Electricity Infrastructure Fund Policy Paper: Consultation submission form

This form is to be used to provide feedback on a series of questions included in the Electricity Infrastructure Fund Policy Paper to help inform the development of the regulations. The Electricity Infrastructure Fund Policy Paper considers detailed policy options to support Part 7 of the *Electricity Infrastructure Investment Act 2020* (NSW) (EII Act).

Please see the Electricity Infrastructure Roadmap webpage for more information.

Consultation questions

You do not need to answer every question. Please answer the questions of interest to you.

Chapter numbers indicate the location of questions in the policy Paper.

Please make your submission by **5pm on Wednesday 27 October** to Electricity.Roadmap@dpie.nsw.gov.au.

Confidentiality and submissions

Providing submissions is entirely voluntary, is not assessable, and does not in any way include, exclude, advance or diminish any entity from any future procurement or competitive process regarding the Electricity Infrastructure Roadmap, or any other NSW programs.

All submissions will be made publicly available unless the stakeholder advises the Department not to publish all or part of its submission. Authors may elect for some or all of their submission to be kept confidential. If you wish for your submission to remain confidential please clearly state this in your submission.

Your details

Submission type	☐ Individual ☒ Organisation ☐ Other Click or tap here to enter text.
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Stakeholder group	☒ Generation or storage infrastructure provider ☐ Electricity consumer or representative body

	☐ Network infrastructure provider ☒ Energy retailer ☐ Government or market institution ☐ Individual ☐ Other (please specify) Click or tap here to enter text.

Questions

Table 1

Questions related to the guiding principles	
Question 1: Do you agree with the proposed guiding principles? Are there other principles which should be considered?	The proposed principles appear sound. To give effect to the Department's policy objectives of transparency and in delivering appropriate outcomes for customers generally, we are firmly of the view that regulations should prescribe methods of cost apportionment down to the individual tariff level, including assessment by the Regulator. This will also ensure there is clear accountability for any bill impacts and add substance to the proposed auditing requirement. There is a risk that distribution businesses will take different approaches to allocating costs or rebates across different tariffs and individual tariff components. The resulting inconsistencies in how customers are impacted may undermine confidence in the overall policy, particularly where the Department wishes to undertake broader communications on its own or require retailer bills to quantify bill changes which, in all likelihood, will be based on assumed or average customer characteristics. We note the Department's references to different degrees of Ministerial prescription in these matters and irrespective of where accountability lies in this process, any perceptions of 'buck passing' from customers will lead to a negative experience and should be carefully thought through. In extreme cases, the different apportionments used by distribution businesses could distort the relative competitiveness of different retailers' pricing offers i.e. where retailers wish to market towards particular customer segments or distribution zones. At a minimum there should be requirements for distribution businesses to clearly identify and consult on their methods of allocation, in accordance with

	prescribed allocation principles, as part of their Tariff Structure Statements under the existing NER process.
Question related to the approach for measuring and apportioning costs	
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?	We are generally supportive of apportionment (including down to the individual customer level) on the basis of a combination of peak demand and energy delivered. The Department may wish to analyse the extent to which the prevalence of solar customers and other cohorts with different usage profiles will inappropriately skew such an apportionment.
Questions related to the 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?	Quarterly payments appear to reflect an appropriate balance between the need to ensure scheme liquidity, minimise working capital requirements and reduce administrative burden on distribution businesses. We understand that this decision will not affect subsequent recovery of costs from retailers.
Question 4: Do you agree the Scheme Financial Vehicle should use a loan facility to smooth costs over time? If not, why?	Having access to a loan facility, presumably at interest rates reflecting a very low or sovereign risk of default, would be preferrable to shifting financing risks onto distribution businesses and retailers.
Question 5: Do you agree a 3-year rolling average (1 year lagging and 2 years leading) is the best way to ensure adequate funds are available while also smoothing costs for consumers?	A three-year rolling average approach seems prudent, and a two-year forecasting horizon should allow relevant information to be drawn from contract markets and associated price expectations affecting the SFV's financial position.
Question 6: Do you agree the scheme should provide for a negative contribution amount? What threshold should be set for applying a negative amount?	We consider that contributions should be treated symmetrically. The Department's considerations of the correlations between contribution amounts and changes in wholesale costs that are passed onto customers are fine in principle. However, the expected relationship between LTESAs, spot prices, contracts that form part of hedge portfolios and other wholesale cost drivers will be highly complex. For this reason, it may be difficult to ensure scheme benefits are passed back at times that offset rising wholesale prices, and use of thresholds may also be difficult to implement.

