NSW Electricity Infrastructure Roadmap

Electricity Infrastructure Fund (Part 7 of the EII Act)

14 October 2021

Department of Planning, Industry and Environment

Acknowledgement of Country

We acknowledge that today we meet on many Aboriginal lands.

We acknowledge the traditional custodians of the lands and we show our respect for elders past, present and emerging through thoughtful and collaborative approaches to our work.

Nikita Ridgeway

NSW GOVERNMENT | Planning, Industry & Environment

Agenda

- Presentation: Electricity Infrastructure Fund
- Questions and answers
- Interactive session

Purpose

- Provide overview of Roadmap and Electricity Infrastructure Fund paper
- Opportunity to clarify aspects of the policy paper, to support submissions
- Engage with stakeholders on key policy issues within the paper

Introduction to Roadmap consultation

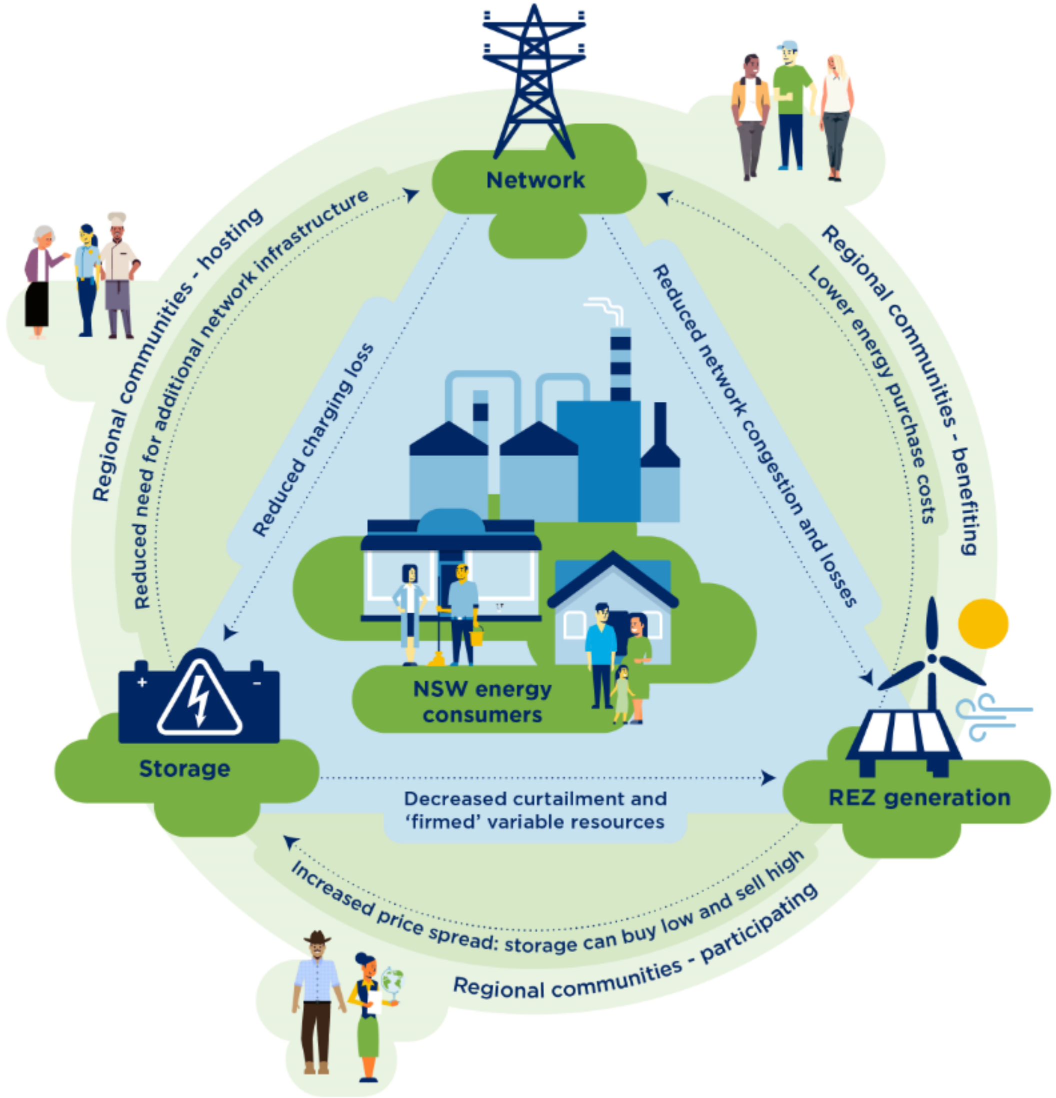
Kate Norris
Director Strategic Energy Projects, DPIE

What is the Electricity Infrastructure Roadmap?

