

28 January 2022

Ms Anna Collyer
Chair
Energy Security Board
Lodged by email to: info@esb.org.au

Dear Ms Collyer,

Response to *Transmission access reform - Project initiation paper*

The Clean Energy Investor Group (CEIG) welcomes the opportunity to provide feedback on the Energy Security Board (ESB)'s *Transmission access reform - Project initiation paper* (the Initiation paper) published on 18 November 2021.

CEIG represents domestic and global renewable energy developers and investors, with more than 11GW of installed renewable energy capacity across more than 70 power stations and a combined portfolio value of around \$24 billion. CEIG members' project pipeline is estimated to be more than 18GW. CEIG strongly advocates for an efficient transition to a clean energy system from the perspective of the stakeholders who will provide the low-cost capital needed to achieve it.

KEY POINTS

- CEIG supports the proposals from the ESB that:
 - set up an Advisory panel and Working Groups to ensure regular and deep engagement with a broad range of stakeholders; and
 - provide for regular formal consultations on its work throughout 2022.
- CEIG welcomes the establishment of a formal process for stakeholders to discuss their issues in more depth and provide alternative approaches to the proposed Congestion Management Model (CMM).
 - CEIG understands that Ministers' timeframes dictate that the ESB has to work in parallel to consider alternatives to CMM while progressing its detailed design;
 - However, this must not detract from genuine consideration of alternatives to CMM presented by industry.
- Consistent with our commitment to contributing a substantive alternative to CMM, CEIG is currently developing a proposal that seeks to be consistent with the approach adopted in CEIG's [Investor Principles](#).

ESB'S APPROACH TO CONSULTATION WITH INDUSTRY

CEIG welcomes the publication of the ESB's work plan for transmission access reform as it will help industry to engage with this critical process throughout 2022.

CEIG also supports the ESB's establishment of an Advisory panel and Working Groups to ensure regular and deep engagement with a broad range of stakeholders. CEIG thanks the ESB for the invitation to participate in those Groups. CEIG looks forward to bringing the investor voice and engaging constructively with the market bodies to progress the necessary reforms for the National Electricity Market (NEM)'s transition to clean energy.

CONSULTATION ON ALTERNATIVE APPROACHES TO CMM**Support for process to submit alternative approaches to CMM model**

Regular engagement with stakeholders will be critical for the ESB to genuinely deliver on its commitment to Ministers to "*work with stakeholders to understand their concerns and explore different solutions to the identified problems*".

In light of the concerns previously voiced by CEIG on the proposed CMM, we welcome the ability for stakeholders to submit an alternative mechanism to the CMM.

Importance of genuine consultation with industry

CEIG appreciates that the timeframes for consultation were drafted in response to the Ministers' request to consider a rule change proposal by December 2022, and that this dictates the ESB working in parallel to consider alternative models to CMM while progressing its detailed design.

We however expect that those timeframes will not detract from genuine consideration of alternative approaches to CMM and that the market bodies will allocate sufficient time and resources to genuinely consider proposals from industry.

It is critical that industry concerns around the CMM model – which have now been voiced over many years when considering the earlier COGATI iterations – are both listened to and acted upon. CEIG believes that it is incumbent upon both the ESB and the clean energy sector to develop substantive alternatives to the CMM model that address the problems identified by the ESB as well as reduce the cost of capital for projects in the Australian market. This is particularly the case given the widespread lack of support for the CMM and earlier COGATI proposals.

The ESB and market bodies should aim to deliver an effective, long-lasting policy framework that is able to garner broad support across industry, consumer groups and other relevant stakeholders.

CEIG believes that regaining the trust and confidence of the clean energy investor community will be paramount as industry feels that its concerns have not been listened to previously.

For the ESB to achieve its objective to increase investors' confidence that their investments will not be undermined, the ESB and the market bodies will need to demonstrate that they will genuinely consider alternative proposals to the CMM, through a robust and collaborative consultation process. They otherwise risk continuing to deliver policies that lack industry support, result in no substantive reform being achieved and consumers ultimately paying higher prices than necessary as a result.

CEIG's alternative proposal to CMM model

Consistent with our commitment to contributing a substantive alternative to CMM, CEIG is currently developing a proposal that seeks to be consistent with the approach adopted in CEIG's [Investor Principles](#):

- rethink the operation of the open access regime in ways that deliver greater certainty for investors which will in turn lower the cost of capital (and therefore costs to consumers); and
- avoid approaches that include LMPs as they are demonstrated not to be an effective long-term locational signal.

CEIG looks forward to working with the ESB and the market bodies on a detailed assessment of our (and other industry participants') proposed alternative approach.

The importance of revenue certainty for making financial investment decisions - clean energy context

At its core, when considering whether to invest in a clean energy project and at what cost of capital, investors assess the certainty of future revenue streams associated with a project over the life of the proposed asset. The higher the revenue certainty, the lower the risk that cannot be priced effectively, and in turn, the lower the cost of capital.

To assess the level of revenue certainty that a clean energy project is likely to receive over the life of the asset, investors:

- review key project metrics and forecasts such as: risk of curtailment, system strength risks, expected level of grid losses, protection that can be offered from risk management tools, connection risks, etc.; and
- consider the future energy policy landscape and its impacts, including any potential risks.

For REZ projects, investors will also consider metrics such as the tenor and firmness of access rights to the transmission network and at what level the REZ hosting capacity is proposed to be capped.

CEIG thanks the ESB for the opportunity to provide feedback on its Initiation paper and looks forward to continued engagement on those issues. Our Policy Director Ms. Marilyne



Crestias can be contacted at marilyne.crestias@ceig.org.au if you would like to further discuss any elements of this submission.

Yours sincerely,

Simon Corbell
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Clean Energy Investor Group Ltd
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