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**From:** David Headberry [REDACTED]  
**Sent:** Friday, 29 October 2021 4:30 PM  
**To:** EES ECCS Electricity Infrastructure Roadmap Mailbox  
**Subject:** RE: Responding to the Parts 6 and 7 of the Electricity Roadmap

Dear Emma

Thank you for the extension of time to respond to Parts 6 and 7 of the Electricity Roadmap.

Just to make life more difficult, Victoria suffered considerable storm damage over Thursday night, and the loss of power that eventuated has reduced considerably the amount of time available to provide the response by the revised time of COB today. With this in mind, I ask that this email be used as the formal MEU response to the parts 6 and 7 of the Roadmap program.

**We would appreciate acknowledgment of receipt of this submission. This submission is not confidential and may be placed on the government website.**

As an overarching observation, the Major Energy Users (MEU) is appreciative of the NSW government implementing a detailed program of engagement with stakeholders to develop more detail surrounding the implementation of the NSW energy roadmap. Further, the MEU notes that despite more detail being provided in parts 6 and 7, the work is still relatively high level and this then limits the ability of the MEU to provide in-depth analysis in the absence of any draft regulations, and how the various elements of the roadmap will interact with other elements of it and with the wider energy market which is also undergoing considerable change. Release of draft regulations that provide the detail of what is proposed and how it is implemented should clarify many of the aspects which are not addressed in the high level assessment of the issues identified in the two papers.

Notwithstanding this observation, the MEU provides the following responses to the two Part 6 and 7.

## **Observations and commentary on Part 6**

### **Infrastructure investment**

- There needs to be a minimum requirement established for stakeholder engagement by the Customer Trustee (CT) as it develops its IIO report, that is uniquely applicable to the NSW infrastructure, recognising that the AEMO ISP IASR has a national focus so the CT needs to ensure that the IIO recognises those unique features of the NSW needs, its REZs and the NSW gov't intentions.
- The MEU supports the intention behind the program to ensure that new technology aspects (generation and storage) reflect the overall needs. Flexibility and the ability to change approaches in response to technology changes is an essential aspect, and the CT should be required to ensure that stakeholder consultation provides this valuable element into the deliberations of the CT as it develops the IIO reports, as well as its actions as it carries out its tasks.
- The CT must be required to reflect the need of ensuring that there is adequate alternative supply before closure of any coal or gas fired power stations and so ensure there will be no price shocks such as occurred in Victoria when Hazelwood closure was announced and then implemented within a few months. While such a requirement might seem obvious, it must be explicitly stated as currently AEMO uses the more formal process of accepting the forecasts of closures as the basis for its modelling for ESoO and ISP rather than forecasting what is needed to prevent potential reliability issues.

### **LTESAs and REZ access rights**

- The MEU accepts that there needs to be firming for VRE generation to ensure there will be reliable supply. The MEU considers that demand response (DR) is a source of firming and should be integrated into the forecasting modelling. However, the MEU notes (based on feedback from its members, most of whom provide DR in some form) that DR is limited in that many providers have limited time periods for how long and how frequently they can provide DR, and that many require some hours notice in order to be able to

ramp down (and then up) in a safe manner. Further, while they might consider providing DR, this detracts from their normal operations and so impose considerable cost in its provision. This then implies that some DR might be limited in its ability to act purely from market signals and might require direction. Because of this, the MEU considers that this reality needs to be an essential element of the detailed design of the process of firming through the use of DR.

- The MEU considers that firming of LTESAs needs additional work and clarification, as there are limits as to how well and how long DR and storage can provide firming. The MEU also notes there are proposals from the ESB to Ministers on how this firming might be done (eg operational reserve, PRRO, FRRO, etc) and care needs to be taken to ensure there is no double dipping or duplication between the CT for NSW actions and AEMO at the national level.
- If a project is seen to have “outstanding merit”, this is assessment can be quite subjective, and there needs to be some definitional aspects that the CT can use to determine if the project has greater value. While what is proposed appears to assist in this, the MEU considers that an providing an overarching statement might be useful such that the assessment will be viewed through the lens of a project must be seen to provide a lower cost to consumers but not impede the ability of others to export their product over the period they have access rights.
- While the MEU notes that there will be further discussion about linking LTESAs and access rights, the MEU considers this aspect is an essential element to ensure the incentive for providing new generation is maintained and investment is not constrained.

