energy Market Operator, Australian Energy Market Commission, Australian Energy Regulator, the Energy Security Board, TransGrid, the Clean Energy Finance Corporation, Australian Renewable Energy Agency, Essential Energy, Endeavour Energy and AusGrid to better understand and respond to issues raised. Please make

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clear in your form response below or otherwise in your submission if you do not want your submission to be shared with the above parties.

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Organisation	Ene Green Power Austra a
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Stakeholder group	<input checked="" type="checkbox"/> Energy generation <input type="checkbox"/> Energy storage <input type="checkbox"/> Ancillary services <input type="checkbox"/> Electricity distribution provider <input type="checkbox"/> Transmission provider <input type="checkbox"/> Energy industry/market body <input type="checkbox"/> Financial institution of financial services <input type="checkbox"/> Consumer advocacy <input type="checkbox"/> Government <input type="checkbox"/> Individual <input type="checkbox"/> Other (please specify) Click or tap here to enter text.

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Would you like your submission to be confidential?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
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Questions

The fillable fields for answers to these questions will expand to accommodate the length of your response.

1. Objectives and evaluation

<p>Question 1: If the CWO REZ Access Scheme delivers on the proposed objectives and benefits, how would connecting projects value connecting under this Scheme rather than elsewhere under current NEM network access arrangements? Should proposed benefits be given weightings, and if so, what should these be?</p>	<p>The key benefits of connecting in a REZ from a developer or investor's perspective are: a faster, simpler and more predictable connection process (specifically through reduced PSCAD modelling requirements); the ability to lower connection costs through coordination between generators and taking advantage of scale economies; ability to hedge against congestion risk with access rights and lower MLF risk through better matching of new entry with transmission development.</p> <p>An improved connection process should be given the highest weighting followed by protection against future congestion risk.</p>
<p>Question 2: What, if any, additional benefits should the CWO REZ Access Scheme deliver to provide value to connecting generation and storage projects?</p>	<p>We consider the the proposed framework addresses all the potential benefits of value to connecting generators.</p>
<p>Question 3: Do you agree with the proposed evaluation criteria? What, if any, additional criteria should be considered?</p>	<p>We agree with the proposed evaluation criteria</p>

