



APA submission

NSW Electricity Infrastructure Roadmap – Parts 6 and 7 consultation papers

28 October 2021



Mr James Hay
Deputy Secretary, Energy, Climate Change and Sustainability
NSW Department of Planning, Industry and Environment

Lodged online

28 October 2021

RE: APA Submission to Parts 6 and 7 Policy Papers

Dear Mr Hay,

Thank you for the opportunity to comment on the NSW Government's Electricity Roadmap Infrastructure Safeguard (Part 6) and Infrastructure Fund (Part 7) Policy Papers. We appreciate the NSW Government's ongoing engagement in relation to the design of its Energy Infrastructure Roadmap (the Roadmap).

APA is an ASX listed owner, operator, and developer of energy infrastructure assets across Australia. Through a diverse portfolio of assets, we provide energy to customers in every state and territory on mainland Australia. As well as an extensive network of natural gas pipelines, we are also one of the largest investors in renewable power generation in Australia.

We support the NSW Government's Roadmap and are actively involved in the energy transition taking place across Australia. We have recent experience developing and connecting renewable generation assets to the national electricity grid and are well placed to help facilitate the timely development of renewable energy zones in NSW.

The Infrastructure Safeguard and Infrastructure Fund are important components of the Roadmap. Our submission below provides high level views on some of the key issues raised in the policy papers, including the importance of transparency in reporting Roadmap costs and exemptions. We also support broad smoothing mechanisms, to help ensure that customers are not subjected to price spikes due to unexpected increases in Roadmap costs.

If you wish to discuss our submission in further detail, please contact John Skinner on [REDACTED] or [REDACTED]

Regards,



Peter Bolding
General Manager
Economic Regulation and Policy

1 Submission

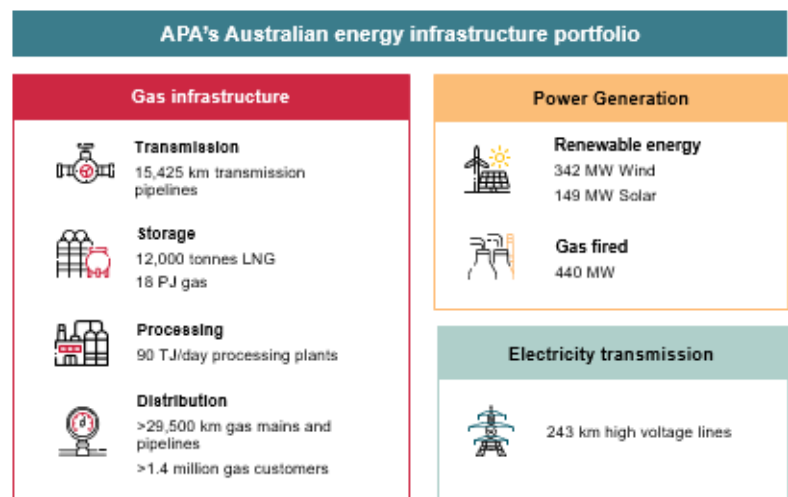
Key points

- APA supports the NSW Electricity Infrastructure Roadmap and the transition to net zero emissions.
- To ensure that the Infrastructure Investment Opportunities (IIO) Report is informed by the best available information the Consumer Trustee should consider the greater interdependencies between the electricity and gas systems in its forecasting.
- We support mechanisms that provide for as much discretion as possible to smooth Roadmap costs across multiple years.
- We support transparency of Roadmap costs, benefits and exemptions through annual reporting.

1.1 Introduction

APA is a leading Australian Securities Exchange (ASX) listed energy infrastructure business. Consistent with our purpose to strengthen communities through responsible energy, our diverse portfolio of energy infrastructure delivers energy to customers in every state and territory on mainland Australia.

Our 15,000 kilometres of natural gas pipelines connect sources of supply and markets across mainland Australia. We operate and maintain networks connecting 1.4 million Australian homes and businesses to the benefits of natural gas and we own or have interests in gas storage facilities, gas-fired power stations.



Our investments include over \$750 million in renewable generation, while our high voltage electricity transmission connects Victoria with South Australia and New South Wales with Queensland.

APA is supporting the transition to a lower carbon future. Our ambition is to achieve net zero operations emissions by 2050. Through our Pathfinder Program, we are

investigating how hydrogen and other technologies such as batteries and microgrids, can support a lower carbon future.

We support the NSW Government's Electricity Infrastructure Roadmap. With the retirement of aging coal power stations over the next 15 years we recognise the importance of the Roadmap in supporting investment in energy infrastructure and enhancing energy security and reliability in NSW.