Coordinates investment in transmission, generation, storage and firming infrastructure to replace aging power stations.

Delivers ‘whole-of-system’ benefits:

- Renewable Energy Zones
- Transmission Development Scheme
- Electricity Infrastructure Investment Safeguard
- Pumped Hydro Recoverable Grants Program
- Internationally competitive NSW industries

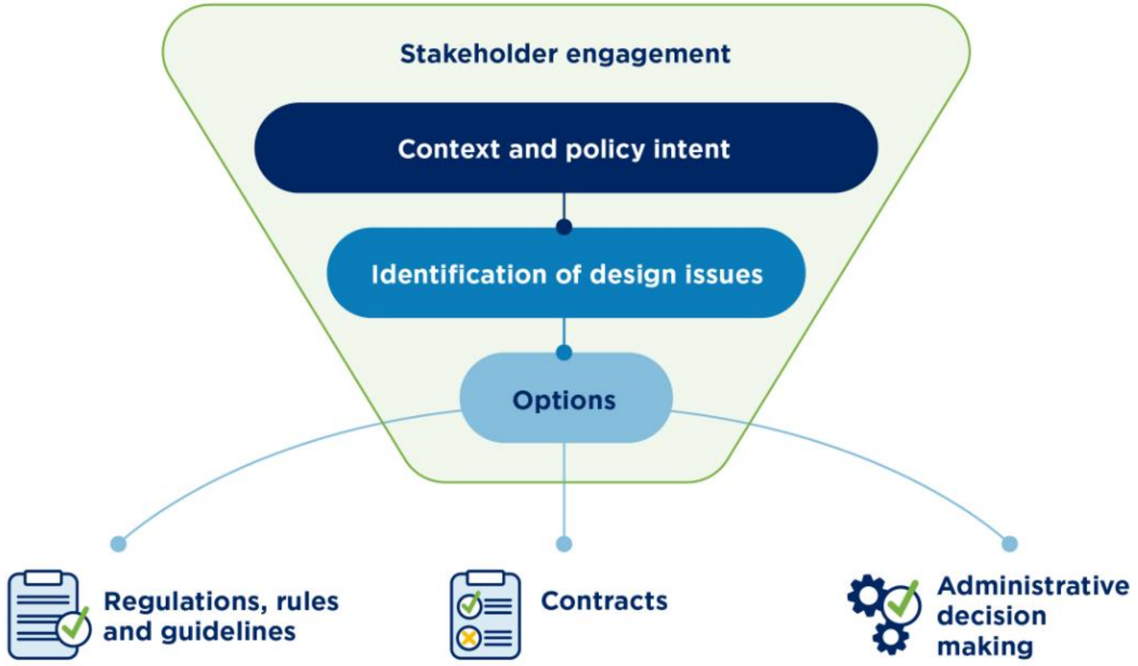


What are we consulting on?

Current consultation seeks feedback on substantive policy issues that could call for regulations under Parts of the *Electricity Infrastructure Investment Act 2020.*

Other policy papers in this consultation round focus on

- Network Infrastructure Projects (Part 5)
- Infrastructure Safeguard (Part 6)