2. Access scheme models

<p>Question 4: Which of the shortlisted models presented is preferred? Which best balances the need to deliver value to investors with the need to maximise utilisation of the REZ, and together achieve the access scheme's objectives?</p> <p>In particular, does the 'non-firm' connection right, under Option 1 provide sufficient certainty to investors to be of value? If it does not, is this outweighed by the increased utilisation of the REZ that would result under such non-firm connection rights?</p>	<p>We prefer Option 2B as it provides more flexibility for participants and will encourage better utilisation of what will ultimately be regulated infrastructure (given that a REZ must pass the RIT-T). Option 1 could over time become a barrier to new entry due to delays and queues, because each new generator that seeks to connect over and above the capped REZ capacity would need to fund additional reinforcement in order to avoid 'doing harm' to existing rights holders.</p> <p>A further issue with the Model Option 1 is that rights would only be partially firm, with the level of access determined in part by dispatch of generation outside the shared REZ, for which access rights offer no protection. This limits the value of access rights and makes them harder to price.</p>
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	<p>The proposed financial compensation options would allow more generation to connect (Tier 2 rights holders) for a given amount of REZ capacity, leading to more efficient utilisation of the capacity.</p> <p>These models do suffer from the same limitation as Model 1 regarding their coverage of congestion risk, however we consider the financial models provide greater scope to address this issue, as we explain in our answers to questions 5 and 6.</p> <p>The concept of Tier 2 rights is an interesting one. In principle, they should encourage greater utilisation of a shared REZ, compared with Option 1, as more generators would be able to connect before network reinforcement is required. They also offer some benefits to Tier 2 rights holders (although clearly they are not as valuable Tier 1 rights). These benefits are an obvious ability to connect much faster into a REZ compared to Access Model 1 as well as offering some protection from congestion caused by future entry (since shared REZ capacity is limited to combined Tier1 and Tier 2 access rights).</p> <p>Offsetting these benefits is the fact they would expose holders to compensation payments which may be difficult to predict, particularly given that congestion within a REZ will in part be caused by dispatch patterns outside of the REZ. We also note that Tier 2 rights would expose holders to greater congestion risk than they currently face under existing arrangements. Currently the costs of congestion are shared by all generators behind a constraint, whereas under the financial access models, Tier 2 rights holders would face the full costs of congestion.</p> <p>On balance however, we support their inclusion in the model. Tier 2 rights may operate usefully as an interim right, for those new entrants whom are ultimately after firm access rights (Tier 1 rights) – but prefer not to have to wait for reinforcement of network infrastructure before being able to access the market (which could presumably take a number of years). Tier 2 rights provide investors with the flexibility to access the market well ahead of what otherwise would be possible, but also requires them to take on an additional level of risk. Ideally Tier 2 rights should confert into Tier 1 rights once the new reinforcements have been completed.</p>
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	<p>In respect of which compensation option, 1A or 2B is the better option. We consider option 2B will likely provide the most flexibility for participants, as it will allow for better matching of access rights with different generation profiles and technologies (eg short and long duration storage), so that investors are not forced to pay for a level of access they will never use. More granular rights should be more cost effective for investors as not all participants will be competing for the same rights.</p>
<p>Question 5: Are there other access models that you consider would be superior to the shortlisted models in this paper? If so, what are these models, and what are their strengths in comparison to the shortlisted models?</p>	<p>We believe Model 2A and 2B could be modified to improve their value to participants. A key weakness of the proposed options is that they only provide protections against congestion caused by generators within a REZ. Tier 1 access rights are essentially non-firm and will get less firm over time as more generation enters into parts of the grid near REZs and REZs become increasingly meshed with the shared network and other REZs.</p> <p>This level of non-firmness will make Tier 1 access rights complex to value and price for developers and investors, particularly if they are to apply for a long period or over the life of the project. As only a partial hedge against future congestion risk Tier 1 access rights will only have limited value for developers and investors, which could affect their incentive to locate in a REZ.</p> <p>We consider the financial models would be enhanced by making Tier 1 access rights fully financially firm, as they are in many markets around the world (UK, EU and North America). This could be achieved by requiring NSW customers to make top up payments (through their transmission charges) that reflect any degradation of access to Tier 1 rights caused by generators outside the REZ. Tier 2 rights holders would still pay the majority of these costs, as congestion would primarily be caused by co-location of multiple generators.</p> <p>This approach would bear a strong similarities to the concept of constrained off (or curtailment) payments that apply in the UK, where such payments are also funded by a combination of consumers and generators (those with non-firm rights).</p> <p>We see such a shared compensation model as</p>

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	<p>potentially having a general applicability and could be transformed into an enduring access model across REZs.</p> <p>While customers would face an additional cost component in their transmission charges, this amount would likely remain small relative to the proportion of compensation funded by generators (i.e. those without Tier 1 rights).</p> <p>Further, it might also be expected that this approach would lower investment risk premiums for new generation projects with Tier 1 rights and increase their bankability. So any increase in transmission charges for customers may be offset by lower future energy prices, as the availability of firmer congestion hedging instruments would lower barriers to entry and increase generator competition.</p>
Question 6: How could the characteristics of either Option 1, 2A or 2B be adjusted to improve them in a manner that achieves the access scheme's objectives?	Please refer to our answer to Question 5.
Question 7: Characteristics such as more granular access rights (for example, rights defined in five-minute intervals) and tradeable rights can provide flexibility to access right holders, but also make the access scheme more complex. How should the trade-off between flexibility for access right holders and simplicity of the access scheme be assessed? Which better achieves the access scheme's objectives?	<p>One way complexity could be reduced is by having access rights cover larger blocks of time (rather than 5 minute periods), that might broadly reflect generation profiles, or profiles of technology mixes (eg solar profile + 2 hour battery).</p> <p>While simplicity is important, the focus should be on designing rights that maximises their value to and minimise costs to participants, taking into account the characteristics of different technologies.</p>
Question 8: If not nameplate capacity, what is the appropriate level of capacity that should be used to determine requirements for access rights coverage that would better achieve the scheme's objectives? If a Probability of Exceedance (POE) value is used, what process should be used to verify this?	Name plate capacity would appear to be a transparent and simple reference point for determining access rights.
Question 9: How should the allocation of access rights to hybrid (storage plus generation) assets be approached? What 'shape' of access rights would suit a hybrid asset? How could projects which use some of their maximum capacity 'behind the meter' be accounted for in determining	Hybrid assets could propose an alternative reference point, such as a negotiated transfer capability.

