

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

Our members are highly exposed to movements in both gas and electricity prices and have been under increasing financial stress due to escalating energy costs. These increased costs are either absorbed by the business, making it more difficult to maintain existing levels of employment or passed through to consumers in the form of increases in the prices paid for many everyday items.

The EUAA welcomes the opportunity to make a submission on the Tranche 2 regulations to support the Electricity Infrastructure Roadmap. We appreciate the effort that DPIE is making to engage with consumers and look forward to participating in the proposed Consumer Reference Group. We hope the comments, concerns and suggestions we have raised during this consultation process are also reflected in the design of both Tranche 2 and Tranche 3 regulatory development.

Our comments in this submission cover some, but not all, of the questions posed in the Issues Paper. Our main recommendations are around the need for a governance framework that allows increased transparency and ability for consumer engagement. This is crucial for consumers to be confident that the Roadmap will indeed meet its aim of providing:

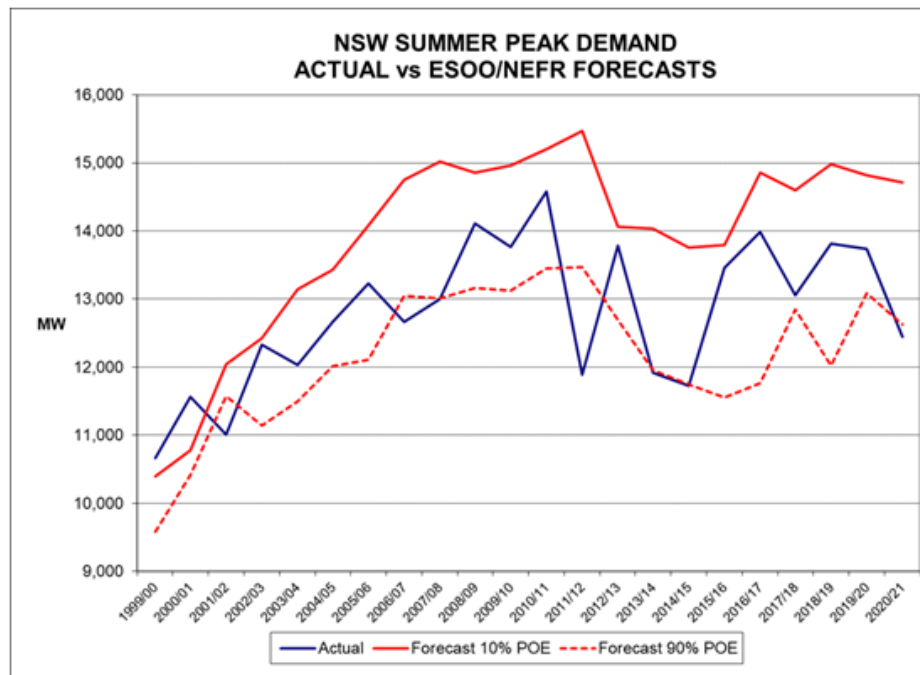
"...NSW consumers with a more affordable, reliable, secure and sustainable electricity supply"

The problem for the EUAA in responding to the detailed questions is that we do not have a line of sight to the bigger picture story around governance which we expect (hope) will be part of Tranche 3. Normally a policy/regulation development process would agree on the governance framework first and then build a detailed regulatory implementation process that is consistent with that framework. We are being asked to do the opposite and that is difficult. We hope that we will have the opportunity to revisit the detail on Tranche 2 when we have a clearer picture on the governance framework from Tranche 3.

ENERGY SECURITY TARGET

Question 1

We understand the reasoning behind the section of the Energy Security Target. We simply wish to highlight the conservatism that underpins the calculation of that Target in its use of AEMO's P10 demand forecasts. As the graph shows, the actual peak demand in NSW has only exceeded the P10 forecast once in the past 20 years – back in 2000/1. Every year since then the P10 forecast has generally been well above the actual peak demand. We believe this reflects the conservatism in the AEMO forecasting methodology. This conservatism will translate into more LSEAs and greater costs to consumers for little benefit.



In terms of the calculation of the target, we would recommend that the Department does not delay detailed consideration of the regulations to apply on defining reserve margin when a variable renewable energy (VRE) project, or a group of VRE projects connected by a single transmission line, might be one or both of the largest units. After all a key tenant of the fast timetable for the Roadmap is the high likelihood that NSW coal units will close earlier than their anticipated technical life. Origin’s recent announcement of the staged closure of Eraring from 2030 with total closure by 2032 may not be strictly different from its original announcement, but it does raise concerns in our members minds about increasing risk of earlier closure of schedulable generating units.

Electricity Infrastructure Investment Safeguard

We are pleased to see that the reliability standard under the EII Act will reflect the 0.002% USE from 1 July 2025 when the 0.0006% interim reliability standard ends. We did not support this interim standard due to its potential to result in increased costs to consumers. In the recent past, consumers incurred the costs of “gold plating” the distribution and transmission networks and are concerned with attempts to now “gold plate” wholesale market reliability where wholesale reliability has not and is not expected to be an issue.

The addition of the deterministic reserve margin based on the two largest units will mean NSW does have a stricter reliability standard than the rest of the NEM. This is not free and will involve additional costs on consumers in the form of additional LTESAs.

As we look through the published material on the economic modelling underpinning the Roadmap, we are unable to see any detailed justification for this target. So we would encourage greater transparency in the studies used to justify the target so consumers have some confidence (but not certainty) that that the Roadmap and the LTESAs and network investments that consumers will pay for, will achieve the Roadmap’s objective.

