27 October 2021

Ms Kate Norris
Director, Strategic Energy Projects
Department of Planning, Industry and Environment

Email: Electricity.Roadmap@dpie.nsw.gov.au

Electricity Infrastructure Fund (Part 7 of the Electricity Infrastructure Investment Act 2020) Policy Paper

Dear Ms Norris,

Energy Networks Australia (ENA) appreciates the opportunity to comment on the NSW Electricity Infrastructure Fund Policy Paper.

ENA is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

There are benefits to a more connected grid in the transition to a highly renewables-based energy mix. ENA supports the intent of the NSW Electricity Infrastructure Roadmap and the approach to deliver timely and efficient network projects to support generation and facilitate the energy transition.

In summary ENA supports:

- The guiding principles especially the consistency and complementary arrangements with the National Electricity Rules (rules);
- The clarity of cost allocation to the distributors in regulation and the distributors allocation to electricity consumers guided by the principles in the rules;
- Option 4 and 7 both being considered further, the final regulations for distributor allocations should make it clear that trade exposed industry is included in the calculations and may be offered rebates;
- The Scheme Financial Vehicle should have discretion over the smoothing approach and time period to reduce the need for loans and also limit price shocks to consumers as the market changes;
- Regulations that put consumers first. Material excess funds should be returned to consumers to offset their energy bills bearing in mind the administrative costs of such a process and the need to maintain the Scheme Financial Vehicles cashflow over time;
- Stakeholders being clearly informed of the cost and revenues being made clear in the annual Infrastructure Investment Objectives (IIO) report;
- Further consideration of option three (status quo, website and information provided on bills) being taken forward to enable transparency and aid other reporting processes;
- Clarity of when rebates would apply for emissions intensive trade exposed (EITE) and welcome discussions with the AER on tariff class implications with the Distribution Network Service Providers (DNSPs); and
- Improving the equitable cost allocation of the Roadmap costs between transmission and distribution connected load consumers.

Guiding principle are supported

ENA supports the guiding principles especially the consistency and complementary arrangements with the NER. Departure from the NER arrangements should be accompanied by a clear rationale, consistent with the Energy Security Boards' Renewable Energy Zone (REZ) approach. At some point after the transition is at a business-as-usual stage there may be cause to revert back to the National Electricity Market arrangements and reduce the costs to NSW consumers of administering the Roadmap.

As the scheme progresses, ENA is also mindful of the balance of NSW Roadmap costs and other regulated transmission costs and any variations in pricing to consumers between the two regimes.

Apportioning costs to distributors

It is intended that the Minister prescribes an approach to apportioning costs to distributors in regulation and the NER provisions govern the distributors assigning to customer classes. ENA supports the clarity of cost allocation to the distributors in regulation and the distributors allocation to electricity consumers guided by the principles in the rules. The distributors are passing through the costs of the NSW Roadmap as an adjustment to tariffs via a jurisdictional scheme and are not bound by the normal tariff constraints.

The consultation paper offers 7 options to share costs across the three NSW distributors and notes that option 7 – energy delivered to the network and peak demand is favourable against the criteria.

ENA considers that option 4 and 7 would both be worth considering further. There may be benefit in alignment of the cost allocation to distributors and the cost allocation to consumers. Option 4- energy delivered to the distribution network based on volume is a simple mechanism and readily translatable and explainable to consumers in energy bills. This also aligns well with the Australian Energy Market Operators (AEMO) administrative costs assigned to transmission networks. AEMO could provide T-2 consumed data to allocate costs for year T.

Option 7 has a number of complexities in collation of the data to generate the allocation. Not all customers have smart meters, making distributor allocation on a similar basis at the consumer level more difficult. This option would also be more complex to message to consumers.

The option chosen should make it clear that EITE is included in the calculations and may be offered rebates. This is akin to the treatment of vulnerable consumers who are offered rebates.

Smoothing mechanism by scheme fund

The Scheme Financial Vehicle provides a smoothing mechanism which enables averaging over a three year period. The Scheme Financial Vehicle should have discretion over the smoothing approach and time period to reduce the need for loans and also limit price shocks to consumers as the market changes.