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the appropriate level of capacity for access rights coverage?	
Question 10: Is there a minimum term (in years) for which access rights would need to apply to benefit project finance?	Access rights should apply for the life of the project, consistent with the financial commitment generators make to pay for transmission. Further, project financing is typically based on future revenue streams and risks applying over the life of a project.

Option 1: Limited physical connection model

Question 11: Under Option 1, connected generation capacity could be capped above the capacity of the REZ Shared Network. How should generation and storage capacity be set or capped to optimise REZ Shared Network utilisation without introducing too much constraint risk?	We consider the Option 1 model inherently leads to underutilisation of the network and is therefore not the preferred model from a public policy perspective.
Question 12: How could network capacity be allocated between different generation types? Should it, for example, be based on a particular, pre-defined generation profile ("shape") for different types of generation technologies?	This may be too complex, a simpler approach may be to allocate access rights according to different time blocks that approximate different technology profiles (rather than shaping access rights).

Option 2A and 2B: Financial compensation models

Question 13: How would 24-hour access rights impact the value and efficiency of a financial compensation model? If access rights were defined as flat, 24-hour, access rights, would access right holders be incentivised to firm up their generation to make efficient use of the access rights (either technically, or commercially with sharing arrangements)? If not, what adjustments would need to be made to the access scheme design to incentivise this?	24 hour access rights would be advantageous to developers and investors with a portfolio of technologies (and subsequent flatter profiles), or those who intend to build such a portfolio over time, who would place more value on the optionality such access rights give them. More granular rights would likely better support new entry of smaller renewable energy players.
Question 14: Would currently available information, including solar and wind forecasts for corresponding Tier 1 generators, be sufficient for Tier 2 access right holders to make a reasonable assessment of the risk of being constrained off? Or would additional data need to be available to achieve this?	Click or tap here to enter your answer to question 14.
Question 15: With reference to Appendix B, to what extent should curtailment (and therefore the	It is important that Tier 1 rights holders have efficient incentives for bidding their capacity into

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<p>compensation mechanism) take bid price or market settlement price into account? In particular, what would be the downside to limiting compensation to only the bids from Tier 1 access right holders that are below the market settlement price?</p>	<p>the market (ie cost reflective bidding). Compensation should only be payable in the event that the Tier 1 rights holder would have been dispatched (ie their bid price would have been below the market price) 'but for' the congestion having taken place.</p> <p>However, we note that where congestion occurs and the RRP is negative, then Tier 1 rights holders should not be required to pay Tier 2 rights holders. In this regard, compensation should only ever be positive in our view.</p>
<p>Question 16: In what ways could the proposed models and compensation mechanism design result in changes to the bidding strategies of Tier 1 and Tier 2 access right holders? Would this be expected to have a material impact on the NSW market?</p>	<p>The preferred compensation approach set out in the paper would appear to generate efficient incentives for dispatch at the margin (and remove incentives for negative price bidding).</p>
<p>Question 17: There could be circumstances in which the revenue earned by Tier 2 access right holders will not equal the revenue lost by the Tier 1 access right holders through subsequent curtailment. This includes instances of intra-REZ constraints, and when MLFs for Tier 2 generators are systematically lower than for Tier 1 generators. What are the other circumstances, if any, in which potential 'compensation inadequacy' may occur? How material is this risk for Tier 1 access right holders in comparison to the open-access regime?</p>	<p>As we noted in our answer to question 5, we consider compensation inadequacy due to congestion being caused by generation outside the REZ to be a material risk that needs to be addressed in the models.</p>
<p>Question 18: Does this Issues Paper identify the key risks associated with the Financial Compensation Models? Can the risks be sufficiently managed through the design features of the models and the proposed compensation mechanism referred to in this Issues Paper?</p>	<p>The key risk that needs to be addressed is the non-firmness of Tier 1 rights, which can only be addressed (other than transitioning to a full nodal pricing and FTR regime) by extending the compensation mechanism in the way we have proposed – ie to include NSW customers in the compensation arrangements.</p>
<p>Question 19: How would the implementation of the financial compensation models impact existing contracts, such as PPAs? Could the compensation mechanism be appropriately accounted for in the design of new contract structures?</p>	<p>We don't believe the financial compensation mechanisms would affect the mechanics of PPAs, as the RRP against which the PPA is referenced would not change. However, Tier 2 rights holders would face additional costs in the wholesale market through having to fund compensation payments.</p>

