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Queensland REZ design and development considerations (Powerlink's roles): Invitation to respond paper

The Australian Energy Council (AEC) welcomes the opportunity to make a submission in response to Queensland REZ design and development considerations (Powerlink's roles): Invitation to respond paper (Paper).

The AEC is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

Overall views

Powerlink proposes a market-led approach, where new REZ developments would be underpinned by:

- Sufficiently mature and sizable foundational projects that facilitate scale/cost-efficient network solutions. Specifically, foundational developers would need to demonstrate project maturity by going through part of chapter 5 processes of the National Electricity Rules (NER) before the REZ declaration; and
- Foundational projects capable of underwriting transmission investment before the REZ declaration.

We support the cost-effective development of REZs and acknowledges that a market-led model may achieve this. However, the proposed model allocates disproportionate risks to foundational developers to underpin a REZ development. Such an approach coupled with limited transparency around the underwriting process and project maturity assessment would likely undermine investment confidence.

To promote investment confidence, we urge Powerlink to consider adopting:

- A more balanced approach in terms of risk allocation (or provide additional incentives to foundational developers in exchange for shouldering additional risks); and
- A more transparent and clearly defined process to enhance certainty.

Market-led approach

Powerlink's proposed approach means that foundational developers are exposed to more risks in Queensland REZs relative to other jurisdictions, specifically they take on additional:

- Financial risks to underwrite the REZ transmission investment; and
- Connection risks due to the need for foundational projects to go through both chapter 5 and REZ processes at the same time. Such an arrangement would likely make connection negotiations more complex, costly and time-consuming.

The Paper notes that Powerlink has constructed three market-led approach REZs prior to the Energy Act. However, our understanding is that two of these projects received $192.5 million (Wambo) and $170 million (MacIntyre) from the state government. These are substantial sums of money and it raises the question as to whether privately owned generation and storage investors would be able to provide this level of underwriting. The Paper then goes on to state:

> "The market-led approach has been identified and preliminarily demonstrated to be effective. It may not be the sole approach utilised and may not be the approach used for every REZ."

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At this stage, it is unclear whether new foundational projects would be provided with similar levels of government support and in their absence or other incentives such as firmer access or reduced cost of capital in exchange for shouldering additional risks. Without additional incentives, it would likely make it less appealing for foundational developers to facilitate investments in QLD REZs.

Further, limited transparency and clarity around the underwriting process and project maturity assessment would likely undermine investment confidence. For example, it is unclear:

- To what extent do foundational developers are required to underwrite the REZ network investment (i.e. only for capacity needed for the project or the entire REZ);
- The type of financial instruments acceptable for the purpose of underwriting; and
- The assessment criteria for project maturity and how far does a foundational project need to proceed through chapter 5 processes to demonstrate project maturity.

REZ controlled assets

Under the Queensland REZ framework, non-REZ assets that materially affect the capacity and functioning of the REZ will be identified and regulated (including assets outside of the REZ).

While transitional arrangements under the REZ legislation allow for existing connection agreements of REZ controlled assets to remain in force, existing connection applications will only be valid for controlled assets that meet the REZ eligibility criteria.

This means that there is a risk that designated controlled assets that do not meet the REZ eligibility criteria could lose progress made under the chapter 5 processes. This in turn may undermine investment confidence by making it unappealing to attempt to connect in potential REZ regions.

We consider greater transparency regarding the REZ physical boundaries and identification of controlled assets as early as practicable (for example during the early planning stage and REZ Readiness Assessment process) would be necessary to reduce this risk.

More broadly, we consider all existing access related applications, agreements, and rights (including conditional Designated Network Asset (DNA) access rights) should be honoured irrespective of whether a developer meets the REZ eligibility criteria to maintain and enhance investment certainty.

Other comments

The preferred option to mitigate the impacts of system strength is likely to be unique to each REZ, considering factors such as local network infrastructure and generation mix. We consider that developers should be given the option to adopt the approach that is most cost effective and fit-for-purpose considering local factors.

In terms of network configuration for REZs, a mesh type is likely to be technically more challenging and costly to implement and we consider that such an approach should only be adopted if the benefits outweigh the costs and complexity involved.

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Yours sincerely,

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