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Electricity Infrastructure Roadmap: Cost Recovery (Part 7 of the EII Act)

AGL Energy (AGL) welcomes the opportunity to comment on the Department of Planning, Industry and Environment's (DPIE) consultation paper on tranche 3 regulations for Cost Recovery.

AGL is a leading integrated essential service provider, with a proud 184-year history of innovation and a passionate belief in progress – human and technological. We deliver 4.2 million gas, electricity, and telecommunications services to our residential, small and large business, and wholesale customers across Australia. We operate Australia's largest electricity generation portfolio, with an operated generation capacity of 11,208 MW, which accounts for approximately 20% of the total generation capacity within Australia's National Electricity Market.

AGL provides the following comments on each of the topics raised by DPIE in the consultation paper.

Guiding Principles

The consultation paper outlines a number of principles that will be used by DPIE in making policy decisions related to the apportionment of costs. These include:

1. Adequate: enough is recovered to finance the required activities
2. Simple: ease of understanding and administration
3. Auditable: transparent and verifiable
4. Equitable: the beneficiary pays, noting that the Roadmap is expected to benefit all NSW consumers
5. Stable: cost volatility is smoothed where possible

Question 1: Do you agree with the proposed guiding principles? Are there other principles which should be considered?

AGL agrees with these principles noting the narrow scope of application (for deciding on regulations related to the apportionment of costs to network businesses). It will also be important for DPIE to ensure that the costs of the scheme are efficient to minimise the cost impacts on customers, and AGL proposes this guiding principle in our submission to the consultation on the Infrastructure Safeguard (Part 6).

Approach for measuring and apportioning costs

The consultation paper proposes a cost pass through mechanism based on peak demand at zone substations, and energy delivered to each distribution network area. Historically a volumetric approach has been taken – however DPIE considers combined volumetric/peak demand is better aligned with the guiding principles and will be more robust over time.

Question 2: Do you agree that apportioning contributions from distribution businesses based on a mixture of energy delivered and peak demand best aligns with the guiding principles? Is there a better option? Why is it better?

AGL queries the rationale for apportioning costs to distributors based on peak demand. The consultation paper considers that a peak demand approach will better reflect the costs associated with the network investments to deliver the Roadmap, and therefore will better address the guiding principle of “adequacy”. We are unclear about this linkage between REZ capacity investment and demand in distribution networks.

Our understanding is that in NSW there is adequate distribution network capacity to meet peak demand. Supporting new supply and building out constraints in REZ infrastructure would not influence this, so we query whether the benefits are related to the peak demand volumes.

In addition, peak demand may occur at different times for different distribution networks and therefore the sum of these may be greater than total system peak demand. If DPIE considers a linkage with peak demand is appropriate, it could consider an option that assesses network demand at the time of total system peak demand.

Given the expected benefits of the scheme are lower costs for energy users and lower emissions for all NSW residents, DPIE could consider whether the other, simpler options are sufficient for allocating costs to those who benefit. For example, apportioning costs to networks based on a combination of volumetric plus customers numbers (eg NMIs) would have the added benefit of allowing the networks to easily pass on these costs to their customers in a manner that aligns with how the costs were allocated to them.

Smoothing of cost recovery and hardship provisions

Question 3: Do you agree contributions from distribution businesses should be paid quarterly to minimise working capital for distribution businesses? Will monthly payments become less problematic in the future?

AGL agrees with the comments raised in the consultation paper that administrative costs of complying with the Roadmap requirements should be minimised, while also ensuring the SFV has sufficient funds to remain liquid.

DPIE should be mindful that any decision on distributor payments to the SFV does not cause any flow on impacts to the way charges are passed on from distributors to retailers, and not increase the administrative costs of retailers.

Question 4: Do you agree the Scheme Financial Vehicle should use a loan facility to smooth costs over time? If not, why?

Should the SFV use a loan facility to manage liabilities and smooth costs over time, AGL suggests measures are taken to ensure the SFV is receiving low-cost finance, for the benefit of NSW consumers. For example, underwriting by the NSW government may be appropriate.

Question 5: Do you agree a three-year rolling average (one year lagging and two years leading) is the best way to ensure adequate funds are available while also smoothing costs for consumers? Any annual overs and unders would be managed using the Loan Facility.

AGL is comfortable with the suggested approach to use a three-year rolling average. It will be important to set up robust methods for forecasting outcomes two years ahead, to minimise risk of inaccuracy.

Question 6: Do you agree the scheme should provide for a negative contribution amount? What threshold should be set for applying a negative amount?