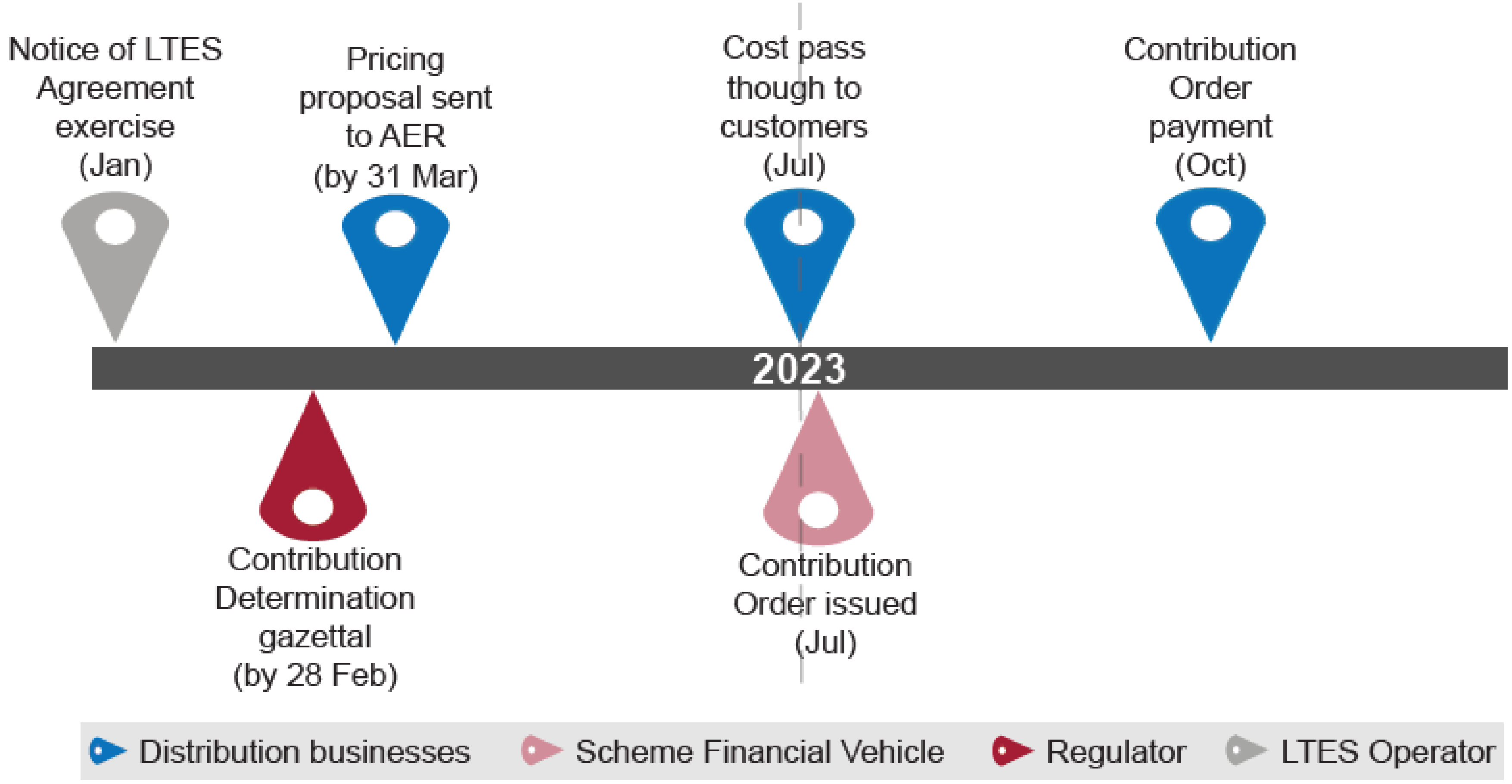
What is the Cost Recovery Framework?

