SUBMISSION

QREZ: DELIVERING QLD RE ENERGY ZONES | 17 JAN 2022

EUAA
Energy Users Association of Australia

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

The EUAA welcomes the opportunity to comment on the QREZ Technical Discussion Paper – Delivering Queensland Renewable Energy Zones. We appreciate the Government's willingness to undertake early stage engagement as it seeks to implement its 50% renewables policy by 2030.

We find a lot to support in the general approach set out in the document and look forward to further engagement as the details are developed. The EUAA supports action towards a Net Zero target by 2050. Our members with Queensland operations have a range of internal policies to reduce their carbon footprint including sourcing up to 100% of the electricity supply from renewable sources. This includes self-generation as well as corporate PPAs supporting third party renewables investments. Implementation of the Government's policy will be an important facilitator of our members achieving these targets. We also appreciate the 'fit for purpose' approach to ensure that what is implemented works best for Queenslanders.

Our response is to comment on particular parts of the Technical Paper rather than answer every question the Paper asks.

We support the overall direction

We support the four primary objectives on p.3. Lowest system cost is crucial to our members long term viability. It is not just a matter of the lowest generation costs but the lowest system costs that also includes network, storage/firming and system security. While there is understandable discussion of using renewable energy to attract new businesses, we believe that the initial focus should be on facilitating renewable electricity to existing large energy users.

The importance of lasting benefits to the local communities, businesses and workers cannot be over-emphasised. We comment below on the crucial importance of social licence for both generation and network investments and highlight the risk to total system it can bring when it is not well managed.

Our support for the model described in the Paper to develop REZs in Queensland is based on our understanding that the policy involves:

- Seeking to utilise the best renewable resources through the development of Declared REZs
- Ensuring REZs are in the right place and the right scale to ensure the efficient utilisation of existing spare capacity in the shared network
- Building a REZ on a foundational generator and then market sounding to fill the remaining capacity as a basis for co-ordinated and scale efficient connection i.e. not contributing to existing shared network constraints
- The generator receiving physical access rights to the REZ, and
- Generators paying the full cost of the REZ construction and operation so:

- None of capital the cost appears in Powerlink's RAB or opex in Powerlink's regulated opex, and
- Hence there is no need to have a RiT-T type cost benefit analysis to give consumers confidence that the investment is 'prudent and efficient'.

We await further details of the policy – in particular the REZ Management Plan to provide further more detailed comments.

We do not wish to see a repeat of the experience in other States with renewables overbuild and stranded generation assets, arguments over connection and access, fluctuating marginal loss factors and so on. This approach in other States is resulting in consumers being required to pay considerable costs to subsidise network expansion to support renewables development. We keep being told how competitive renewables are so renewables investors should have no need for any subsidies, whether on their cost of capital or connection and access.

The Government also needs to be aware of the potential impact of a number of State based policies that may have unintended consequences on other States. The Queensland 50% renewables policy was framed in a world where there was an expectation that renewables development in Queensland could lead to significant exports to NSW. This no longer is the case under the NSW Roadmap where priority is given to renewable developments in NSW to supply NSW. This could limit the scope of expansion in renewable generation in Queensland in the absence of new large energy intensive industries.

We do not accept the argument made in other States that consumers effectively subsidising renewables development e.g. through guaranteed offtake contracts, will result in lower overall power prices. Taking that argument to its illogical limit, the more consumers subsidise the lower the power price. While this may lead to lower wholesale prices (for a time) overall prices may stay the same of even rise as cost are shifted from one part of the bill to another. Renewable generators should be subject to the full efficient costs along their supply chain and then provide the lower prices to consumers through the competitive NEM bidding process or competitive sale of corporate PPAs.

We see the benefits of Government ownership of the network and a significant portion of generation to be key factors in the smooth and efficient transition to the 50% renewable target.

Attributes of the QREZ model should have an overriding National Electricity Objective attribute

We agree with the proposed attributes. However, it is surprising that none of the proposed attributes make explicit reference to the NEO. We would strongly support an overriding attribute around the National Electricity Objective with the proposed attributes all contributing to that overriding attribute.

