

BRIEFING AHEAD OF COAG ENERGY COUNCIL MEETING – 20 MARCH 2020

Recommendations

The clean energy industry encourages the COAG Energy Council to prioritise the following actions at its 20 March meeting:

- Accelerate transmission investment
- Review access regime as part of ESB's post-2025 market review
- Support the development of Renewable Energy Zones (REZs)
- Review the current Marginal Loss Factor (MLF) regime
- Accelerate reform of stand-alone power systems for bushfire recovery
- Review of governance of Distributed Energy Resource standards

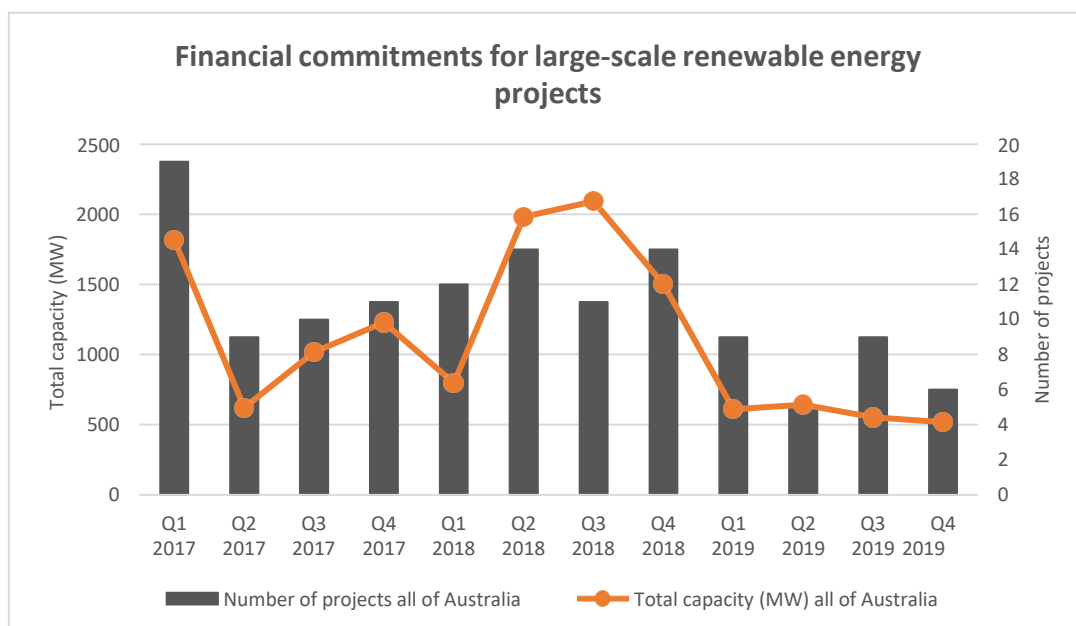
A more detailed outline of each of these recommendations is below.

Context

Record levels of new investment in renewable energy combined with a lack of long-term planning and reform of the energy grid and market are combining to present significant constraints and risks for further investment in large-scale renewable energy.

Continued deployment of renewable energy and energy storage is critical to replacing Australia's ageing coal-fired generation, delivering lower power prices and a reliable energy system, and achieving Australia's emission reduction targets.

Clean energy investors are being taken for granted. While their appetite for investing in large-scale renewable energy in Australia had resulted in record levels of investment in Australia in 2017 and 2018, the accumulation of a multitude of risks saw a collapse in investment commitments by over 50 per cent in 2019.



The Clean Energy Council (CEC) undertakes a biannual survey of the CEOs of Australia's leading renewable energy companies to understand their confidence in the Australian market and the challenges they face. The reason for this slow-down generally relates to the underinvestment in the

electricity grid and lack of associated market reform, and a lack of long-term and stable climate and energy policy.

TOP BUSINESS CHALLENGES

What factors are creating the greatest challenges for your business to develop clean energy projects in Australia?

- 1 Concerns and challenges related to grid connection process and technical requirements
- 2 Lack of strong federal energy and climate policy
- 3 Under-investment in network capacity to address congestion and constraints
- 4 Concerns and uncertainty about marginal loss factors (MLFs)
- 5 Unjustified government intervention in the energy market
- 6 Lack of certainty about timing of exit of coal-fired power stations

Addressing these barriers must be the priority of policy makers at the upcoming COAG Energy Council meeting to ensure investment confidence is restored.

Accelerate transmission investment

Australia's transmission network has simply not kept pace with the transition to a 21st century energy system and is causing major concerns for investors in clean energy. The lack of transmission is now one of the most critical challenges facing the transition of Australia's energy system. This underinvestment in transmission is now stifling new generation investment, constraining existing generation and resulting in increased energy security and reliability risks and higher power prices.

For over a decade the clean energy industry has suggested reform is required, particularly to the Regulatory Investment Test for Transmission (RIT-T), to speed up transmission build for the benefit of consumers. Attempts to improve the RIT-T have failed. This has been clearly recognised by government as demonstrated by the more direct and recent initiatives that the CEC has welcomed:

- The Commonwealth Government's support to fast-track the development of Marinus Link.
- The South Australian Government's support to accelerate the new SA-NSW interconnector.
- The Commonwealth Government's new \$1 billion Grid Reliability Fund to be administered by the Clean Energy Finance Corporation.
- The Victorian Government's proposed legislation to allow it to fast-track projects like grid-scale batteries and transmission upgrades.
- The Commonwealth and NSW Governments' commitment to jointly underwrite the Queensland-NSW upgrade and HumeLink.
- The NSW Government's strategy to deliver Australia's first coordinated pilot Renewable Energy Zone (REZ) in Central-West NSW with seed funding support from the Commonwealth Government.

