



21 May 2021

NSW Department of Planning, Industry and Environment

Lodged via email: Electricity.Roadmap@dpie.nsw.gov.au

Dear Sir/Madam,

Tranche two regulations to support the Electricity Infrastructure Roadmap: Issues Paper

The Clean Energy Council (CEC) welcomes the consultation opportunity on the New South Wales (NSW) Department of Planning, Industry and Environment's issues paper on the proposed tranche two regulations for the Electricity Infrastructure Roadmap.

The CEC is the peak body for the clean energy industry in Australia. We represent and work with around 900 of the leading businesses operating in renewable energy, energy storage and renewable hydrogen. We are committed to accelerating Australia's clean energy transformation.

The CEC strongly supports the NSW Government moving swiftly to address the urgent need for substantial strategic investment in the state's transmission network, in order to accommodate the next generation of clean energy infrastructure.

It is important however, that the NSW Government takes the time to get the right contracting framework in place that will support investor confidence to deliver the generation and storage targets and avoid unintended market consequences. We encourage the State Government to consider aligning the guiding principles with existing national frameworks to avoid introducing complexity to the NSW regulatory environment and encourage collaboration with market participants where possible. Given the extent of change within the energy sector over the past decade, and the significant changes expected over the decade ahead, we also consider it vital that any regulations provide maximum flexibility in order to allow for the Consumer Trustee/other government bodies to adapt and utilise the most efficient solutions and approaches to deliver on investment objectives.

The remainder of our submission will provide our comments on the sections highlighted in the paper however please note that due to the timing of this consultation alongside a number of open submission processes across the market bodies for the CEC and many of our members, the below may not be an exhaustive list of industry's questions and concerns.

Energy Security Target (EST)

The EST has been proposed by the NSW Government to provide market certainty around the amount of capacity required to ensure a reliable energy system for the state over the medium to long term.

Proposed regulations relating to the EST in the current submission relate to the:

- definition of reserve margin;
- maximum demand forecasting; and
- definition of firm capacity.

Implications of the EST

The CEC suggests that the provisions around the reliability framework proposed in the *Electricity Infrastructure Investment Act 2020* ('the EII Act') should align with existing mechanisms within the National Electricity Market ('NEM'). It will be important for the State Government to recognise the value that consumers place on reliable electricity supply and compare this with the overall power system costs associated with achieving a certain reliability level. As such, given the EST effectively represents a tighter reliability standard, it is important that the Department assess whether the EST will lead to cost efficient outcomes for consumers.

Firm capacity and derating factors

The prescriptive methodology outlined to determine the factors considered in calculating maximum demand aligns with existing Australian Energy Market Operator (AEMO) forecasts and therefore provides clarity around the EST. Whilst either principle-based or prescription of the derating factor methodology provide certainty around firm capacity for the market, the principle-based approach would allow the EST Monitor flexibility to consider different factors as necessary when developing the derating factor. For example, the CEC acknowledges the appropriateness of applying a derating factor in the calculation of firm capacity, but suggests a granular approach is adopted that considers the variation in weather patterns and technological attributes across generators. Rather than prescribing a blanket methodology to developing the derating factors, allowing the EST Monitor the flexibility to consider these factors may best reflect different generator's operating conditions.

EST Monitor Report

The CEC encourages transparency around the work of the EST Monitor and AEMO in reporting the calculation and forecasting of the target. The Department should ensure a clear and predictable means of providing updates on the EST and any potential consequent government actions. This should include a clear outlining of possible corrective actions taken by the Government in addressing this breach.

While useful in the context of the EST, the Department must ensure that the use of the derating factor does not distort market signals for the investment in firm capacity. This is particularly relevant in the context of both standalone and co-located batteries. We recommend that the Department establish a clear framework for assessing the contribution of storage, including a clear storage derating factor. The framework should recognise the firming capabilities from both large-scale storage and aggregated storage assets such as virtual power plants (VPPs).

