29 October 2021

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

UPC Renewables Australia Pty Ltd
ACN 616 856 672
ABN 27 616 856 672
Suite 2, Level 2, 15 Castray Esplanade
Battery Point, TAS, 7004

Dear Sir/Madam,

UPC\AC Renewables Australia - Infrastructure Safeguard Policy Paper consultation - Submission

UPC\AC Renewables Australia (UPC\AC) is an Australian entity, established in early 2017, headquartered in Tasmania. The UPC Renewables Group was established in the early 1990s and has developed, owned and operated over 10,000 MW of large-scale wind and solar farms in 10 countries across Europe, North America, North Africa, China, Southeast Asia and Australia, with an investment value of over USD 5 billion. We currently have several GW of projects at various stages of development across the NEM, including in New South Wales, Victoria, South Australia and Tasmania. Our mission is to meet our world's growing energy needs with clean electricity and improve the lives of host communities.

We welcome the opportunity to continue to have industry input into forming the policy framework to enable the Electricity Infrastructure Investment Act 2020 (EII Act) and the NSW Electricity Infrastructure Roadmap. Below is our response to the Infrastructure Safeguard policy paper (Part 6 of the Electricity Infrastructure Investment Act 2020) consultation paper.

Planning for private sector infrastructure investment

It is important that the NSW Government recognise that the desired private-sector infrastructure investment will not only take place in the context of the NSW policy settings but also in the context of the NEM rules, the wider NEM-wide post-2025 reforms and the AEMO ISP process and its "blueprint" for the transformation of the transmission system and development of the market. The consultation requirements required as part of the Infrastructure Investment Objectives Report (IIO Report) should therefore be aligned with the Consultation process set out by AEMO as part of the ISP preparation to maintain alignment between these two key market signals for industry. Further, we would encourage the key assumptions used in the AEMO ISP including technology, demand etc be adopted for the IIO report. However, we feel that the Consumer Trustee (CT) should also look to engage industry through development of a draft report and seek input from industry in a process to then finalise the IIO report.

To help manage uncertainty in assumptions, the CT could look to model scenarios with varying assumptions- again potentially aligned to the ISP but also could include more specific NSW government focussed policy – i.e. hydrogen strategy, Electric vehicle policy etc- in order to develop a robust development pathway for the future (similar to the path of least regret process used in the ISP). With the Act silent as to how the CT should handle future uncertainty, regular modelling should be prescribed, but not the content or inputs to those models per se.

Further, in order to keep practical development realities an active part of the compiling of the IIO Report, an industry panel should be established to provide annual input to the process. Without this

input, the IIO Report is optimised for consumer benefit without any consideration of development realities. This exposes NSW consumers and the NSW Government to the risk of setting "ideal world" plans based on price outcomes that cannot realistically be delivered upon.

LTES agreements and Access Rights

In terms of defining "outstanding" merit, UPC\AC considers that such projects should not only meet the minimum threshold for high quality projects, but ultimately provide better long-term financial value to the NSW consumer than a comparable project located within a REZ. Defining what is deemed 'better long-term value' should align to the LTES agreement pricing and tender assessment methodology as well as other terms that drive a lower cost outcome for NSW consumers.

This 'better' financial value outcome may be driven by project-specific economies of scale, technology configuration, MLFs, lower curtailment or more efficient grid-connection costs, but ultimately this should materialise in a lower cost outcome for the consumer. For example, a project may co-locate with a load outside a REZ that helps does lead to better MLF/curtailment outcomes, and allow a more competitive (i.e. lower priced) bid for the LTES agreement. This also aligns more with the intent of the EII Act which defines outstanding merit on the basis of the 'LTES Agreement' which is a more fulsome proposition than creating a merit assessment against the Project itself.

At a minimum, all projects, irrespective of whether they are inside or outside a REZ should meet a well-defined "right to play" threshold which covers things such as a clear, demonstrated path to grid connection, planning consent being obtained (or demonstrably within reach), land rights secured and a clear pathway to being contracted with EPC providers, and are ultimately financeable and constructible. If LTESA recipients are unable to deliver operating projects, the consumer will not get the required MW nor the benefit of lower prices.

UPC\AC believes that projects outside of REZs should ideally be able to demonstrate that they are able to secure commercial offtake agreements and hence be less reliant on the LTESA insurance product.

Projects outside of REZs must also achieve at least the same standards as REZ projects with respect community support and engagement of Frist Nations peoples. Otherwise, communities outside a REZ hosting projects would rightly feel concerned if projects were not held to the same standard and resulted in worse local outcomes.

With REZs designed to be modern day power stations replacing the 7 – 8 GW worth of coal fired power stations in New South Wales in the next 10 – 15 years, projects within REZs must get to completion quickly with as little risk to consumers as possible. Projects outside a REZ should have at least the same level of scrutiny and logically a more stringent standard applied to them in terms of the probability of proceeding to construction and operations, with less leniency for delays in achieving financial close and commercial operations.