Questions related to transparency of costs and benefits to consumers	
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)?	The Policy paper does not refer to any testing or research on customer preferences on this matter and we encourage it to undertake such work. As a starting point, the Department should validate what customers want to know, rather than begin from a position of wanting to explain its Roadmap. Our expectation, based on direct experience, is that customers are unlikely to care about policy issues unless they are a driver of noticeable price changes. The layers of complexity around Roadmap elements in terms of recovering the costs of network, generation and administrative activities, including timing delays and the smoothing elements it is proposing, would take considerable effort to communicate. What customers pay on bills also reflects potentially thousands of regulatory interventions, and there are likely to be many that have a greater bill impact that the Department's Roadmap costs.
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?	While we support the intended benefits of the Roadmap, it will be highly problematic to periodically calculate and present benefits to customers. Key benefits in terms of system impacts and price outcomes need to be calculated relative to a hypothetical higher cost counterfactual. Actual outcomes compared against this counterfactual would need to be divided between those caused by the Roadmap versus many other causes. The Roadmap framework will provide for periodic reviews of key elements (including financial performance of the SFV) and the Department should alternatively consider less frequent (e.g. 5 yearly) ex post reviews, which could remodel system outcomes and explore wholesale price impacts. Even where wholesale price savings could be reliably estimated, translating this into a retail bill impact, such that it has meaning when compared to charges levied on customers for cost recovery, would involve many simplifying assumptions and associated inaccuracies. As suggested by the Department it may be better to promote more discrete Roadmap benefits in terms of the dimensions of renewable energy and storage being supported, e.g. amounts of carbon-intensive output that is displaced, associated private investment in affected regions and employment measures.

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?	We strongly discourage the Department from requiring retailers to provide information on costs and benefits on bills. As noted above, our expectation is that customers will be disinterested and drawing attention to government policy will potentially draw criticism in terms of 'buck passing'. The Department will also need to consider what price changes are actually experienced but also perceived by the customer, which will be influenced by larger factors than Roadmap benefits or cost recoveries. To the extent there is clarity on how distribution businesses apportion costs to the individual tariff component level, this information could be available for communications purposes. However, there would be significant administrative burden in translating this into bill impacts, with likely adoption of average customer usage profiles. Even presenting average customer bill impacts will involve administrative costs which need to be balanced against the benefits of such communications. If the Roadmap functions as intended, including smoothing mechanisms, the ultimate value of bill adjustment in most years will be small. Customers in general already consider billing information to be overly complicated. Presenting data on Roadmap costs or benefits in a succinct, digestible format will be extremely challenging. A less costly approach would involve a generic billing insert for all customers, or a reference to a NSW Government website that is not on the first page of the bill. Any new requirements should ideally be timed alongside and consistent with new AER billing guideline requirements.
Questions related to exemptions	
Question 10: Do you agree with exempting entities up-front or would you prefer a rebate approach? Why?	Yes we consider that providing up front exemptions from charges, or discounts, by distribution businesses is preferable to having customers being charged then rebated at a later date. Ultimately if the process can be contained to transactions between the distribution business and the SFV that would be preferable. Subject to views of the distribution business, given the small number of EITEs likely to be eligible we would expect