Nichola Nicholson
Manager Energy Policy and Strategy, DPIE

Content of the paper

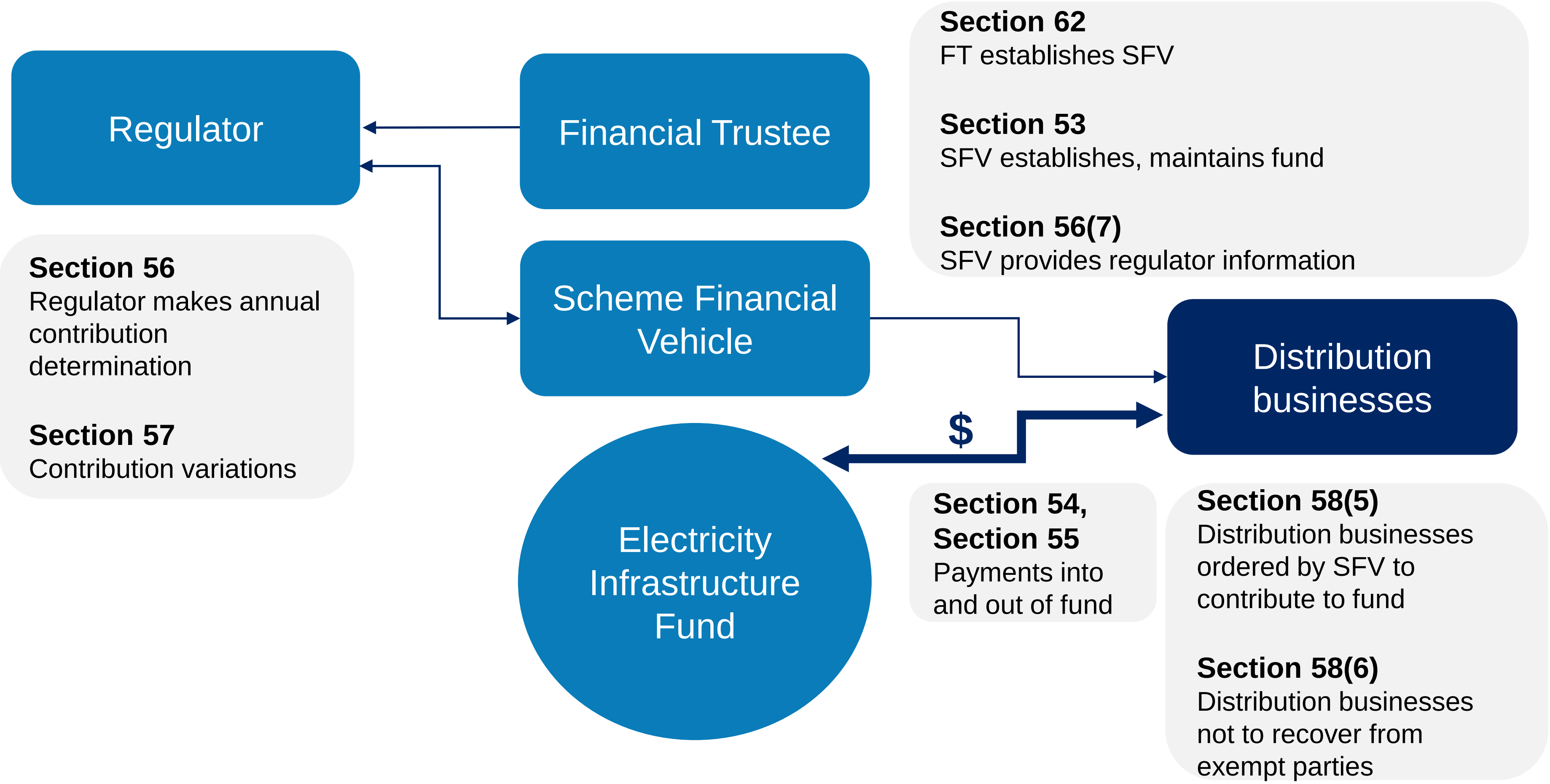
- Cost recovery framework
- Guiding principles
- Apportionment Methodology
- Smoothing and Liquidity facility
- Exemptions
- Transparency of Costs and Benefits
- Fund administration

Key activities for cost recovery from FY24



What is the cost recovery framework?

The framework tells us which entities will be engaging with each other and why



What makes up Contribution Orders?

Nichola Nicholson
Manager Energy Policy and Strategy, DPIE

The SFV will collate entity costs for the Regulator

Consumer Trustee
- Administration costs

Energy Corporation
- Network Infrastructure costs
- Administration costs

Regulator
- Administration costs

Financial Trustee
- Repayable grant
- Interest on SFV liquidity facility
- Administration costs (SFV, FT)

Scheme Financial Vehicle
- Actual and forecast Long Term Energy Service Agreement costs
- Actual and forecast Risk Management Contract costs
- Collates all forecast costs for 3-year period (1 year lagging, 2 years’ leading)
- Calculates 3-year rolling average
- Calculates true ups from previous year outside of rolling average
- Recommends prudent minimum cash balance to the Regulator
- Proposes Contribution Determination to the Regulator

Regulator
- Review Contribution proposal based on actual and forecast costs
- Gazette Contribution Determination by 28 February each year

Scheme Financial Vehicle
- Orders contributions for the financial year
- Issues invoices to distribution businesses with payment due 30 days after each quarter end

Guiding Principles

Lucy Jenkin
Policy Officer , DPIE

Principles underpinning cost recovery policy

Adequate
Revenue adequacy and efficiency

- The Scheme Financial Vehicle must ensure revenue is able to finance required activities and minimise risk.