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Other models considered but not progressed

<p>Question 20: The NSW Government is not proposing to progress the Limited NEM Bidding and REZ Locational Marginal Pricing models further at this time. Are there elements unique to these two models which should be considered for integration into the models that have been shortlisted?</p>	<p>Click or tap here to enter your answer to question 20.</p>
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3. Access scheme design issues

<p>Question 21: How valuable is the ability to trade access rights, and in what circumstances would this be useful?</p>	<p>Our preference is for a regime of long term rights, to support investment in new transmission capacity. There may be limited value in allowing parties to trade long term access rights, as those who have purchased them to hedge their future congestion exposure are unlikely to want to sell them if congestion is expected to be material over the expected life of a project. Conversely, they will hold little value for those wanting the purchase them if congestion turns out not to be material (e.g. due to additional investment in transmission removing the congestion for instant). Potentially, a secondary market could have some value in allowing participants to trade long term rights holders to match long or short positions arising due to changes in their portfolio positions. We note however that in the UK the ability to trade long term Transmission Entry Capacity (TEC) rights has rarely used.</p> <p>Of greater value may be to introduce a mechanism that allows allowing long term rights holders to trade any spare capacity they might have available on a short term basis, ie half hourly or daily etc. For example, a wind farm may forecast low wind conditions a few days ahead, which means it will have spare Tier 1 capacity available for others to use on a short term basis. A centrally coordinated platform, likely managed by AEMO, would be needed to aggregate the supply and demand for spare capacity in real time.</p> <p>In our view further work needs to be done to assess the benefits versus costs (in particular transactions costs) of implementing such a mechanism.</p>
<p>Question 22: To what extent would flexibility to trade access rights increase the value of access rights for their holders? How flexible and</p>	

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unrestricted would access rights trading need to be to provide value?	
Question 23: Would the introduction of a central access rights trading platform be of benefit to access right holders? If so, why? If beneficial, then which party would be best placed to design, maintain and operate this trading platform?	Its not clear to us that such a platform is necessary, however if implemented it makes sense for it to be run by AEMO.
Question 24: For generation projects connecting to the REZ, how important is it that storage is required to purchase access rights (i.e. that total connecting storage capacity is limited)? If storage was not to be required to purchase access rights, how high is the risk of storage competing with (i.e. curtailing) generation dispatch?	The proposed framework should require storage to purchase access rights. They will have different needs and the access framework should accommodate those needs. Where storage is primarily used for complementing co-located renewables then Tier 2 rights will be sufficient for them, however where storage is used for dispatch into wholesale markets, as peaking capacity for instance, then a Tier 1 right will be more valuable (particularly if they are backing a hedge contract). Interval based rights would be particularly useful in the latter case, as storage would only need access certainty for 1 or 2 hours during peak times.
Question 25: Would proponents of storage projects value firm access rights? In the financial compensation models, how would storage operations differ under Tier 1 versus Tier 2 access rights? How could an access scheme provide sufficiently flexibility for storage to connect in future as technology costs come down and the market evolves?	We consider Model 2B provides sufficient flexibility and incentives for storage to operate efficiently.
Question 26: Would prevailing market signals provide sufficient and appropriate incentive for storage to operate in a manner that is aligned with the needs of the REZ? If not, then what REZ-specific types of incentive mechanisms should be considered to incentivise load and storage to consume electricity when the REZ Shared Network is congested?	Yes.
Question 27: If an incentive mechanism for storage is implemented how should the costs of this arrangement be recovered?	We do not consider an incentive mechanism is required.
Question 28: How should the treatment of storage under the CWO REZ Access Scheme account for differences between long-duration storage and fast-firming technologies?	The benefit of the interval approach under Model 2B is that it would allow technologies to bid blocks of access that suit their needs
Question 29: How should load be integrated into REZs and what types of incentives (if any)	

