27 October 2021

Liam Ryan
Executive Director, Strategy and Implementation
NSW Department of Planning, Industry and Environment
Locked Bag 5022
Parramatta NSW 2124

Submitted online: Electricity.Roadmap@dpie.nsw.gov.au

Dear Mr Ryan

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

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on the NSW Department of Planning, Industry and Environment's (DPIE) Electricity Infrastructure Fund (EIF) Policy Paper. Our views on key aspects of the EIF framework are outlined below and responses to the specific questions raised by DPIE are provided in Attachment 1.

- **Apportioning scheme costs across networks**: Origin is supportive of apportioning scheme costs to distribution businesses based on a measure of energy delivered to the network and peak demand (at zone substations). This approach appears to best align with the guiding principles outlined by DPIE and should provide for the equitable allocation of costs across all consumers.

- **Smoothing cost recovery**: It will be important to ensure the recovery of scheme costs does not give rise to price shocks for consumers and retailers. The proposed three-year smoothing mechanism should assist with mitigating this risk while ensuring costs are allocated to consumers as close to when they occur as possible. We are also supportive of:

  - requiring quarterly contributions from distribution business, noting this approach would be administratively simple and avoid disruption to current retailer billing practices; and

  - ensuring any cost savings (e.g. as a result of repayments made under long-term energy service (LTES) agreements) are be passed through to consumers.

- **Reporting on scheme costs/benefits**: The key to effective customer communication is ensuring information provided is accurate and relatively simple to understand. The annual reporting approach adopted for the NSW Climate Change Fund (CCF) provides a reasonable template for transparently reporting Roadmap costs/benefits in this respect. We do not support mandatory reporting of scheme costs/benefits on retail bills and consider scheme costs should simply be bundled with network charges. Altering retail bills can be a costly and time-consuming exercise and has the potential to increase customer confusion, especially where cost information is general rather than customer specific. Given the scheme is not retailer-initiated, the ability for retailers to explain the scheme to customers or answer specific questions is also limited.

- **Application of exemptions**: Consistent with the recently announced NSW Hydrogen Strategy, Origin is supportive of all green hydrogen production constructed before 2030 being fully exempted from scheme charges, including both the generation and capacity components of the scheme. This will assist with supporting industry development and expansion until the cost and scale of green hydrogen production matures. The exemptions policy could be reviewed after a set period, with consideration given to whether green hydrogen production should be moved into the broader Emissions Intensive Trade Exposed (EITE) exemption framework.

If you wish to discuss any aspect of this submission further, please contact Gary Davies at [redacted] or on [redacted]

Yours Sincerely,

Steve Reid
Group Manager, Regulatory Policy

Questions	Feedback
Guiding principles	
1. Do you agree with the proposed guiding principles? Are there other principles which should be considered?	The proposed set of guiding principles is comprehensive and should provide a reasonable basis on which to assess different cost recovery options.
Apportioning costs across networks	
2. Do you agree that apportioning contributions from distribution businesses based on a mixture of energy delivered and peak demand best aligns with the principles? Is there a better option? Why is it better?	We agree apportioning scheme costs to distribution businesses based on a measure of energy delivered to the network and peak demand (at zone substations) would likely best align with the guiding principles. While this approach would require distribution businesses to use energy consumption as a proxy for passing through demand-related costs to consumers without digital metering, this is unlikely to materially impede efficient cost allocation.
Smoothing cost recovery	
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?	Origin considers it important that the timing and frequency of contribution payments aligns with existing billing cycles and is therefore supportive of requiring quarterly contributions from distribution business. Such an approach would be administratively simple to apply and avoid disruption to current retailer practices, thereby limiting implementation costs. Further, adopting quarterly payments would provide a reasonable compromise in terms of sharing credit risk between distribution businesses and retailers/consumers.
4. Do you agree the Scheme Financial Vehicle should use a loan facility to smooth costs over time? If not, why?	Origin is supportive of the Scheme Financial Vehicle (SFV) using a loan facility to support cashflow management (i.e. managing ‘unders’ and ‘overs’) and the liquidity of the SFV more broadly. Coupled with the proposed smoothing mechanism addressed in Question 5 below, this approach should also remove the need for any within-period revisions to contribution orders and facilitate stable cost allocation outcomes for distribution businesses and retailers/consumers.
5. Do you agree a three-year rolling average (one year lagging and two years leading) is the best way the ensure adequate funds are available while also smoothing costs for consumers?	It will be important to ensure the recovery of scheme costs does not give rise to price shocks for consumers and retailers. Adopting a three-year rolling average represents a pragmatic approach to addressing this risk and smoothing costs for consumers. We also consider the proposed smoothing approach, which utilises a combination of actual and forecast costs, strikes an appropriate balance between minimising price volatility and ensuring costs are allocated as close to when they occur as possible. While cost pass-through could be subject to some other form of cap/threshold with a view to further limiting price volatility, such an approach could exacerbate potential price shocks if scheme costs were to continue to increase over time. It could also create an accumulation of costs for consumers in the future.
6. Do you agree the scheme should provide for a negative contribution amount? What threshold should be set for applying a negative amount?	Origin considers any cost savings (e.g. as a result of repayments made by LTES operators) should be passed through to consumers via negative contribution determinations. The treatment of costs and saving should also be symmetric, with any negative contributions (net of any associated costs) passed through to customers in full in the year they are realised (or as close to that period as possible). To this end, we do not agree that negative contributions should only be passed through to customers if some prescribed threshold is surpassed.

