

21/05/2021

James Hay
Deputy Secretary, Energy Climate Change and Science
NSW Department of Planning, Industry and Environment

Lodged by email: electricity.roadmap@dpie.nsw.gov.au

Dear James,

Submission to issues paper on tranche two regulations to support the Electricity Infrastructure Roadmap

We welcome the opportunity to respond to the New South Wales (**NSW**) Government's issues paper on the tranche two regulations being developed under the *Electricity Infrastructure Investment Act 2020 (the Act)*, which implements the NSW Government's Electricity Infrastructure Roadmap (**the Roadmap**).

We strongly support the objective of the Roadmap to provide for the coordinated development of large scale renewable generation and storage as traditional coal-fired power generation retires.

We understand that the tranche two regulations currently being consulted on are designed to address urgent or mechanical issues under the Act. Our submission responds to the issues raised in the NSW Government's issues paper, where these are relevant to our role and experience as a transmission network service provider (**TNSP**).

The Energy Security Target

The Energy Security Target is a signal to energy market participants of the NSW Government's expectation for investment in new infrastructure to maintain a reliable supply of electricity over the medium to long term. It is calculated by the Energy Security Target Monitor for 10 years by adding the maximum demand and a reserve margin.

The NSW Government is seeking views on regulations providing for:

- The definition of reserve margin.
- Factors to be considered and method for calculating maximum demand.
- Definition of firm capacity for the purpose of determining whether the Energy Security Target is met.
- Further matters to be included in Energy Security Target Monitor reports.

Our view

Reserve margin

We support the NSW Government's intention to keep the reserve margin amount as that defined in the Act, noting the Act allows the regulations to change this amount. As a matter of principle, the reserve margin amount should only be changed as a last resort option if and when an issue occurs.

Maximum demand

We support the NSW Government's intention to develop and recommend regulations that prescribe the factors and method for calculating maximum demand, in particular using existing forecasts

prepared by the Australian Energy Market Operator (**AEMO**). This would provide alignment with national arrangements.

Firm capacity

We support the NSW Government's proposal to prescribe the calculation of firm capacity in the regulations.

In addition to those items listed in the issues paper, our view is that intraregional constraints on the transmission network should be considered in the calculation of firm capacity. This is appropriate given intraregional constraints will impact on the level of reliability that is possible to be achieved in NSW.

Derating factors are proposed to be used to estimate the generation available from intermittent renewable energy resources in the calculation of firm capacity. Our view is that the regulations should provide for a principles based approach to calculate derating factors for intermittent renewable generators (option two in the NSW Government's issues paper). This approach is more likely to facilitate innovation in the market compared to a prescriptive approach (option one in the NSW Government issues paper).

Energy Security Target Monitor reports

We support the NSW Government's view that there is no need to prescribe additional matters to be included in the Energy Security Target Monitor report in the regulations at this time. The information included in the Act is sufficient.

The Electricity Infrastructure Investment Safeguard

The Electricity Infrastructure Investment Safeguard is an investment signal to deliver the electricity infrastructure NSW needs, in particular generation, storage and firming.

The NSW Government is seeking views on:

- The reliability standard referenced by long term objectives for long-duration storage and firming infrastructure under the Act¹.
- Tendering of long term energy service agreements (**LTESA**).
- Minimum requirements that the Consumer Trustee must include in the first and subsequent Infrastructure Investment Objectives Reports.

Our view

The reliability standard

Our view is that the regulations should ensure the reliability standard under the Roadmap aligns with the reliability standard in the National Electricity Market (**NEM**) - including any interim reliability standard. Adopting the reliability standard in the NEM, which is determined by the Reliability Panel and set by reference to the value that consumers in the NEM place on reliability, would result in NSW consumers paying for a level of service which is consistent with that received by consumers in other NEM regions. NSW consumers may not be willing to pay for a greater level of reliability than that provided for in other NEM regions.