	that this is possible via automatic or manual workarounds. We would be opposed to a situation where a customer was billed at the retail level then subjected to rebates afterwards as this would be administratively complex and confusing for affected customers. This would be compounded in situations where a customer changed retailers or where regulated contribution amounts change between billing cycles. We would favour providing up-front discounts at the retail level if this was necessary. Again, for this to be workable requires clarity on the customer's exemption status and the amounts to be charged/ discounted.
Question 11: If exemptions were administered on a proportional scale (between 0 and 100 per cent), how could we categorise which entities should be subject to which level of exemption?	The application of partial exemptions will obviously involve the use of judgement about the fairness of costs being shifted onto the wider cohort of NSW customers, as well as the desire to enhance the competitiveness of large export-oriented customers. Implicit in these considerations is the relative price responsiveness of different customer segments, which should also be properly explored in arriving at any proportional exemption. The Department's consideration of generation, storage and transmission costs would also need to consider the recovery of the latter through access fees on developers, which are yet to be consulted upon. Ultimately, we recommend that the Department publish example bill impacts of different proportional exemptions so that customers and other stakeholders have full transparency on any cross subsidies they are being asked to accept.
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?	The Department should be clear on whether this proposal reflects the need to address international competitiveness or broader industry support for hydrogen development, and where any boundaries lie. Specifically, it should clarify whether it is intended to only benefit production facilities at scale or others of smaller scale that will be necessary in the development pathway. As per its considerations on the burden of administering exemptions or rebates, it would cause difficulties if many smaller commercial customers, including trial producers or users of hydrogen and hydrogen blends, were captured in this exemption category.
Question related to the Fund administration (financial reporting)	

Question 13: Do you agree the options outlined are an effective approach for financial reporting for the Fund? Are there any additional considerations?	Setting reporting requirements in line with existing Australian Accounting Standards appears to be a sound approach.

Supporting information

If you have additional information you would like to provide to support your views, please provide it here. If you have additional documents to provide to support your views, please email it with your submission.	

Confidentiality and submission publication preferences

Please indicate your publication preferences (select one option only).

☒ **Option 1: Non-confidential submission**

Your submission will be published on the Department's website. Your personal contact information (such as phone number and email address) will be redacted.

☐ **Option 2: Confidential submission**

Your submission will **not** be published on the Department's website. The name of your organisation will be published.

Some confidential submissions **may** be shared with the following entities:

- the Australian Energy Market Operator, Energy Security Board, Australian Energy Market Commission, Australian Energy Regulator, Independent Pricing and Regulatory Tribunal or the Australian Competition and Consumer Commission
- TransGrid, the Clean Energy Finance Corporation or the Australian Renewable Energy Agency or distribution network service providers
- the entities appointed or to be appointed under the EII Act (Consumer Trustee, Financial Trustee, Scheme Financial Vehicle and Regulator).

☐ **Option 3: Anonymous and confidential submission**

Your submission will **not** be published on the Department's website. The name of your organisation will **not** be published.

Your submission will **not** be shared with the with the following entities:

- the Australian Energy Market Operator, Energy Security Board, Australian Energy Market Commission, Australian Energy Regulator, Independent Pricing and Regulatory Tribunal or the Australian Competition and Consumer Commission

- TransGrid, the Clean Energy Finance Corporation or the Australian Renewable Energy Agency or distribution network service providers
- the entities appointed or to be appointed under the EII Act (Consumer Trustee, Financial Trustee, Scheme Financial Vehicle and Regulator).

The Department will redact personal details from submissions made by individuals to protect personal information. In the absence of an explicit declaration to the contrary, the Department will assume that information provided by respondents is not considered intellectual property of the respondent.

The Department may disclose confidential information provided by you to the following parties:

- NSW Government departments, NSW Ministers and Ministers' Offices
- the NSW Ombudsman, Audit Office of NSW or as may be otherwise required for auditing purposes or Parliamentary accountability
- other parties where authorised or required by law to be disclosed.

Where the Department discloses this information to any of these parties, it will inform them that the information is strictly confidential. The Department may publish or reference aggregated findings from the consultation process in an anonymised way that does not disclose confidential information.

We may be required to release the information in your submission in some circumstances, such as under the *Government Information (Public Access) Act 2009*.