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<table>
<tr><th colspan="2">Transparency of costs and benefits to consumers</th></tr>
<tr><td>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)?</td><td>Origin agrees the component parts of Roadmap scheme costs should be transparently reported. Such an approach will be critical to understanding the costs/benefits of the scheme over time.</td></tr>
<tr><td>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?</td><td rowspan="2">1. Annual reporting / website information
The key to effective customer communication is ensuring information provided is accurate and relatively simple to understand. We consider the annual reporting approach adopted for the NSW CCF provides a reasonable template for communicating Roadmap scheme costs/benefits in this respect, given it allows for accurate and detailed reporting while minimising any associated regulatory burden. While there is potential for an annual reporting approach to be supplemented by the provision of a dedicated website, the costs of establishing and maintaining an interactive website are unclear. It would therefore be prudent for DPIE to undertake and indicative cost assessment and estimate potential customer usage prior to proceeding with the development of a website.
Origin is also aware that the NSW Government recently ran a successful social media campaign to raise awareness of electrical safety (residual current device and safety switches). This may provide an additional mechanism for communicating information about the Roadmap to consumers.
2. Retailer billing information
Origin agrees with DPIE’s view that mandating billing changes would not meet the principle of simplicity, given the potential complexity and costs of that approach. In addition, the time and cost required to change retail billing systems can be prohibitive. Our preference is therefore for Roadmap costs to be bundled with network charges, with customer communications provided by DPIE through the separate processes described above.
As noted by DPIE, the actual cost impact on an individual customer is likely to be difficult to determine. It is also not clear the provision of generalised information related to Roadmap costs/benefits on customer bills would be helpful for consumers. Electricity bills are already too dense, with information presented in a language many customers find confusing. Incorporation further information is likely to add to this confusion, particularly where the information is general rather than customer specific.
Providing information on a retailer bill is also likely to increase customer interactions with retailers. The ability for retailers to explain the scheme to customers or answer specific questions will be limited by the fact that the scheme is not retailer-initiated. At a minimum, an agreed retail communication protocol would therefore be required that includes scripted responses and directions for further information. However, given the general nature of such responses and the cost and complexity of establishing and complying with the communication protocol, there is unlikely to be any net benefits associated with this approach.</td></tr>
<tr><td>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?</td></tr>
<tr><th colspan="2">Exemptions</th></tr>
<tr><td>10. Do you agree with exempting entities up-front or would you prefer a rebate approach? Why?</td><td>Origin agrees exemptions should be provided as an up-front discount by distribution businesses. Applying exemptions in the form of a rebate (provided at a later date) would likely be unnecessarily complex and burdensome to administer.</td></tr>
<tr><td>11. If exemptions were administered on a proportional scale (between</td><td>As acknowledged in the Policy Paper, the case for exempting EITE entities is to ensure those entities do not incur a disproportionate share of the costs associated with the Roadmap, which could adversely impact their international</td></tr>
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zero and 100%), how could we categorise which entities should be subject to which level of exemption?	competitiveness. Given the Roadmap is intended to reduce electricity costs for all consumers, applying only a partial exemption is likely to provide for a more equitable allocation of costs. In general, we consider EITEs should be exempt from both generation and capacity charges initially, with the level of the exemption set at 90 per cent. The level of the exemption could then be periodically reviewed, and potentially scaled down, over time.
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?	Consistent with the recently announced NSW Hydrogen Strategy, Origin is supportive of all green hydrogen production constructed before 2030 being fully exempted from scheme charges, including both the generation and capacity components of the scheme. The exemption should also cover green hydrogen produced for domestic use in the initial phase. As green hydrogen is an emerging industry, this approach will support industry development and expansion until the cost and scale of production matures. It will also assist with unlocking emissions abatement opportunities from the industrial sector. The exemptions policy described above could be reviewed after a set period , with consideration to be given to whether green hydrogen production should be moved into the broader EITE exemption framework.
Fund administration	
13. Do you agree the options outlined are an effective approach for financial reporting for the Fund? Are there any additional considerations?	We agree that monthly and annual financial statements are required and consider the proposed options relating to financial reporting: income statement; cashflow statement; and balance sheet reporting are appropriate.