It is critical that any such direct intervention and support from government is broadly consistent with the Integrated System Plan (ISP) and delivers a clear benefit to electricity consumers over the long-term.

The Energy Security Board's (ESB's) proposed rule change to action the ISP is also welcome. Streamlining the RIT-T for actionable projects identified in the ISP has the potential to facilitate the efficient and timely development of nationally strategic transmission infrastructure. However, the actioning the ISP rules only go so far and the Victorian Government's proposed legislation suggests there still remain problems with the RIT-T. There is still scope for further improvements to the RIT-T, such as around recognising the broader potential customer benefits from new transmission.

Recommendation

The COAG Energy Council should endorse the ESB’s actioning the ISP rules and agree to a review of the RIT-T framework to ensure it remains fit-for-purpose for the changing energy market.

Review access regime as part of ESB’s post-2025 market review

The CEC has welcomed the revised approach to the AEMC’s proposed Coordination of Generation and Transmission Investment (COGATI) reforms. The clean energy industry had serious concerns about the previous proposal and the process expediting its development and implementation. We thank the AEMC for listening to the clean energy industries concerns and support the revised proposal for reform to access to be undertaken as part of the Energy Security Board’s market review process.

CEC and our members were concerned that the proposed COGATI model would have introduced significant complexity and risk into the market with limited benefit. We now look forward to working with AEMC and ESB on a more considered policy reform process over the coming year.

Recommendation

The COAG Energy Council should support the revised proposal for reform to access to be undertaken as part of the Energy Security Boards more wholesale market review process.

Support the development of Renewable Energy Zones

The CEC supports the development of Renewable Energy Zones (REZs) as a means to achieve scale efficient generator connections. We support the NSW's commitment to a pilot REZ in Central-West NSW, noting there are critical elements that must be addressed in the design and implementation of the REZ to ensure it is effective.

We consider REZs should not be limited to transmission but rather provide a range of benefits to generators connecting in the REZ:

- System strength requirements could be coordinated for the generators in the REZ so that generators do not need to manage this on an individual basis. There could also be the potential for shared storage.
- Generators in a REZ could be afforded a streamlined and prioritised connection process.
- Generators in a REZ could undertake streamlined planning and environmental assessments.
- Community acceptance is critical for REZs so governments should have an active role in managing community engagement for the developments and connection assets within the REZ.

New generators are not opposed to paying to access REZ benefits, but consideration should be given to arrangements to share the cost of new transmission between generators, speculative investors and consumers.

REZ arrangements should be flexible to recognise that a one-size-fits-all approach would not be suitable across the range of REZs in the National Electricity Market. REZ development should also acknowledge existing generators within a REZ to ensure the value of these generators is not jeopardised.

Recommendation

The COAG Energy Council should support the development of REZs by agreeing flexible design elements for REZs (as outlined above) and committing to delivering priority REZs across all states.

Review Marginal Loss Factor regime

The recent decision by the AEMC to retain the existing Marginal Loss Factor (MLF) regime, which is no longer fit-for-purpose, will further undermine investor confidence in new clean energy generation.

While industry welcomes debate and analysis of alternative reforms, simply retaining the current regime is deeply problematic and undermines the energy transition underway in Australia.

The CEC had expected that the AEMC would consider how losses could be shared by generators in a way that presents less volatility and more manageable risk, without increasing consumer costs or ignoring physical losses. Unfortunately, the AEMC has missed an opportunity to think openly and creatively about reform to the current flawed MLF framework, including not undertaking any of its own analysis of the possible options.

Measures taken by the Australian Energy Market Operator to improve transparency by publishing MLF trend analysis have been a positive move but ultimately do not fully address the impact the current MLF regime is having on investors.

To ensure a robust future for the energy industry, Australia requires a loss factors framework that supports the transition to new clean forms of energy generation through minimising loss factor volatility risk and better protecting generator investments once they become operational. The MLF regime must be reformed to deliver this.

Recommendation

The COAG Energy Council should commission a fulsome review of the current MLF regime, which includes an assessment of options that can address loss factor volatility, while avoiding any negative impact on customers.

Accelerate reform of stand-alone power systems for bushfire recovery

The COAG Energy Council has recognised that stand-alone power systems (SAPS), including microgrids, can supply electricity more cheaply, safely and reliably than traditional ‘poles and wires’. This is especially so in rural and fringe-of-grid areas. The COAG Energy Council tasked the AEMC to develop a new regulatory framework to allow distribution network service providers (DNSPs) and others to utilise SAPS where it is economically efficient to do so. In 2019 the AEMC published a proposed package of rules to implement the new regulatory arrangements for DNSPs.

Bushfire recovery is an urgent and important matter and accelerating these reforms will assist with this process.

Recommendation

The COAG Energy Council should approve the framework for DNSP-led SAPS as a matter of urgency.

Review of governance of DER standards

Grid connection rules and DER standards suffer from lack of good governance and coordination. . The current system is a bureaucratic maze that places an unnecessary burden of cost and complexity onto Australia’s solar industry. Distribution networks are free to set their own grid connection rules, without accountability to a governing body. Each state has its own unique approach to regulation of electrical safety. The process for developing technical standards is slow, poorly resourced and the decision-making process is not transparent enough. The standards of inspection and auditing vary widely between states. Much of Australia’s regulatory framework for DER is voluntary and relies on the link to the eligibility rules of the Small-scale Renewable Energy Scheme (SRES) for its effectiveness, but the SRES is scheduled to be phased out over the coming decade.

Recommendation

The COAG Energy Council should approve the governance review proceeding to the next steps.