In short, UPC\AC believes that merit in the context of the need for a rapid transition of the NSW energy sector must be driven by financial value, bankability and 'buildability' as the key assessment metrics.

We note that the Clean Energy Council suggested that prescriptive regulations pertaining to 'outstanding merit' could be restrictive (e.g. setting a specific $/MWh LCOE threshold). We tend to agree that the regulations should outline basic principles for merit assessment, i.e. outcomes-based principles that would allow the CT the discretion to recommend meritorious projects for LTES

contracts that reflect the needs of the NSW energy market as outlined by the IIO Report from time to time over the long-term.

In terms of determining access fees, UPC\AC considers all the aspect that have been covered are the key issues to consider in setting the access fees. While generators should pay a fair share of the direct connection costs (dedicated assets), access fees relating to the shared REZ network should not be so high such that it impacts on project economics significantly. This would have the perverse outcome of making projects within REZs uncompetitive vs projects outside of / not dependent on the REZ transmission infrastructure. Key to this is determining principles for how much of the REZ network costs are spread across the projects in a REZ versus across the wider consumer base. Given that the REZ infrastructure is intended to benefit all NSW consumers through maintaining security of supply and lowering wholesale (and hence retail) electricity prices, it is logical that consumers would bear the majority of the cost of shared network assets. It is important that the likely level of access fees are made clear to participants prior to opening the tenders for LTES contracts as this could have a material impact on the strike price and will need to be factored into financial modelling. Recent consultations indicate that the current thinking is in line with this and we encourage this approach.

Infrastructure Safeguards governance and controls

Given LTES agreements are likely to be for a fixed-shape-fixed-volume, once the LTESA are entered into the SFV will presumably become active in the hedging (derivatives) market. One of the biggest risks and costs to the LTES scheme as envisaged is not on-selling the exercised contract (once optioned) such that the cost is the full cost of the contract not the CFD. This will mean the CT or Financial Trustee (FT – if appointed) will need to have trading capability and risk management systems in place (likely valued at risk metrics where a maximum exposure can be defined) to manage risk exposure and cost to the consumers. It's likely then that the CT/FT would need a financial services license to trade in these products and that to limit exposure may need to proactively trade other products (reverse solar shape, caps/swaps) to improve liquidity in the market for the contracts that may be executed.

If scheme participants are provided with information about which generation profile (shape) the government would most value, or at a minimum, the price curves against which the government will assess bids, this would help reduce the likelihood of less useful, un-tradable contracts being bid in.

As previously raised in consultation, having a cash settlement CFD approach like Victoria or ACT would limit the need to on sell contracts but instead focus on managing the CFD payments. Given the options will likely be exercised at times of low prices, the driver for retailers to lock in contracts at low prices is likely to be lower and demand for such contracts may be minimal. Hence, it is likely that the CT/FT will be left holding the contracts or discounting them more to ensure they are sold in the market (and limit further cost exposure to consumers).

The Department has indicated that it remains inclined towards requiring a fixed-shape-fixed volume bid for LTESA generation projects. In theory, generators can develop risk management tools, technology solutions and use the derivatives market to manage shape and volume risk and this can be priced in the LTESA bids. However, as we have said in our other submission on the LTESA design, in practice, the ability to do this in a cost-effective way may be limited by the cost of technology (e.g. long-duration batteries), the availability and price of retailer-backed contracts, and the inherent intermittency of the generation. This inherent unpredictability may particularly impact wind projects. In practice, this may just increase credit risk to the generator, make bankability more difficult and even

if these challenges can be overcome, the resulting impact on bid prices will end up being borne by the NSW electricity consumer regardless.

Tendering for LTES Agreements

Noting that that a tender design paper is imminent, we only wish to foreshadow that with state-wide LTESAs being tendered, the qualitative conditions should be flexible to account for the varied conditions between REZs themselves and non-REZ located projects. For example, local or regional content in locations closer to regional centres will be easier to fulfill than REZs located in more remote regional areas.

LTESA product application

Noting the CEC's concerns around long-duration storage possibly being excluded from long-duration storage LTESAs, we believe that the regulations that underpin the EII Act should be drafted in such a way to ensure that the CT has flexibility and discretion to ensure battery systems are enabled in the roll out of the NSW Roadmap processes. This is also achieved by ensuring that the IIO Report is aligned with AEMO processes where possible, given AEMO's interest and activities in this area.

Conclusion

UPC\AC thanks the NSW Government for the opportunity to share our views on the ongoing policy reform. If you would like to discuss any of the comments in this submission further then please don't hesitate to contact me directly.

Sincerely,

Killian Wentrup
Head of Solar Development
UPC\AC Renewables Australia
[redacted]