Question 3

The principles listed on pp16-17 seem reasonable and appropriate. We make three comments:

- we are unsure how the Consumer Trustee in its Infrastructure Investment Objectives Report (IIOR) is going to take account future reductions in generator/storage costs and the timeline for building the required 2GW of long duration storage by 2030. What is cheapest today might not be what is cheapest in say 2028. This should be an explicit requirement to consider this issue in the Report.
- we think it is reasonable to link the process for LTESAs to the process to obtain access rights to REZs. This will avoid the risk that a project is successful in the Consumer Trustee tender but is then not able to get REZ access.
- it is not clear that projects connecting to the distribution network will automatically be eligible for LTESAs where they are in the scope of the REZ. We wonder how the Roadmap objective can be achieved if a whole category of projects is required to get over additional hurdles.

Question 4

We begin by making some general comments on governance and process and then move to specific comments on the Section 45 regulations.

The problem we have with providing more detailed comments is that we are being asked to comment on detail when we do not have a clear line of sight on the overall governance framework that will apply to the Consumer Trustee.

The IIOR seems to be an NSW Integrated System Plan. Consumers are going to pay for generation and network that is built as a result of the IIOR conclusions. Yet we have no understanding of the process the Consumer Trustee is going to use to arrive at the IIOR. AEMO's development of the ISP involves considerable transparency and engagement over an 18-month period around key issues such as:

- application of AER's guidelines on best practice forecasting and cost benefit analysis
- a comprehensive draft Inputs, Assumptions and Scenarios document that has been subject to extensive consultation over a period of almost 6 months; consultation has resulted in a significant change from the original proposed scenarios
- comprehensive Methodology paper that is going through two rounds of consultation
- publication of a Draft ISP for further consultation prior to publication of the Final ISP
- the establishment of an ISP Consumer Panel under the rules to provide two formal reports (on Final IASR and Draft ISP) as well as be extensively involved in the whole consumer engagement process

We would expect the process AEMO is using to develop the 2022 ISP to be the minimum required for the Consumer Trustee's development of the IIOR. Best practice engagement would include:

- consumer involvement in a co-design process for a public stakeholder engagement plan that the Consumer Trustee would be judged against
- establishment of a consumer reference group/Consumer Panel that would work with the Consumer Trustee and have funding to allow independent research

Ideally this engagement plan would be finalised prior to commencement of work on the initial IIOR. Given the requirement on the Consumer Trustee to develop the first IIOR report as soon as possible after 1st July 2021, this governance framework and role of consumer engagement needs to be addressed with considerable urgency. Fortunately, the Department has the AEMO precedent that can inform the NSW process in a timely way.

The matters listed on pp19-20 for the consumer Trustee to take into account in preparing the Infrastructure Investment Objectives Report seem reasonable. We would make the following comments:

- the effectiveness of this list will only be assessed when we see it working in practice and the extent of challenge that stakeholders are allowed to provide as the IIOR is developed
- As an example of this, one of the major risk consumers face in the Roadmap is that of stranded asset risk – what seems a great idea in the IIOR to build a 50-year asset turns out to be not such a great idea 10 years after it was built; so, we need the IIOR report to be clear about these risks; this risk is alluded to in the following:

“...how the preferred scenario seeks to minimise risks and regrets to NSW consumers of over- or under-investment of infrastructure types and possible evolutions of the development pathways, consistent with the EII Act in response to various changes”

But there is considerable scope in these words as to how the Consumer Trustee will undertake such an analysis.

- We would recommend adding a requirement for the IIOR to transparently show what impact its conclusions will have on meeting the price reductions claimed in the passing of the EII Act.

CLASSIFICATION OF REZ NETWORK INFRASTRUCTURE

Questions 6 and 7

We face the same ‘chicken and egg’ issue we had in the previous section. We are being asked to comment on matters of detail in Questions 6 and 7 without knowledge of the details of what economic regulation under Part 5 of the EII Act will involve. There are only limited details provided in the EII Act on the Transmission Efficiency Test. To properly answer the question, it would help to understand the differences between how this test is applied and the current AER RIT/D/contingent project process which we are strong supporter of.

It seems there are three categories of network infrastructure:

- new REZ investment
- augmentation of the existing shared transmission network to allow export from the REZ, and
- augmentation of the existing shared distribution network to allow export from, or to the REZ

It is difficult to comment further without knowledge of how the government proposed to regulate each sub classification.

As for pricing and cost recovery, there is frequent mention of ‘equity’ in how this might be structured. However ‘equity’ can have many definitions depending on who is asked. ‘Equity’ is often used as a justification for cross-

subsidisation. We are more concerned about cross-subsidisation between consumers and generators and between different groups of consumers. If governments choose to provide cross-subsidisation through their balance sheet then that is their prerogative. As a general principle, we favour the AER approach of generators and consumers being faced with prices that reflect prudent and efficient costs.

We are a strong supporter of the 'beneficiary pays' principle. This would include both the new renewable generators as well as existing generators. For example, if the generator obtains an LTESA and then has access rights in the REZ, that generator should pay a charge reflecting the costs of providing those rights. This should be for at least the life of the generating asset rather than some shorter initial period. Even in the situation where the generator charge is for say a 25 year life of a solar plant, it still leaves consumers picking up the stranded asset risk for years 25 onward for a 50-60 year network asset.

We look forward to ongoing engagement as the Roadmap details are developed. In particular we would encourage the Department to commit sufficient resources to ensure the Consumer Reference Group is an effective engagement process.

Do not hesitate to be in contact should you have any questions.

Kind regards,



Andrew Richards
Chief Executive Officer