Simple
Ease of understanding and administration

- Processes should be simple to understand, simple to implement, simple to administer and have low administration costs.

Auditable
Transparent, auditable and verifiable

- The measurement and apportionment of costs should be transparent, auditable, and verifiable from accessible data sources.

Equitable
Benefits accrue to all

- Apportionment of costs should be equitable:
  a) beneficiary pays
  b) recognises efforts already made to reduce energy demand and emissions.

Stable
Cost volatility is smoothed where possible

- Smoothing mechanisms to minimise working capital requirements and manage year-on-year bill volatility.

Consultation question: Guiding Principles

Question 1: Do you agree with the proposed guiding principles? Are there other principles which should be considered?

Apportionment Methodology

Anders Sangkuhl
Principal Policy Officer, DPIE

Apportionment methodology

Population
- measured on a population basis across local government areas

Energy delivered to the network (volumetric)
- measured on energy delivered to the electricity distribution network area (volumetric charge)

Transmission charges (demand)
- based on Transmission Use of Service (demand on transmission network use)

Customers
- based on number of electricity customers

Total energy consumption, incl. behind the meter (volumetric)
- total energy consumed by customers within a distribution network area (volumetric charge)

Peak Demand
- peak demand measured at zone substations

Proposal

Energy delivered to network (volumetric) and peak demand
- Cost pass through measured on peak demand at zone substations, and energy delivered to each distribution network area

Benefits

- Reflects the volumetric and peak demand costs associated with the Roadmap and is therefore an efficient allocation.
- Simple to allocate of costs to the distribution businesses as energy and demand are publicly reported.
- More robust over time.
- Best aligns with guiding principles.

Consultation question: Apportionment methodology

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?

Smoothing and Liquidity Facility

Nichola Nicholson
Manager Energy Policy and Strategy, DPIE

A Scheme Financial Vehicle loan facility to manage liquidity

Issue

Smoothing

Proposal

3-year rolling average
2 years leading
1 year lagging

Benefit

- Smooths bill volatility
- Ensures SFV liquidity
- Matches costs to benefits

Scheme Financial Vehicle cash balance

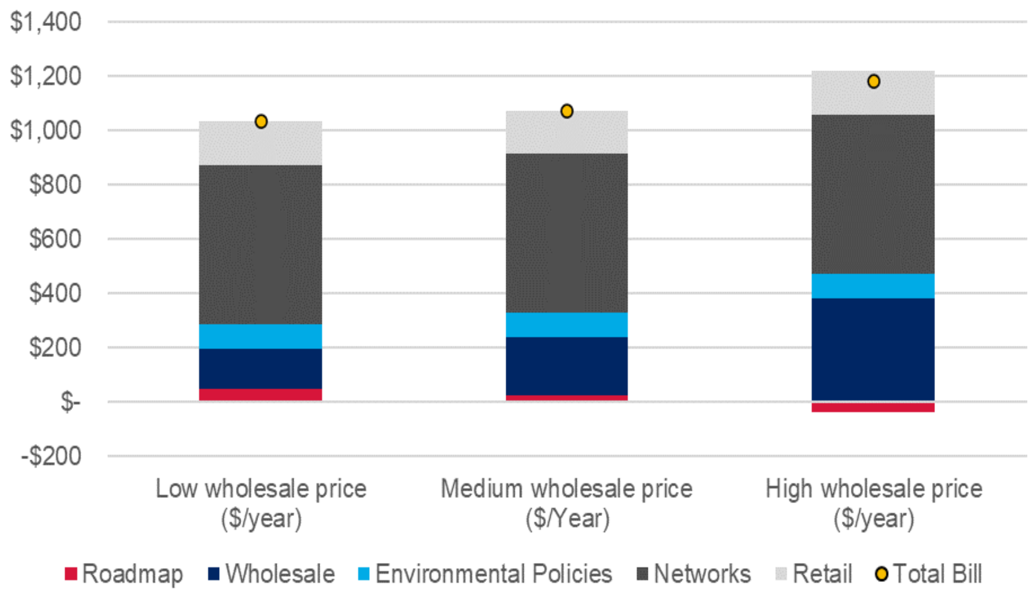
- Quarterly contribution payments mean the cash balance of Fund will remain at a sufficient level
- Allows SFV to meet its liabilities as they fall due during the 12-month contribution order period
- Distribution businesses are not expected to be worse off due to their role in relation to the Fund
- Should high wholesale market prices (and therefore revenue received from LTES Agreements) push the Scheme Financial Vehicle into profit, it is proposed the Regulator makes a 'negative contribution determination'.