#### Governance and Controls

- The MEU did not support having AEMO as the CT because it considered there could be conflicts of interest between AEMO as the market operator and ISP developer, and the role of the CT. To overcome the appearance and actuality of any conflict of interest, the CT must be required to show a high level of transparency and accountability for its actions. Further, this needs to be audited on a regular basis, especially including the level of stakeholder engagement and the implementation of actions that this engagement highlights. As part of this process, stakeholders need to have access to a mechanism where they can raise concerns about the CT and its actions. and have these concerns investigated.
- The MEU notes that the ISP process has a consumer panel requirement imposed on AEMO for its ISP activities with concerns able to be referred to the AER. The MEU supports this as a useful model for assessing and reviewing the activities of the CT, noting that the CT is specifically required under the NEO to act in the interests of consumers, and not necessarily in the interests of other stakeholders.
- Additionally, the MEU sees such a consumer reference group would have within its scope to assess the risk management approaches implemented by the CT
- An issue that often arises with activities of AEMO and other TNSPs, is that there is no ex-post review of past decisions to assess whether the assumptions, modelling and approaches used in the past to make a decision delivered the outcome planned –implementing such a review process provides the basis for better decisions in the future. The MEU recommends the implementation of such an ex-post review process be applied to the CT and the other bodies established under the roadmap.
- The MEU notes that the SFV will have a considerable portfolio of generation and storage through its LTESAs and this could provide the SFV with market power. This concern needs to be examined in detail to ensure that there will be no ability to exercise market power at any time.
- While the MEU sees that the SFV might deliver better outcomes for consumers if it was an active trader (such as retailers do) this increases its ability to exercise market power. Being a passive holder of the LTESAs minimises the potential for exercise of market power. The MEU is conflicted between these two aspects and so considers that the issue needs further investigation to develop options to limit the ability to exercise market power in the future.

#### Observations and commentary on Part 7

- The MEU notes that discussion about Part 5 are to follow and the MEU sees that this element is a critical aspect for evaluating Part 7 as Part 5 appears to be the driver of the quantum for funding that Part 7 addresses. The MEU points out that if the quantum of roadmap costs is quite modest, potentially, the issues addressed in Part 7 become, while still important, less critical.

## Principles, apportionment and smoothing

- The MEU agrees with the guiding principles espoused but adds that apportionment should be added as another principle in that the costs allocated to each sector should reflect the relative usage and benefit that each sector gains – this might be addressed by adding a principle of appropriate cost sharing
- The MEU notes that many of the programs that currently exist (eg RET and ESS) allocate costs on a volumetric basis but peak demand is used as the cost basis for larger consumers of electricity in relation to their network charges. The MEU considers that no preference can be considered until more detail is provided about how the preferred apportionment method is to be implemented. As a principle, the MEU accepts the preferred solution has merit but this is conditional on the costs being apportioned with network costs being allocated on a peak demand basis and energy costs on a volumetric basis.
- The MEU agrees that smoothing is appropriate. However, such smoothing needs to reflect the impact of the DMO and network charges which vary on an annual basis and so smoothing of the roadmap costs needs to encompass the volatility in these other elements and not carried out unilaterally. It also needs to be recognised that the process is to allocate the costs to the distribution networks which are then designed to pass roadmap and network costs to consumers via a tariff that they construct to recover their costs. These network costs are then passed through to retailers that also develop their tariffs to suit their needs. Ultimately the smoothing the CT/SFV carries out will be considerably modified by the time it gets to consumers unless there is a direction that the costs have to be separately identified at each stage when consumers are billed for the energy they use.

## EITE and H2

- EITE businesses need to be exempt for the reasons identified in the paper. The MEU considers that the approach used should be consistent how EITE firms are exempted from other charges. Having a unique approach for these roadmap costs will add transactional costs for end user firms with EITE exemption, so consistency is an advantage. One way of applying EITE benefits, reflecting that there are relatively few firms subject to EITE exemptions, would be to exempt all roadmap costs from EITE firms via a special EITE tariff process and this would provide the benefit to the exempt firms on an ongoing monthly basis. Such an approach should be stated as an EITE exemption of roadmap costs.
- The MEU questions why hydrogen producers might be considered for exemption. They will be beneficiaries of the roadmap, gaining lower costs of production and the exemption will give them the ability to locate where they like – exempting H2 producers will pass additional costs to other users. To incentivise H2 producers to locate optimally, they need to see the benefits/detriments of their locational decisions. So the MEU does not support unilateral exemptions for H2 producers
- If the H2 producer is prepared to operate their facility in such a way that reduces load at peak times and/or when high priced generation set the spot price for electricity, then they should be entitled to a benefit. So exemptions could be considered if the H2 producers provide a benefit to the operation of the market by reducing demand at times of peak demand and/or peak prices.

## Transparency of costs and benefits

- The MEU supports there being a mechanism for providing roadmap information (including costs) to end users
- However the MEU does not support adding this information to bills and considers annual reports and website information should be sufficient. Adding more information to bills, while apparently attractive, is not appropriate use of a mechanism designed to facilitate payments, as bills are only seen by the finance departments whereas the information about the roadmap should be seen by others in the firm. Information as to where additional information might be obtained should be the maximum that bills should be used for.
- The MEU considers that networks could provide costing roadmap information as a separate line item in their tariffs reflecting that tariffs have an annual adjustment and approval process via the AER. There should be a requirement that networks should formally advise their customers as to the new tariffs and include the information about the roadmap. This means that the information about the roadmap costs would be seen annually. If needed the NSP would provide any formal written advice (eg a leaflet) that the CT/SFV needs to have provided as part of their transparency.

We trust the above is useful and self explanatory, but if you require more explanation of any of the observations and comments please contact the undersigned

Regards

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