Our submission below provides views on some of the key issues raised in the Policy Papers:

- Part A addresses issues raised in the Infrastructure Safeguard (Part 6) Policy Paper (Safeguard Policy Paper)
- Part B addresses issues raised in the Infrastructure Fund (Part 7) Policy Paper (Infrastructure Fund Policy Paper)

2 Part A – Infrastructure Safeguard Policy Paper

2.1 Consultation on the Infrastructure Investment Opportunities (IIO) Report

Energy Markets are going through a period of significant upheaval. Given the pace of change, is unclear as to what future mix of technologies will provide consumers with access to reliable energy at the lowest cost. While wind and solar will become increasingly prevalent across the National Electricity Market, firming infrastructure, especially gas-powered generation (GPG), will become increasingly important in maintaining the security of the system.

The IIO Report will outline the new generation, long duration storage and firming infrastructure required to meet the Roadmap objectives at least cost to NSW consumers.¹ The Safeguard Policy Paper identifies the 20-year development pathway and 10-year Tender Plan that make up the IIO Report as essential inputs into the AEMO Integrated System Plan (ISP) and Electricity Statement of Opportunities (ESOO) processes. We support this approach and the close linkages between the IIO Report and AEMO's other planning processes.

Our recent experience in undertaking future planning for the east coast gas network and the Victorian (gas) Transmission System (VTS) has demonstrated that forecasts of electricity and gas use are becoming increasingly interlinked. A key reason for this is increasing government policy intervention in gas markets, including net zero policies designed to limit, or reduce gas use. Such policies could reduce gas consumption and increase electricity consumption going forward, particularly in Victoria.

To ensure that the IIO Report and ISP are informed by the best available information, AEMO and the Consumer Trustee should consider the greater independencies between the electricity and gas systems in its forecasting. This will necessarily include policy initiatives such as the National Gas Infrastructure Plan (NGIP) and other state's policy processes (such as the Victorian Gas Substitution Roadmap). This approach will ensure that energy planning is being undertaken on a consistent basis across energy markets, and that the IIO Report, the ESOO, Gas Statement of Opportunities (GSOO) and the ISP are fully aligned.

Consistent with the consultation undertaken to date as part of the Roadmap development, we also expect that the Consumer Trustee will seek views on the IIO Report throughout its development.

¹ NSW Government, *Infrastructure Safeguard Policy Paper*, September 2021, p5

2.2 Long Term Energy Service Agreement Design Principles

Technological innovation and the development of new products and services are likely to mean that current assumptions about bid design may quickly become outdated. As we outlined in our response to the NSW Roadmap LTESA design consultation, we support operators being able to submit alternate bids, in addition to LTES operators submitting a 'default bid' that aligns with the terms of the tender.

While we recognise that this approach may increase the complexity of assessing projects, it will allow bid proponents to submit bids tailored to the expected life of assets. Bids will therefore be expected to change as technology, and the expected life of assets, change.

The Safeguard Policy Paper is also seeking views on whether further design principles are required to support innovation and greater consistency across jurisdictional schemes. The Safeguard Policy Paper proposes some examples of potential principles (see Figure 5).²

To support innovation, an additional principle *Allow for future innovation* could be added. Such a principle could encourage flexibility in LTESA responses and promote technology neutrality wherever possible.

Figure 5 Potential National Electricity Market integration principles and design features

a) Align financial incentives	b) Adopt contract conventions	c) Allow for future market reform	d) Consistent with risk management
<ul style="list-style-type: none"> • Maintain sufficient spot exposure • Preserve existing locational price signals • Maintain exposure to ESS incentives 	<ul style="list-style-type: none"> • Enable on-selling of RRO compliant contracts • Acquire rights to future capacity credits or other windfall gains 	<ul style="list-style-type: none"> • Acquire rights to future certificate or other windfall gains • Maintain exposure to ESS incentives 	<ul style="list-style-type: none"> • Enable on-sold or back-to-back products • Enable risks to consumers to be effectively managed

2.3 Outstanding merit

The Safeguard Policy Paper is seeking views on how to define 'outstanding merit'. This term is referred to in s.48 of the *Electricity Infrastructure Investment Act 2020* (EI Act) and will allow the Consumer Trustee to award LTESAs to generation infrastructure that is not part of a renewable energy zone.³

² NSW Government, *Infrastructure Safeguard Policy Paper*, September 2021, p12

³ NSW Government, *Infrastructure Safeguard Policy Paper*, September 2021, p16

We support the NSW Government's proposal to recommend regulations that define outstanding merit. It is important that any criteria to achieve 'outstanding merit' are, as far as possible, clear and transparent.