The NSW Government seeks views on what circumstances the Consumer Trustee should prefer long duration storage for the purpose of meeting the reliability standard. We do not support the Consumer Trustee being able to prefer long duration storage to meet reliability standards over other technologies. The market is best placed to determine which technologies are adopted. This will result

¹ In this context, the reliability standard is the amount of generation and demand response required to meet forecast consumer demand to a high degree of confidence. The reliability standard in the NEM is set by the Reliability Panel taking into account the value that consumers place on reliability. It is currently set at 0.0002% of unserved energy, although there is an interim standard for the retailer reliability obligation of 0.0006% of unserved energy in place until 30 June 2025.

in more efficient and innovative outcomes for consumers and provide flexibility for other technologies to be considered as they emerge.

Tendering of LTESAs and the Infrastructure Investment Objectives Reports

We have reviewed the proposed regulations for tendering arrangements for LTESAs and the minimum requirements of the Infrastructure Investment Objectives Reports. The issues paper includes a comprehensive list of requirements.

Classes of REZ Network Infrastructure

A key purpose of the Act is the provision of REZ network infrastructure to support the development of REZs. The regulations are to prescribe the classes of infrastructure of a REZ network infrastructure project as defined under the Act. The classification of infrastructure in a REZ is important for a number of reasons, including:

- To determine the nature of transmission infrastructure in a REZ that is to be developed by a network operator under the Act and subject to economic regulation.
- To assist in determining the nature of transmission infrastructure in a REZ that may be subject to a direction by a Minister under the Act.

The NSW Government is seeking views on the classes of REZ network infrastructure that should be provided for in the regulations.

Our view

Our view is that the classification of REZ network infrastructure projects should adopt, and where needed, align with existing classifications in the NER. The nature of the REZ network infrastructure is no different to network infrastructure that exists today.

In line with this, we support the three broad classifications proposed in the issues paper, those being:

1. Existing network infrastructure – Existing and new network infrastructure that is not related to the Roadmap.
2. REZ network infrastructure (regulated) – Network infrastructure that is related to a REZ in the Roadmap and is subject to economic regulation under Part 5 of the Act.
3. REZ network infrastructure (unregulated) – Private network assets that are related to a REZ in the Roadmap and are not subject to economic regulation under Part 5 of the Act.

We also support the NSW Government's intent to apply a similar approach to the NER in considering the need for, and scope of, further sub-classifications of network infrastructure.

There will be augmentations required to the existing shared transmission network to ensure the reliability and security of the energy system as a whole is maintained, as the penetration of renewable energy increases over the short, medium and long term. The most efficient outcome for consumers will be that these augmentations are planned, designed and delivered on a 'best for whole network' basis considering the wide-ranging and complex evolution of the system. The REZs are an important evolution to the energy system but there are many other changes occurring that need to also be considered.

Any augmentations required to the existing transmission network as a result of the REZ projects should be undertaken by TransGrid as the primary TNSP, and owner and operator of the existing transmission network in NSW under our lease agreement with the NSW Government. This augmentation should be developed under Chapter 6A of the National Electricity Rules (NER).

The NSW Government should also clarify the classes of infrastructure for priority transmission projects developed under the Act, which should also be consistent with the classes of infrastructure under the NER.

Enforcement and compliance of offences

The NSW Government is proposing regulations to prescribe notices, the amount payable for a penalty, and authorised officers in relation to a penalty notice.

Our view

We recommend the NSW Government does not prescribe offences as penalty notice offences in the regulations (option one in the issues paper).

The regime currently used by the Independent Pricing and Regulatory Tribunal (IPART) does not prescribe offences as penalty notices and this has operated well since our lease was established with the NSW Government and results in good outcomes for consumers.

Under this regime:

- Administrative undertakings can be taken in order to rectify issues that have occurred as a result of unintended consequences.
- We work collaboratively with IPART to rectify issues as they occur and implement processes that prevent further breaches without being penalised.

We appreciate the opportunity to comment on the NSW Government's issues paper. If you would like to discuss this submission, please contact me or Neil Howes, Manager, Policy Reform Office at [REDACTED]

Yours sincerely

Eva Hanly

Executive Manager, Strategy Innovation and Technology