

MEMORANDUM OF UNDERSTANDING – NSW ENERGY PACKAGE

Date

This Memorandum of Understanding is dated 31 January 2020.

Parties

This Memorandum of Understanding is made between the following Parties:

1. **The Commonwealth of Australia** (the Commonwealth)
2. **The State of New South Wales** (the State)

Context

- A. This Memorandum of Understanding (**MoU**) sets out the actions and outputs that will be delivered through a collaborative partnership between the Commonwealth and the State in relation to solving New South Wales' emerging reliable generation problems.
- B. This MoU has been drafted to achieve outputs in the areas of:
 - (1) Increasing gas and electricity supply in NSW
 - (2) Driving investments in transmission
 - (3) Achieving emissions reductions
 - (4) Working cooperatively with other States and Territories through the Council of Australian Governments on areas of joint agreement and interest.
- C. The purpose of this MoU is to record the Parties' agreement on the actions and outputs that will be delivered through this arrangement.

1. Interpretation

- 1.1. This MoU is not intended to be, and is not, a legally binding or enforceable document.
- 1.2. The Commonwealth and the State will act and cooperate in good faith in accordance with the terms of this MoU.

2. Term

- 2.1. This MoU commences on the date on which it is made and will continue until 30 June 2030, or when Parties agree in writing that all actions outlined in this MoU have been completed, or by any other mutual agreement.

3. Agreement

- 3.1. The Parties acknowledge that this MoU records their expectations, understanding and responsibilities as at the date of the MOU, but does not give rise to legally enforceable obligations.
- 3.2. Each Party will:

- a. Act in good faith towards the other, consistent with the spirit and intention of this MoU;
 - b. Do all things necessary or desirable to give full effect to the arrangements contained or implied in the Implementation Schedules to this MoU;
 - c. Promptly advise the other of any issue or circumstance that arises that may impact on the Party's ability to implement the understandings set out in the Implementation Schedules to this MOU; and
 - d. Promptly disclose to the other, any interest (other than as a Party to this MoU) it has or acquires which is or may be different to the interest of the other Party in connection with this MoU.
- 3.3. The MoU is not intended to affect:
- i. Any existing National Partnership Agreements between New South Wales and the Commonwealth; or
 - ii. Any other existing arrangement between the State and the Commonwealth.
- 3.4. Nothing in this MoU places any obligations on the Commonwealth if those obligations would not be supported by constitutional or legislative authority.

4. Implementation Schedules

- 4.1. The Implementation Schedules will specify the outcomes, outputs, governance arrangements and, where applicable, timeframes that both Parties agree to pursue to give effect to the objective of this MoU.
- 4.2. The following Implementation Schedules have been included in this MoU:
- a. Schedule A – Improving Interconnection and Network Access
 - b. Schedule B – Keeping Existing Generators Available and Reliable
 - c. Schedule C – New Gas Supply
 - d. Schedule D – Emissions Reduction in the Electricity Sector
 - e. Schedule E – Emissions Reductions in the Non-Electricity Sectors
 - f. Schedule F – Supporting New Generation Investments
 - g. Schedule G – Governance

5. The Parties' Responsibilities

- 5.1. The Parties will:
- a. Work together to deliver the outputs and actions outlined in the Implementation Schedules A-G;
 - b. The State will be responsible for the procurement, selection and performance of any consultants or any other contracts or arrangements

required to implement actions identified as the State's responsibility arising from those outputs outlined in Implementation Schedules A-G;

- c. Regularly share progress and updates on implementing actions identified in Implementation Schedules A-G;
- d. Invite each other as appropriate to attend meetings in relation to the implementation of the actions identified in Implementation Schedules A-G as required; and
- e. Use all reasonable endeavours to respond promptly to any reasonable enquiries.

6. Funding

- 6.1. Unless otherwise stated in this MOU, or otherwise agreed by the Parties, anything a Party will do under this MOU will be done at that Party's cost.