Powerlink should be the designated planning body

Powerlink has immense experience in network planning and implementation with established stakeholder relationships. It has the necessary experience and skills to fulfil the designated planning body role. It is also the best party to issue the REZ notice and be responsible for the developing and administering the REZ Management Plan.

This role will require close co-operation with Ergon and Energex and the existing strong relationships between the three networks will serve them well in implementing the QREZ policy. There may well be scope for renewable generation to be connected to the Ergon or Energex network where spare capacity exists.

Connection and access arrangements should be based on the 'causer pays' principle

As noted above, 'lowest total system cost' includes the costs of maintaining system security as well as the physical network assets. The renewable generator's C&A Agreement with Powerlink should require the generator to cover all costs associated with the generators position on the gird. This includes the system security costs that Powerlink is required to incur as a result of the expansion in renewable generation in particular locations.

The C&A Agreements would remove the need for a repeat of the recent cost pass through of $2.5m to all Powerlink customers due to the fault level shortfall from the connection of a number of solar farms in North Queensland[1]. These costs should be borne by the renewable generators, not by customers as part of the Powerlink regulated revenue.

The importance of social licence should not be underestimated

This will be the key factor in the REZ Management Plan.

Building large networks now is completely different in many ways from the QNI experience. The need to obtain 'social licence' - for generators as well as networks - is perhaps the biggest change since QNI was built around 20 years ago. This is seen in the current long delays in the approval process for the Western Victorian Network Project (an approved ISP project) and the significant increase in estimated capex costs for Humelink from the PADR to the PACR. These issues are discussed in more detail in another recent EUAA submission on our rule change proposal for a material change in network infrastructure project costs[2]. We are starting to see some local concerns about the use of prime agricultural land for renewable infrastructure e.g. Smoky Creek in Central Queensland.

Competitive, clean and reliable energy is necessary, but not sufficient, to retain existing and attract new large energy users

We strongly support the intention behind Section 4 – Supporting competitive industries. The QREZ policy should give a significant boost to our members ability to source competitive, clean and reliable electricity for their operations. This can be either within or connected to a declared REZ. This access is necessary for their continued operation. But it is not the only factor driving large users' decisions as the relative importance of electricity costs varies greatly across large users in Queensland.

Electricity is a relatively high percentage of operating costs for smelters and refineries, but much lower for other large users. In the former, competitive, clean and reliable electricity will be necessary to sustain their existing operations in Queensland when current contracts expire. But competitive renewables alone are unlikely to bring

[1] See https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/cost-pass-throughs/powerlink-network-support-pass-through-2020-21
[2] See https://euaa.com.au/joint-submission-transmission-planning-investment-review-consultation-paper-chapter-five/https://www.aemc.gov.au/sites/default/files/documents/erc0325_sub_from_euaa_meu_agl_delta_shell_300921.docx.pdf

many new electricity intensive export competitive industries to Queensland. New operations need to also assess other costs e.g. labour and construction as part of an investment decision. On the other hand, there may be scope for expansion on non-export competitive energy intensive users e.g. data centres.

Some issues for further consideration

We await details of the EOI process for the selection of generators in each REZ. We can understand a technology preference e.g. if there is a good wind resource then prioritise wind over solar, particularly given the large amount of existing roof-top solar and how wind may complement solar generation over the full day. We do not support the NSW LTESA structure where generators effectively bid a WACC and consumers are left with a lot of risk recovered through distribution network charges.

While the intention is to get sufficient generation capacity at the start of REZ operation to fully utilise the shared system capacity, this may not always be the case as the balance is sought between undersubscription and scale-efficient infrastructure. Were this to happen, we do not support the residual capex being recovered from consumers via the Powerlink RAB.

With generators paying the full REZ cost in their connection and access charges, we await details of how this will work for the full REZ asset life of 50-60 years, given the wind/solar generator asset life of ~25 years. What will happen when the first round generation assets are at the end of their useful life? Consumers should not be left to pay for the residual depreciated REZ asset for the last 20-30 years of its life.

Thank you for the opportunity to make this submission. Do not hesitate to be in contact should you have any questions.

Kind regards,

Andrew Richards
Chief Executive Officer