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Electricity Infrastructure Roadmap Delivery Taskforce
Department of Planning, Industry and Environment

Submitted electronically via Electricity.Roadmap@dpie.nsw.gov.au

Essential Energy – Electricity Infrastructure Fund Policy Paper – Submission

Essential Energy welcomes the opportunity to provide a submission in response to the Department of Planning, Industry and Environment's (DPIE's) *Electricity Infrastructure Fund Policy Paper* (the Policy Paper).

The Infrastructure Fund is a central component of the New South Wales (NSW) Electricity Infrastructure Roadmap (the Roadmap). Specifically, the Infrastructure Fund will be used to manage the costs associated with:

- network investments;
- long-term energy service agreements (LTESAs); and
- Roadmap administration (ie, funding the activities of key bodies such as the Consumer Trustee).

Ongoing payments to the Infrastructure Fund will be made by NSW distribution businesses (including Essential Energy) with the costs ultimately recovered from consumers. It follows that the regulations underpinning the Infrastructure Fund represent a key interface of the Roadmap with NSW consumers. Our submission therefore focuses on elements of the proposals in the Policy Paper that we consider can be enhanced, as well as those we support, to protect the long-term interests of consumers.

Exemption of direct transmission-connected customers cannot be deferred to a future policy process

Essential Energy agrees with the Department that applying the beneficiary pays principle to the recovery of Roadmap costs may yield a different result to the effective exemption of direct transmission-connected customers from Roadmap cost recovery. However, we are concerned with the Department's position that this issue may need to be considered in the future – it is imperative that this issue is addressed as soon as practicably possible because it will induce a behavioural response from connecting parties.

The effective exemption of direct transmission connected customers creates unbalanced incentives when customers (particularly large customers) make connection location decisions. Specifically, because Roadmap costs are not levied on transmission-connected customers under the current arrangements, this may provide an incentive for large, non-exempt customers to connect directly to the transmission network. This location decision may be inefficient from a whole-of-system perspective – raising costs for consumers.

More broadly, the consequence of this exemption is that a greater amount of Roadmap costs are shifted onto the remaining residential and commercial customers connected to the distribution network. This has the effect of reducing the bill impact benefits they receive from the Roadmap. Further, the relative increase in costs raises the risk of inefficient bypass of the distribution network –

potentially creating a cycle of continuing cost increases and network bypass – undermining the cost recovery arrangements of the Roadmap.

In light of the fact that the effective exemption appears inconsistent with the cost recovery principle of the Roadmap, and that it increases the costs for those that are not exempt (through multiple channels), Essential Energy encourages DPIE to address this issue from the outset and not to defer it to an uncertain future policy process.

A non-mechanistic approach to smoothing should be assessed

Essential Energy acknowledges the Department's proposed smoothing mechanism of a three-year rolling average with two years leading and one year lagging. We support the use of a smoothing mechanism as bill shock avoidance is a high-profile concern for many electricity consumers. Reducing the magnitude of annual increases in network charges arising from the implementation of the Roadmap through a smoothing mechanism is an appropriate safeguard in the long-term interests of consumers.

We encourage DPIE to also assess a non-mechanistic approach to smoothing (with appropriate limits on discretion) as a further alternative. We consider that there may be problems in adopting a purely mechanistic rolling-average smoothing mechanism because future contribution amounts can be forecast (as opposed to being random). Consequently, a mandated rolling average that relies on historical data can result in avoidable medium-term volatility in customer prices. By way of example, a requirement to use a rolling average of previous contribution order costs cannot account for the impact of expected generator retirements or new regulatory decisions (both of which can be forecast) on future contribution order costs and may therefore result in greater price volatility than if such forecast changes were able to be taken into account as part of the smoothing arrangement.

There is therefore merit in providing the Scheme Financial Vehicle (SFV) with some discretion to smooth Roadmap costs. Any discretion would have to be accompanied with a set of principles to ensure that it is exercised in a manner consistent with the long-term interests of consumers. For instance, the SFV could be required to:

- ensure the financial viability of the scheme;
- minimise the impact of the scheme on customer prices (having regard to the expected scheme costs, network charges, wholesale electricity costs and customer demand) over the medium term; and
- publish the reasons for its decisions.

Additional restrictions may also be required relating to the circumstances in which this discretion can be exercised. For instance, there may be an incentive to continually defer cost recovery to limit bill impacts for customers. However, this would only lead to a significant bill shock in future – an outcome that would be inconsistent with the long-term interests of consumers. This could potentially be addressed by only allowing the SFV to defer cost recovery for a maximum number of years.

Credible communication with consumers is integral to the success of the Roadmap

There is the potential for considerable costs to need to be recovered from consumers as the Roadmap is progressed. It follows that credible communication with consumers is imperative – and that it should be transparent and updated as circumstances change. The provision of information to consumers regarding the Roadmap should have the intent of supporting consumers in understanding what they are paying for and the benefits they are receiving as a result of the Roadmap.

Given the importance of transparency, Essential Energy's preference is for option three (status quo, website and bill information) to be progressed. This transparency is imperative to ensure that consumers do not conflate Roadmap cost recovery with rising network costs. Separating out these elements is critical to managing brand and reputational risk as well as the potential for distribution network bypass. Further, transparent communication of costs and benefits will add a further level of cost discipline on the Consumer Trustee, helping to ensure that its decisions reflect the long-term interests of consumers.

The risk of network bypass is particularly pertinent going forward due to the continued rapid uptake and falling costs of installed distributed energy resources (DER) and the attention this draws to the

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growing relative share of government levies as a portion of customer bills. Without adequate communication as to why costs are rising (particularly the benefits being created), many consumers may make economic decisions to self-supply as an alternative to grid-supplied energy. This in turn lowers the customer base to recover Roadmap costs from – increasing costs and further raising the risk of distribution network bypass.

Essential Energy generally supports other policy positions set out in the Policy Paper

There are a number of policy positions in the Policy Paper that Essential Energy supports because they promote the long-term interests of consumers. Specifically, we support:

- the principles that have been set out to guide the assessment (and ultimate selection of) the apportionment mechanism for the contribution order;
- setting out guidance in the Regulations to provide greater clarity and consistency as to how contribution orders will be determined over time (as opposed to leaving these to the discretion of the relevant party), because this promotes transparency and stakeholder understanding of key decision-making frameworks;
- distribution network service providers (DNSPs) retaining the flexibility to propose contribution order allocations across customer classes, because it allows for annual consideration of market and economic conditions at the time – helping to negate bill shock for customers;
- DNSPs not carrying any of the financing risk of the scheme and the objective that they should be no worse off due to their role in administering contributions (particularly in the context of bypass risk discussed above); and
- Providing negative contribution amounts – however, we note that this situation seems unlikely to arise in practice and encourage clarification that exempt customers would similarly be exempt from any negative contribution order.

If you have any questions in relation to our submission, please contact me directly via phone [redacted] or Mr Anders Sangkuhl, Regulatory Strategy Manager, at [redacted] or via phone [redacted]

Yours sincerely,

Chantelle Bramley

Chantelle Bramley
General Manager, Strategy, Regulation and Corporate Affairs