7. Notices

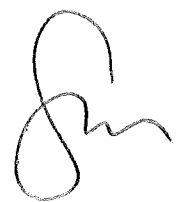
- 7.1. The Parties agree they will reduce to writing all formal communications between them in relation to their responsibilities and obligations under this MoU.

- 7.2. Unless notified otherwise, the Commonwealth's address for notices is:


Physical Address: John Gorton Building
King Edward Terrace, Parkes, ACT 2600
Postal Address: GPO Box 787, Canberra, ACT 2601
Phone number: 02 6274 1111

- 7.3. Unless notified otherwise, the State's address for notices is:

Physical Address: Deputy Secretary Energy
Department of Planning, Industry and Environment
4PSQ, 12 Darcy Street
Parramatta NSW 2150
Phone number: 13 77 88



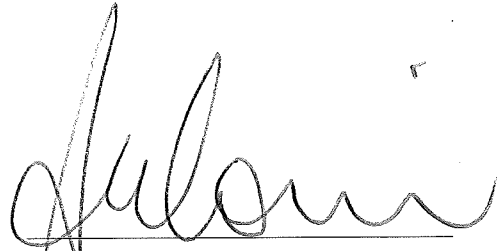
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Signatures

SIGNED for and on behalf of the)
Commonwealth of Australia by the)
Prime Minister)


The Honourable Scott Morrison MP
Prime Minister of the Commonwealth
of Australia



Signature

SIGNED for and on behalf of the **State of**)
NSW by the NSW Premier)
)

The Honourable Gladys Berejiklian MP
Premier of the State of New South Wales



Signature

SCHEDULE A – IMPROVING INTERCONNECTION AND NETWORK ACCESS

Agenda

1. The Commonwealth and New South Wales Governments (the **Governments**) will work together to ensure the Queensland-New South Wales (**QNI**), Victoria-New South Wales (**VNI**) and Snowy to Bannaby (**HumeLink**) electricity interconnector projects are commissioned as soon as practicable.
2. The Governments will use best endeavours ensure that the QNI and VNI interconnectors are delivered by September 2021 to replace a portion of the 1600 MW of electricity capacity that will be lost following the announced closure of Liddell Power Station in April 2023.
3. The Governments will use best endeavours to ensure that the HumeLink interconnector is delivered by the end of 2024 to unlock up to 1200 MW of existing capacity, of which 500MW would be available during periods of peak demand, and 2000 MW of new reliable capacity following the completion of Snowy 2.0.
4. The Governments will work collaboratively to deliver Australia's first Renewable Energy Zone in the Central-West of NSW. The Central-West Energy Zone (**Pilot Zone**) will be a pilot 3000 MW Zone designed to test and improve a delivery model for Renewable Energy Zones that minimises costs to consumers and the Governments.
5. The Governments jointly recognise the importance of a strong cost benefit analysis in favour of proposed network upgrades to ensure that any costs passed on to consumers are necessary and proportionate. The Governments are concerned, however, that the current Regulatory Investment Test for Transmission (**RIT-T**) process is lengthy and may not be suited to deliver the strategic, long-term investment required in the network to maintain reliability.

Actions

Interconnectors

6. The NSW Government has underwritten TransGrid to complete the early planning works for QNI, VNI, HumeLink and the South Australia-NSW South Wales interconnectors.
7. The Governments have jointly underwritten TransGrid up to \$102 million to complete further specified works for the QNI upgrade to bring forward delivery by September 2021.
8. The Governments will jointly underwrite TransGrid up to \$66 million to complete further specified works for HumeLink to ensure delivery of the project by the end of 2024.