In our view, a good starting point is the objects of the EII Act. To achieve 'outstanding merit', a proposed generation project must 'improve the affordability, reliability, security and sustainability of electricity supply' to a greater extent than similar projects within a REZ. For example, there might be a particular location on the NSW transmission network that is outside a REZ and suffers from low system strength. In this circumstance, a generation project that can provide system strength in the required location might be considered a project of 'outstanding merit' and therefore qualify for an LTESA, despite being located outside the REZ. In other words, if a project delivers additional benefits there should be scope for these to be recognised.

3 Part B – Infrastructure Fund Policy Paper

3.1 Smoothing cost recovery

The Energy Consumer Sentiment Survey conducted by Energy Consumers Australia shows the percentage of consumers who are satisfied with the value for money of their electricity supply is improving, up 4% to 57% as at December 2020. While the rise in satisfaction with value for money is positive, electricity still trails the next lowest rated essential service on this measure in every state and territory.⁴

In NSW and other eastern states, price volatility has been one of the main contributors to a lack of consumer trust in energy services. For this reason, it is very important that the NSW Government takes all steps necessary to ensure that Roadmap costs do not lead to price spikes for electricity consumers, and that all necessary steps are taken to ensure costs are smoothed across multiple years.

The Infrastructure Fund Policy Paper indicates that the Scheme Financial Vehicle could mitigate the price volatility risk by building a smoothing mechanism into its contribution determination proposal to the Regulator. We agree with this suggestion, and support mechanisms that provide for as much discretion as possible to smooth costs across multiple years. For similar reasons, we support a negative contribution amount. However, the benefit of the negative contribution does not necessarily have to be passed back to consumers in the same year it occurs. Rather, it should be used by the Regulator to ensure that prices remain as stable as possible from year to year.

3.2 Transparency of costs and benefits to consumers

It is important that customers have confidence in the organisations that are providing them with essential services. For this reason, we support the communication of Roadmap costs and benefits to consumers, including the different components of the Roadmap scheme costs.

The Infrastructure Fund Policy Paper presents several options for how to achieve this. While there is an attraction to having Roadmap costs presented on customer bills, we do not think this will be in customers' long term interests. Electricity bills are complex enough already. Adding additional information about costs associated with the NSW Roadmap may actually increase customer confusion. And if Roadmap costs are to be included on customer bills, shouldn't Climate Change Fund (CCF) costs be included too?

⁴ Energy Consumers Australia, *Consumer Sentiment Survey*, December 2020, <https://energyconsumersaustralia.com.au/publications/energy-consumer-sentiment-survey-findings-december-2020>

In our view, an annual report, similar to that produced for the CCF, is the best way to provide transparency about the costs and benefits of the Roadmap. The Roadmap annual report could set out:

- What tenders were conducted and what parties were awarded LTESAs by the Consumer Trustee.
- The cost of operating the Roadmap in the financial year.
- Contributions from distribution businesses (if any) during the financial year.
- The magnitude of any exemptions from Roadmap costs.
- How NSW customers benefited from the Roadmap.

When the Roadmap annual report is published on the Department's website, social media and press releases can be used to publicise the annual report and ensure maximum visibility for stakeholders.

3.3 Exemptions from Roadmap costs

Production of low carbon molecules is one of the key challenges in achieving net zero emissions by 2050. For this reason, we support policy initiatives that encourage the development of a hydrogen industry in NSW, including exempting green hydrogen production from roadmap costs.

It is important that there is transparency about the magnitude of the exemption being proposed. For this reason, we support the Minister formally declaring the level of exemption, similar to Emissions Intensive Trade Exposed Industries. We also support annual reporting of the level of support provided, and a phased approach to the level of exemption. That is, while a 100% exemption from Roadmap costs may be appropriate in the early years of the Roadmap, a partial exemption may be more appropriate once hydrogen markets develop and the cost of producing hydrogen falls to competitive levels.

Annual reporting of exemptions from Roadmap costs is particularly important given that the beneficiaries of exemptions may not always be NSW consumers. For example, hydrogen production facilities that qualify for an exemption may produce hydrogen for overseas markets. While the development of a hydrogen export industry is ultimately in Australia's long-term interests, NSW customers must have confidence that the benefits derived are greater than any subsidy.

The Infrastructure Fund Policy Paper is also seeking views on whether an up-front exemption or a rebate approach is preferred. We agree with the NSW Government that an up-front exemption will be easier to administer, and therefore support this approach.



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