AGL considers it unnecessary to immediately provide a negative contribution amount back to customers in the year it is incurred. The use of a three-year rolling average will ensure the savings are passed back to customers in due course, and applying an immediate adjustment may reduce bill "smoothing" objectives. We note that wholesale prices can also be unpredictable and may unexpectedly increase in the following year.

Transparency of costs and benefits to consumers

AGL considers transparency of the total costs and benefits will be valuable over the course of delivering the Roadmap. As with setting out the customer impacts of network determinations, AGL believes the best location to publish the component parts of the Roadmap costs (and benefits) is through determinations and annual reports. Documents such as these can provide the right context and detail for the reader to properly understand how the costs and benefits are calculated and therefore the impacts of the Roadmap on overall consumer energy costs.

AGL does not believe these costs and benefits should be displayed on consumer energy bills. This is based on the following reasons:

- Bills provide consumers with the retail tariffs and charges, which represents the bundled energy chain costs, including network charges.
- Energy bills content is currently being reviewed by the AER, with the aim of simplifying the information. Itemisation of the Roadmap costs is inconsistent with this work and unlikely to improve customer awareness and experience with their bill.

In our experience, itemisation on a customer bill would bear the risk of consumers being confused by the additional line-item charge, as separate from network charges or energy charges. This is likely to unnecessarily increase calls to retailers and potentially complaints to energy Ombudsmen schemes. AGL believes these questions are best answered through a government published website that contains information about the Roadmap, including the costs and benefits as determined through an independent process.

Regulator's reporting of the consumer impacts and the government website can assist consumer advocacy groups, retailers, academics and certain customers who will be interested in the impacts of the Roadmap. This will ensure transparency of the Roadmap without generating consumer confusion and additional costs through inclusion on customer's retail bill.

Question 7: Do you agree it is important for consumers to understand the component parts of Roadmap scheme costs (e.g. payments under LTES Agreements compared to network infrastructure)?

See above

Question 8: How can the benefits of the Roadmap be assessed and communicated, ensuring the information is up-to-date, accepted by stakeholders, relevant for consumers and without significant administrative burden?

See above

Question 9: Do you agree a mixture of annual reports, website(s) and bill information is the best way to inform consumers about the benefits and costs of the Roadmap? Is there a simple way to provide bill information?

See above

Exemptions for certain customers

In general, exempting certain customers from cost recovery should be considered carefully, as this will increase the costs for other customers. Of course, this must also be balanced with other objectives such as administrative simplicity.

We note that the rationale for exempting certain entities from the costs of green schemes to ensure international competitiveness and prevent "carbon leakage" has somewhat shifted, given the growing global focus on decarbonisation. In addition, the Roadmap aims to reduce electricity prices, meaning that EITEs would somewhat benefit from the scheme.

That said, AGL acknowledges that it may continue to be desirable to provide a partial exemption to certain EITEs, or to new technologies such as hydrogen electrolysers to assist with demonstration and integration into the NEM.

Question 10: Do you agree with exempting entities up-front or would you prefer a rebate approach? Why?

AGL suggests that if a rebate approach is introduced for exempt entities, the rebate is addressed between the distributor and SFV and that retailers are provided with the net network cost to include in customer billing. This would help to reduce the administrative costs and complexities of this approach, if implemented.

We also note that a rebate approach may be more transparent to understand the costs of the exemption and assess whether it continues to be appropriate over the long term.

Question 11: If exemptions were administered on a proportional scale (between zero and 100%), how could we categorise which entities should be subject to which level of exemption?

See above

Question 12: Do you agree green hydrogen production should be treated in the same way as other emissions intensive and trade exposed industries, or should it be treated differently?

See above

Fund administration (financial reporting)

The consultation paper suggests that that monthly and annual financial statements will be required and notes the Australian Accounting Standards include possible reporting regimes. Options relating to financial reporting may include:

- an income statement for that month, the current financial year to date and full year forecast with a comparison to the budget for those periods
- a cashflow statement for that month, the current financial year to date and full year forecast with a comparison to the budget for those periods, and
- a balance sheet statement for that month, the current financial year to date and full year forecast with a comparison to the budget for those periods.

Question 13: Do you agree the options outlined are an effective approach for financial reporting for the Fund? Are there any additional considerations?

AGL considers it important that suitable financial reporting is required, to ensure transparency and accountability for the charges being imposed on NSW consumers. We have no comments on the suggestions listed above.

If you have any queries about this submission, please contact Jenessa Rabone on [redacted] or [redacted]

Yours sincerely,

Elizabeth Molyneux

General Manager Policy and Markets Regulation