Energy Zones

9. The NSW Government will invest \$9 million in seed funding (less any funds received from the Australian Renewable Energy Agency (**ARENA**)) for the strategic master planning and resourcing to co-ordinate and oversee the establishment of the NSW Energy Zones.
10. The Commonwealth, through the Grid Reliability Fund (**GRF**) or ARENA, will enter into negotiations with TransGrid to underwrite, facilitate or otherwise financially support TransGrid to undertake the planning, construction and commissioning works to deliver the Pilot Zone transmission infrastructure by 2022.
11. The NSW Government will run an auction for generator access to the network and any funds raised from this auction will be applied against the costs of developing the Pilot Zone.
12. Commonwealth underwriting will only be called upon if there remains a gap between the cost-benefit requirements of the RIT-T and the cost of developing the transmission upgrades, less funds raised from generators through the auction process and any funding received from the ARENA.

RIT-T

13. The Governments will work together with the COAG Energy Council to ensure the RIT-T process remains fit for purpose and is delivering strong investment and consumer outcomes. This work will include using best endeavours to integrate AEMO's Integrated System Plan with the RIT-T process.

SCHEDULE B – KEEPING EXISTING GENERATORS AVAILABLE AND RELIABLE

Agenda

1. The Governments are concerned about the continued exit of reliable, low cost generation from the National Electricity Market.
2. The Governments will identify options to maintain like-for-like dispatchable capacity so that NSW does not face threats to reliability or heightened electricity prices.
3. The Commonwealth Government will work closely with the NSW Government and industry to develop a response in 2020 to Liddell's announced closure. This will ensure New South Wales' electricity supply remains reliable and its local economy, including its industries and workforce, remains strong.
4. The NSW Government has developed an electricity strategy to ensure that new, reliable generation is built in NSW well ahead of existing generators retiring. Under the strategy, NSW will aim to have sufficient capacity to cope with circumstances where the State's two largest generating units are out during a one in ten year peak demand period.

Actions

Liddell taskforce

5. The Commonwealth has partnered with the NSW Government to establish the Liddell Taskforce (**Taskforce**).
6. The Taskforce will engage with officials from the NSW Government and industry to identify the impacts of Liddell's announced closure and evaluate options to mitigate those impacts.
7. The Taskforce will consider impacts to flow-on industries; including the impact on the Tomago aluminium smelter, the largest electricity user in NSW, with a constant demand of approximately 850 MW.
8. This Taskforce will produce a report in early 2020 on options to respond to Liddell's announced closure.
9. The Governments will work collaboratively to respond to the Taskforce's report.

Mt Piper Power Station

10. The NSW Government will use best endeavours to ensure there are no unnecessary impediments to address the coal supply issues currently faced by the Mt Piper Power Station.

SCHEDULE C – NEW GAS SUPPLY

Agenda

1. The Governments will work together to develop options to increase gas supply for NSW, improvements to infrastructure and energy efficiency projects. The NSW Government will set a target to inject an additional 70 petajoules (PJ) of gas per year into the NSW market.
2. Priority projects underway in NSW are the:
 - 2.1. Port Kembla gas import terminal (up to 100 PJ) - granted planning approval in April 2019
 - 2.2. Port of Newcastle gas import terminal (approximately 110 PJ) - declared NSW Critical State Significant Infrastructure in August 2019
 - 2.3. Narrabri gas project (approximately 70 PJ) - to be determined by the NSW Independent Planning Commission

Actions

3. The NSW Government will facilitate, within its established rules and limitations, investment opportunities for new gas infrastructure that will inject an additional 70 petajoules of gas in to the east coast market.
4. The NSW Government will work on fast tracking/streamlining opportunities of regulatory assessments for the Port Kembla import terminal and, if approved, the Newcastle import terminal and the Narrabri gas project.
5. If the projects outlined above do not proceed, or do not inject 70 PJs of gas into the east coast market by 2022, the Governments will conduct a gas market review to address barriers to bringing on new gas supply and to identify how the target can be achieved.
6. The Commonwealth and NSW Government will explore options to free-up gas demand through electrification, fuel switching and energy efficiency.
7. The Commonwealth and NSW Government will work together to ensure ACCC and AEMC review processes are used to put downward pressure on wholesale gas prices.