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would be needed to attract load to connect to the REZ Shared Network?	
Question 30: Would additional incentives be necessary, beyond market-based commercial incentives, to encourage storage/load to increase their electricity use during periods of REZ network congestion?	We do not consider additional incentives are necessary.
Question 31: If an incentive mechanism for load is implemented how should the costs of this arrangement be recovered?	Click or tap here to enter your answer to question 31.
Question 32: How should the potential impact of changes in distribution load and embedded generation on the CWO REZ hosting/export capacity be incorporated into the REZ Access Scheme design and implementation?	Click or tap here to enter your answer to question 32.
Question 33: Should non-scheduled generation and exempt generators be required to hold access rights under the CWO REZ Access Scheme, and/or should the total capacity of non-scheduled generation or generation from exempt generators permitted to connect be capped? Is there an alternative approach to the treatment of non-scheduled generation or generation from exempt generators which should be considered?	Click or tap here to enter your answer to question 33.
Question 34: If 'use it or lose it' provisions were introduced, how should the utilisation requirements be set/measured? What exemptions or concessions should be considered?	Click or tap here to enter your answer to question 34.
Question 35: If an access right holder was required to return some or all of its access rights under the 'use it or lose it' provisions, how should these provisions be structured?	Click or tap here to enter your answer to question 35.
Question 36: What impact do you consider capping of connection in a REZ, and the proposed access scheme models, will have on reducing the risk of volatile MLFs? Are additional measures warranted? If so, what measures?	Capping generation to be broadly consistent with the hosting capacity of new transmission should significantly reduce the volatility of MLFs making them more predictable. No further measures are required.
Question 37: What are your views on the appropriateness of the principles for managing the interface between the CWO REZ Access Scheme and common DCAs/DNAs? How could consistency between the CWO REZ Access	The key difference between DNA and REZ framework is that investment in the former is driven and paid for by generators, and should therefore happen much faster, while REZs must still undergo a complex and lengthy RIT-T process, with costs shared between customers

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Scheme and access policies on DCAs and DNAs best be achieved?	and generators. Under a DNA framework it may be more appropriate to have Tier 1 access rights only, with all other access non-firm (no Tier 2 access rights).
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4. Other coordination initiatives

Question 38: Would a process to coordinate connection assets for multiple projects be of interest? If so, what coordination initiatives would be of interest?	Click or tap here to enter your answer to question 38.
Question 39: Given the unique nature of connecting to coordinated REZs, such as the CWO REZ, the barriers to coordination of connection assets may be reduced. What further barriers to coordination will still need to be overcome, and how could this be achieved?	Click or tap here to enter your answer to question 39.
Question 40: What opportunities exist for the NSW Government to improve connection processes in the CWO REZ? What improvements would deliver greatest value?	Click or tap here to enter your answer to question 40.
Question 41: What, if any, additional connection challenges could be created under the CWO REZ Access Scheme? How could these be mitigated?	Click or tap here to enter your answer to question 41.
Question 42: What value could be delivered to generation and storage projects through centralised approaches to connection and system services, and what are the trade-offs? For example, would projects be willing to forego optionality around aspects of their project through requirements like minimum equipment standards, to reduce costs and the risk of potential delays to commissioning?	Click or tap here to enter your answer to question 42.

5. Open comment

Question 43: Are there any other matters you wish to raise relevant to this issues paper?	Click or tap here to enter your answer to question 43.
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