Electricity Infrastructure Investment Safeguard

Reliability Standard

The CEC welcomes the alignment of the reliability standard of the EII Act with the interim reliability measure until 30 June 2025, and the reliability standard after this date, as implemented by AEMO under the National Electricity Rules (NER). This ensures consistency across the jurisdictions included in the NEM and therefore reduces any potential investment uncertainty.

Implications of Long-Term Energy Service Agreements

As outlined earlier within this submission, it will be important for the State Government to take the time to get the right contracting framework in place which can support investor confidence over the coming decade. The first order priority for the Government is and should be the network infrastructure. The

state should however allow ample time for the careful design of contracting arrangements to ensure that they can deliver the most efficient outcomes and avoid unintended market consequences. Specifically, we encourage the State Government to consider aligning the guiding principles with existing national frameworks to avoid introducing complexity to the NSW regulatory environment.

Furthermore, we note that the energy market and technologies have evolved significantly over the past decade, as has the investment environment, the corporate and project structures for delivering infrastructure investment, and the debt-to-equity ratios. It is sensible to assume that this evolution will continue over the decade to come, and it would be prudent to therefore ensure that the regulations provide ample flexibility to adapt with changing market conditions.

In refining the design of the contracting arrangements with the private sector, the CEC urges the State Government to work in partnership with clean energy infrastructure investors to ensure that the chosen framework will support the market confidence to deliver the necessary investment in a timely fashion.

The CEC supports the draft principles for the competitive tenders prescribed within the issues paper, and in particular, the focus on efficiency, competition, minimisation of transaction/administration costs, and flexibility to consider alternative strategies for delivering on the investment objectives. The principles could be further enhanced with the inclusion of a reference to 'supporting investment confidence'.

Infrastructure Investment Objectives Report

The CEC welcomes the intent of the Infrastructure Investment Objectives Report, which will provide valuable information on the medium to long-term investment horizon and enable infrastructure investors to plan ahead.

The key matters proposed for inclusion within the report appear to be comprehensive and will provide a detailed status update on the delivery of the investment objectives and the expected needs over time.

To avoid confusion, the CEC recommends that the report be aligned with the release of AEMO's Integrated System Plan (ISP) such that the information provided to the market through this report is able to be incorporated within AEMO's work. This will ensure the ISP is up-to-date and any decisions recommended by AEMO through the ISP are timely and consider the detail of the Infrastructure Investment Objectives Report.

Supporting regulations should aim to maximise the flexibility for the Consumer Trustee to deliver clean, reliable energy in the most efficient way. It is preferable that the Government opts for technology neutral solutions to meet its energy storage and firming objectives, which allows for different technologies to provide the necessary energy and system services that address the different needs of the market. This would allow for flexible, targeted and efficient solutions to meet the needs of the market as they change.

Classification of Renewable Energy Zone infrastructure

The CEC supports the Department in outlining the classification of Renewable Energy Zone (REZ) infrastructure. The classifications should reflect the NER as much as possible in order to streamline regulations, provide clarity and avoid unnecessary complexity for investors and network operators.

To the extent that the existing shared network is impacted by the development of a REZ, existing arrangements (Chapter 6A of the NER) should be utilised where possible such that the primary network service provider is responsible for the necessary augmentations.

Compliance and enforcement

The CEC recommends that the compliance mechanisms within the EII Act align with existing national frameworks and encourage collaboration between the regulator and market participants to address any issues which arise before penalties are considered. While the offences should be clearly outlined, the Department should avoid the prescription of penalty notice offences in the regulation. Penalty notices may be appropriate where this is not possible.

Thank you for the opportunity to comment on this consultation. If you would like to discuss any of the issues raised in this submission, please contact Jordan Ferrari, Policy Officer, on (03) 8652 0117 or jferrari@cleanenergycouncil.org.au or myself, as outlined below.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'A. Freeman', written in a cursive style.

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