8 November 2019

John Pierce
Chairman
Australian Energy Market Commission

Lodged online: www.aemc.gov.au

AEMC: COORDINATION OF GENERATION AND TRANSMISSION INVESTMENT (COGATI) DISCUSSION PAPER – RENEWABLE ENERGY ZONES (REZ)

Origin Energy Limited (Origin) welcomes the opportunity to provide comments to the AEMC on the discussion paper on REZs.

Origin remains of the view that the main barrier to REZs relates to the construction of connection assets, which is not addressed by the AEMC's proposal. We suggest that more clarity is needed on how the AEMC's work on REZs interacts with other programs, such as AEMO's Integrated System Plan (ISP) and the ESB's Actioning the ISP. The outcomes of these other work programs could reduce the magnitude of any identified problems that the AEMC's model proposes to address.

Nature and magnitude of the problem

In the discussion paper, the AEMC raises three main issues which REZs can help to solve, namely:

1. Incentives to coordinate generation.
2. Incentives to coordinate generation and transmission.
3. Incentives for efficient transmission investment.

Origin reiterates that we consider that the first issue is the main barrier to REZs, specifically, the challenges associated with coordinating the activities of multiple prospective generators, and the likely need to oversize the connection asset.

The AEMC's proposed model focuses on the second and third issues and does not address what we consider to be the core problem, generator coordination prior to connecting to the shared network, i.e. the construction of connection assets.

As noted in our submission to the COGATI directions paper, we agree that once the complexities relating to the building/funding of a remote connection asset are resolved, access to the shared network will also be important, particularly given the significant volume of energy that is likely to enter the market through a REZ.

However, we would caution focusing solely on a model that is targeted at shared network investment, without addressing barriers regarding connection assets first. Where a REZ is identified in the ISP, any required augmentations (subject to the passing of the RIT-T), should represent the least-cost approach of bringing the energy to market.

While Origin agrees with the AEMC that there are existing frameworks in the NEM aimed at facilitating generator coordination, the fact that these frameworks have been under-utilised would suggest that they are either not fit for purpose or that there are other barriers exist.

As a starting point, it may be worth examining the Scale Efficient Network Extensions (SENE) framework further to understand why it has not been taken up. Origin supports further work being done on this aspect of the framework.

Origin Energy Limited ABN 30 000 051 696 • Level 32, Tower 1, 100 Barangaroo Avenue, Barangaroo, Sydney NSW 2000
GPO Box 5376 • Telephone (02) 8345 5000 • Facsimile (02) 9252 9244 • www.originenergy.com.au

The ESB is currently examining the possibility of a fund to extend transmission assets to connect to REZs, with the cost of this transmission progressively recovered from consumers if and when utilisation increases, as part of the Actioning the ISP work program. We understand that this aims to address barriers in generators coordinating with respect to connection assets. We would welcome more information on this proposal and how it interacts with the AEMC's work.

Indeed, the magnitude of the problems identified by the AEMC may be affected by other work programs under way. For example, the work being done by the ESB in Actioning the ISP should provide more clarity on the role of the ISP and the RIT-T. We suggest that the AEMC should consider the outcomes of this work. An expanded role for the ISP in identifying REZs may reduce the magnitude of the coordination and transmission investment problem.

AEMC's proposed model

Origin cannot comment fully on the proposed REZ model at this stage and would require further information before we can do so. However, we provide some high-level comments below, notwithstanding our comments on the nature of the problem.

We suggest that the AEMC provide further detail on the practicality and firmness of long-term hedges, especially since the AEMC envisages that they could be as long as 20 years. While the rationale (i.e. hedges that would match the length of the investment required) is sensible, such long-term instruments may be problematic in practice.

We understand that the proposed model keeps the role of identifying the need for REZs with the central planner, with transmission investment only occurring if a RIT-T be passed. We agree with this process and consider that REZs should only be built if the RIT-T is passed.

The proposed model also proposes changes to the RIT-T. Generally speaking, we do not support changes that increase risk for consumers, or that erode the robustness of the cost-benefit analysis.

Interaction with other work

In addition to wanting to better understand the alignment between the various transmission related work programs (raised earlier), we would also welcome clarity on how the proposed REZ model would interact with the proposed access reform model. In particular, the relationship between the financial transmission rights (FTRs) under the access model, and the long-term transmission hedges proposed for REZs is unclear.

Origin understands that the CEFC and ARENA are also doing work on REZs – clarity would be welcome on how each stream of work interacts with the AEMC's proposal.

Should you have any questions or wish to discuss this submission further, please contact Sarah-Jane Derby at Sarah-Jane.Derby@originenergy.com.au or by phone, on (02) 8345 5101.

Yours sincerely

Steve Reid
Group Manager, Regulatory Policy

Origin Energy Limited ABN 30 000 051 696 • Level 32, Tower 1, 100 Barangaroo Avenue, Barangaroo, Sydney NSW 2000
GPO Box 5376 • Telephone (02) 8345 5000 • Facsimile (02) 9252 9244 • www.originenergy.com.au