SCHEDULE D – EMISSIONS REDUCTION IN THE ELECTRICITY SECTOR

Agenda

1. The NSW energy market is on track to reduce emissions by 26% on 2005 levels by 2023.
2. The Commonwealth will provide the NSW Government with annual detailed data assessments to ensure the NSW energy market remains on track for reductions in the electricity sector that are consistent with Australia's targets under the Paris Agreement and to ensure that wholesale prices and reliability levels are acceptable.
3. The Commonwealth and the NSW Government will agree to a review date and mechanism that, if the NSW energy market is not on track to meet 26% reductions by 2030 (or such other target under the Paris Agreement), it would trigger bilateral actions to address emissions in NSW.

Actions

4. The first review period of New South Wales specific data demonstrating progress towards meeting emission reduction targets consistent with Australia's commitments under the Paris Agreement is December 2019.
5. The date for triggering of the mechanism in the event that NSW energy market is not on track to meet 26% reductions by 2030 would be Q2 2022.
6. If the review mechanism is triggered, the Commonwealth will consider pathways to ensure NSW remains on track. This includes the potential for additional investment from the Climate Solutions Fund or a change to the safeguard mechanism.

SCHEDULE E – EMISSIONS REDUCTION IN NON-ELECTRICITY SECTORS

Agenda

1. The Commonwealth Government has committed \$3.5 billion to the Climate Solutions Package to deliver on Australia's 2030 Paris Agreement commitments. The package includes commitments to invest in the Snowy 2.0, Battery of the Nation and Marinus Link projects. The Commonwealth Government's Climate Solutions Package also includes a \$2 billion investment in the Climate Solutions Fund (**CSF**) to build on the success of the Emissions Reduction Fund. The CSF is expected to deliver at least 103 million tonnes of abatement by 2030. The Commonwealth is also developing a National Electric Vehicle Strategy that is expected to reduce emissions by up to 10 million tonnes by 2030.
2. NSW has an economy wide target of net-zero emissions by 2050. Emissions in NSW have fallen by 18% on 2005 levels but are projected to stabilise under current policy settings. The NSW Government's Climate Change Fund invests in projects that reduce emissions and address the impacts of climate change. The NSW Government also administers the Coal Innovation Fund to advance technologies that reduce the emissions associated with the mining and use of coal in industries such as electricity generation, steel and cement.
3. The Governments are committed to investing their Funds consistent with the following objectives (the **Objectives**):
 - 3.1. capturing the jobs, economic growth and cost of living benefits from emissions reduction activities over the next decade
 - 3.2. maximising the emissions abatement delivered by those investments in order to meet Australia's commitments under the Paris Agreement
 - 3.3. investing in innovative technologies and services needed to reduce emissions beyond 2030.
4. The Governments will allocate \$1.97 billion (Cwlth: \$960m, NSW: \$1.01b) to NSW-based projects that meet these Objectives over the next 10 years.

Actions

Commonwealth Climate Solutions Fund

5. The Commonwealth will contribute \$450 million of the Climate Solutions Fund to NSW-based projects that support businesses, farms and land managers to take practical, low cost abatement actions.
6. The Commonwealth will administer the Fund.

NSW Emissions Intensity Reduction Program

7. The NSW Government will invest \$450 million in an Emissions Intensity Reduction Fund to take direct action to support large NSW-based sources of emissions to transition their plant, equipment and other assets to low emissions alternatives.
8. The NSW Government will administer the Program.