Maintaining liquidity will avoid need for mid-year contribution variations

- Governance principles and liability thresholds will establish when to access loan facility
- Consumers' best interests will be considered when decisions are made on loan terms and interest rates

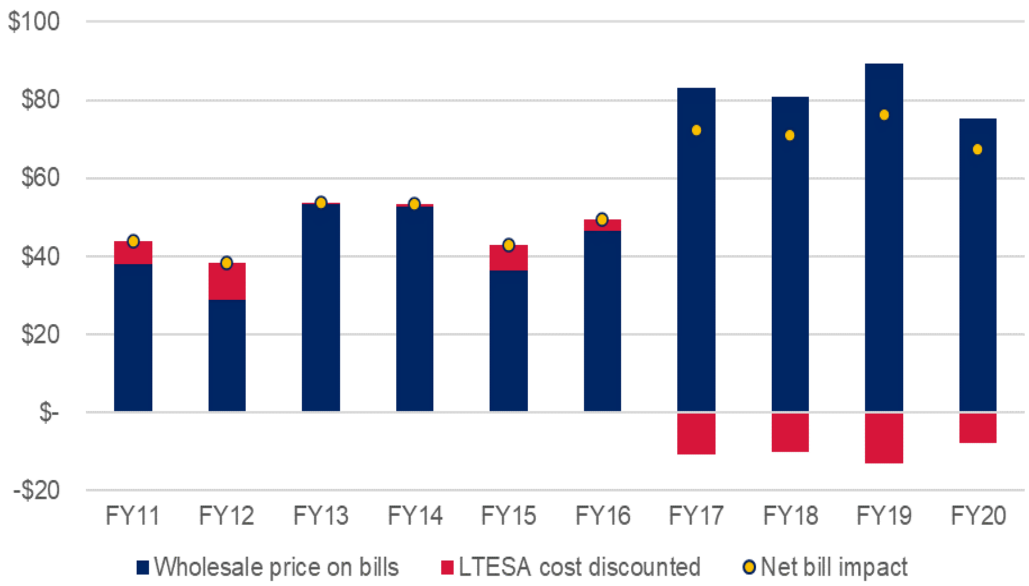
While costs are smoothed, benefits are passed on in that year

Retail bill cost stack by wholesale price



Roadmap offset mechanism as part of overall costs on energy bills with low ($35), medium ($50) and high ($90) wholesale prices.

Retail bill net impact



Direct offset between wholesale prices and LTES Agreement costs applied to the last 10 years' wholesale prices.

Consultation questions: Smoothing and Liquidity Facility

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?

Question 4: Do you agree the Scheme Financial Vehicle should use a loan facility to smooth costs over time? If not, why?

Question 5: Do you agree a three-year rolling average (one year lagging and two years leading) is the best way to ensure adequate funds are available while also smoothing costs for consumers?

Question 6: Do you agree the scheme should provide for a negative contribution amount? What threshold should be set for applying a negative amount?

Exemptions

Isabel Groombridge
Policy Officer, DPIE

Regulations will outline exemption regime

Case for exemptions

- If EITEs incur a disproportionate share of Roadmap costs relative to BAU, this will result in adverse impacts on their international competitiveness.

Case against exemptions

- The higher the exempt load, the higher costs to be recovered from other consumers, such as households.

Proposed partial exemption

- 90% exemption on generation LTES Agreement costs for approved EITEs to be reviewed as part of the statutory review.

Other considerations

- Reduction or phase out; e.g. reduce 10% / year.
- Administration to align with existing exemptions applications process under the ESS / RET.
- Preference to provide exemptions up front, rather than as a rebate.