Large price increases to provide catchup funding, as has occurred in other States, should be avoided to the extent possible. It is important that the Scheme Financial Vehicle has discretion to avoid these issues. For instance, a mechanical rolling average mechanism cannot always account for large scale market volatility which can occur due to infrequent but somewhat forecastable events such as periods of drought or generator retirements. In such an instance it may be more appropriate for the Scheme Financial Vehicle to be provided with discretion (within appropriate governance limits), to step in and minimise the impact of such events.

To limit price shocks to consumers, ENA supports the Scheme Financial Vehicle having the ability to use a loan facility.

The Scheme Financial Vehicle will need to have an appropriate cash buffer. If the contributions into the fund exceed the needs of the fund, then a negative contribution from distribution could result. ENA is supportive of regulations that put consumers first, material amounts should be returned to consumers to offset their energy bills bearing in mind the administrative costs of such a process and the need to maintain the Scheme Financial Vehicles cashflow over time.

Transparency of Roadmap scheme costs

The cost components (both positive and negative) of the scheme should be clear on a yearly basis, as should the recovery of these costs in revenue. Stakeholders should be clearly informed of the costs of the Roadmap including the administrative bodies. ENA supports further consideration of option three (status quo, website and information provided on bills) being taken forward, as well as the costs and revenues being made clear in the annual IIO report.

ENA support clear, accessible information on the Government website such as a fact sheet, backed up by a succinct financial report which covers historic and forecast cost projections by component and revenue. This will allow Roadmap scheme costs to be clearly differentiated from other jurisdictional scheme costs in the Australian Energy Market Commission (AEMC) reporting, retail default market offer cost stacks, annual tariff reports etc. This transparency is fundamental in managing the reputational risks of customers conflating Roadmap cost recovery with network costs. Separating out these elements is critical to managing brand risk given the hard work all networks have undertaken in building trust with customers and lowering network charges.

The AEMC has recently made changes to the National Energy Retail Rules to support improved transparency on consumers bills. The Australian Energy Regulator (AER) is working on a Better Bills Guideline which will be published by 1 April 2022. From 4 August 2022, retailers will be required to make amendments to billing information to align with the Guideline. Retailers will already be amending bills to make these changes and often amend bills to highlight cost increases that are attributed to networks. ENA supports further consideration of simple, transparent and consistent messaging being added to consumers bills to explain costs related to the Roadmap such as, what they are paying for and how much.

ENA consider that transparent and consistent messaging on consumers bills, given they are paying will be of more benefit than a separate bill insert. A separate bill insert is more costly and for electronic billing is likely to be an attachment or link that is never opened.

Exemptions and rebates

Any policy framework for exemptions or rebates needs to be transparent, fair and equitable for all consumers and supported by the Clean Energy Regulator, the Independent Pricing and Regulatory Tribunal and the Australian Energy Regulator. If EITE are exempted or provided rebates other consumers would be funding.

The framework should clarify when exemptions or rebates apply – is it only in the REZ or anywhere in NSW, regardless of connection at transmission or distribution level, extent of trade exposed vs local use etc.

Further discussion between the NSW DNSPs and the AER is warranted to clarify any tariff class issues before an exemption/rebate framework proceeds and the implications for the distributors administration and compliance with the NER.

Directly connected transmission customers

The ENA notes that directly connected transmission customers whether newly connecting within a Roadmap REZ or outside the REZ or existing connections are not allocated any portion of Roadmap costs. ENA understand that this is not aligned with the intent of the wider Roadmap cost-recovery policy framework, that is, the beneficiary pays principle.

The consequence of this drafting anomaly is a cross subsidy will emerge between those consumers who are transmission connected and those who are distribution connected and in addition a risk of inefficient bypass will be created.

ENA encourage the DPIE to resolve this issue through regulations at the earliest available opportunity to ensure that distortions to the cost recovery process are not built into the Roadmap from the outset.

ENA looks forward to further engagement with DPIE as the framework progresses.

Should you have any queries on this response, please contact Verity Watson at [redacted]

Yours sincerely

Jill Cainey

General Manager Networks