NSW Energy and Emissions Initiatives

9. The Commonwealth agrees to allocate \$510 million to NSW-based emissions reduction initiatives, financed through the CSF, Clean Energy Finance Corporation (CEFC), ARENA and the Grid Reliability Fund.
10. The NSW Government agrees to allocate \$560 million to those NSW-based emissions reduction initiatives, financed through the Climate Change Fund and the Coal Innovation Fund.
11. The Commonwealth, the NSW Government, the Clean Energy Regulator, CEFC and ARENA will assess a range of initiatives for support, including the following:
 - 11.1. a **Clean Technology Program** to research, develop and commercialise emissions reduction technologies and establish a clean technology hub in NSW;
 - 11.2. a **Hydrogen Technology Program** to support the commercialisation of hydrogen technologies in NSW, including recommendations arising from the National Hydrogen Strategy;
 - 11.3. an **Electric Vehicle Infrastructure and Model Availability Program** to fund a reverse auction for electric vehicle fast charging stations and private fleet procurement by 2024;
 - 11.4. an **Energy Efficiency Program** to support initiatives that reduce electricity bills, ease pressure on the electricity grid and reduce emissions;
 - 11.5. a **Coal Innovation Program** to commercialise and deploy technologies to reduce emissions from the extraction, preparation and use of coal; and
 - 11.6. a **Primary Industries Productivity and Abatement Program** to support primary producers and landowners in regional NSW to commercialise low emissions technologies and maximise revenue from carbon offset programs.
12. The Commonwealth's allocation of funding to specific initiatives will be assessed in accordance with the criteria of the relevant Commonwealth funding mechanism, to optimise the use of public money.
13. Should a proposed program not fit within established criteria for the CSF, CEFC, ARENA or the GRF, the Commonwealth will consider funding for the program on a case-by-case basis.

SCHEDULE F – SUPPORTING NEW GENERATION INVESTMENTS

Agenda

1. The Commonwealth Government will engage with proponents of NSW-based projects shortlisted under phase one of the Underwriting New Generation Investment (**UNGI**) program.
2. The Commonwealth Government will make the \$1 billion CEFC Grid Reliability Fund available to the NSW Government.
3. The NSW Government has prioritised work to ensure that NSW is the easiest jurisdiction to develop new electricity infrastructure in the OECD.
4. The Commonwealth has established a Deregulation Taskforce to examine and address regulatory barriers to investment. The NSW Government has agreed to work collaboratively with the Commonwealth to identify regulations and administrative processes which have the highest regulatory burdens on key sectors of the economy.

Actions

Underwriting New Generation Investment program

5. The Commonwealth will prioritise engagement with reliable generation projects through its UNGI program and will ensure all NSW projects shortlisted under phase one are assessed in a timely manner.
6. The Commonwealth will support three NSW projects through the UNGI program. If any of the three NSW projects shortlisted under phase one of the program do not proceed to a final underwriting agreement for any reason, the Commonwealth will assess alternative NSW based projects of equal or greater reliable generation capacity until three NSW projects are supported.
7. The Commonwealth will work closely with the NSW Government to ensure that NSW UNGI projects align as closely as possible with the NSW Climate Change Policy Framework.

Grid Reliability Fund

8. The Commonwealth has established a \$1 billion Grid Reliability Fund in the CEFC that will be focussed on states that have reached bi-lateral agreements with the Commonwealth. The fund will focus on increasing reliability, delivering increased reliable supply and funding transmission projects.

Easy to do business review

9. The Governments will undertake side by side reviews and will use best endeavours to introduce such legislative and administrative reform as is required to ensure it is as easy as possible to invest in new large-scale generation, without prejudicing other legitimate policy objectives.
10. The NSW Government will use its best endeavours to ensure a streamlined approvals process for new electricity generation projects where the Energy Security Board has advised that those projects are critical to the reliability of NSW's electricity supply.

SCHEDULE G – GOVERNANCE

Agenda

1. The Governments will work cooperatively and in good faith to implement the terms of this Memorandum of Understanding.

Action

2. The Governments will appoint an Agreement Implementation Committee (**Committee**), which will be responsible for implementing this Memorandum of Understanding.
3. The Committee will report to the responsible Ministers from each Government and will be comprised of an equal number of representatives nominated by each Government.
4. Each Government will appoint a co-chair of the Committee.