Green hydrogen exemptions

- Green hydrogen cost decreased 60% since 2006, projected to fall a further 30% by 2025.
- Remaining significant need for support to make green hydrogen cost competitive.

Consultation questions: Exemptions

Question 10: Do you agree with exempting entities up-front or would you prefer a rebate approach? Why?

Question 11: If exemptions were administered on a proportional scale (between zero and 100%), how could we categorise which entities should be subject to which level of exemption?

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?

Transparency of Costs and Benefits

Shelley Ashe
Consumer Specialist, DPIE

Communicating Roadmap costs and benefits

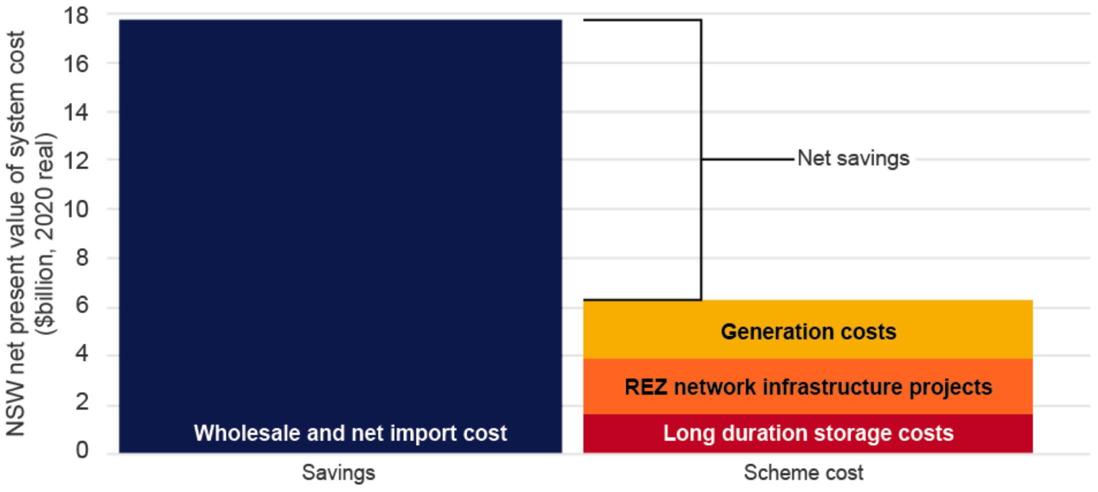
Net benefits to consumers

- Roadmap scenario delivers NSW wholesale price reductions of about 40% when compared to no-Roadmap scenario.
- Net benefits are delivered when the total costs are subtracted from overall benefits.

Broader benefits for NSW

- Examples include construction jobs, community enhancement for host communities, emissions reduction.

Net savings of the Roadmap



How to communicate Roadmap costs and benefits to consumers

Option 1

Status Quo
Program costs, benefits detailed in annual reports. Used for NSW Government press releases, social media.

Option 2

Status Quo

+

Website
General costs and benefits info e.g. household / businesses factsheets, infographics, personal "calculator".

Option 3

Status Quo

+

Website

+

Bill information
Line item,
Stamp reference on bills,
or bill insert

Consultation questions: Transparency of Costs and Benefits

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)?

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?

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?

Fund Administration

Nichola Nicholson
Manager Energy Policy and Strategy, DPIE

Fund Administration

Fund Governance

- Under the EII Act the Minister appoints the Consumer Trustee.
- The Consumer Trustee appoints the Financial Trustee
- The Financial Trustee establishes the Scheme Financial Vehicle
- The Scheme Financial Vehicle establishes and maintains the Fund.

Fund Administration

- Fund will be subject to financial reporting requirements
- Monthly and annual financial statements
- Reporting for the Fund will depend on, and link closely to, the Consumer Trustee risk management framework.

Consultation question: Fund Administration

Question 13: Do you agree the options outlined are an effective approach for financial reporting for the Fund? Are there any additional considerations?

Next steps

Submissions close Wednesday, 27 October 2021

To make a submission, go to: energy.nsw.gov.au/electricity-infrastructure-roadmap

Any questions?

Electricity.Roadmap@dpie.nsw.gov.au

Thank you

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Department of Planning, Industry and Environment