

## ORDERLY EXIT MANAGEMENT FRAMEWORK – CONSULTATION PAPER

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### INTRODUCTION

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.

Thank you for the opportunity to make a submission under the Energy Ministers' Orderly Exit Management (OEM) Framework Consultation Paper.

The EUAA contends that an orderly exit framework for the transition to 100% renewable energy is long overdue, with jurisdictions taking an ad-hoc approach to-date. The EUAA welcomes the Consultation Paper to establish a formal process for the orderly exit of coal.

The EUAA notes that the OEM Framework is likely only to apply to the NSW and Victorian jurisdictions as Queensland owns its coal fired power stations and can already manage an orderly exit (as described in the *Qld Energy and Jobs Plan*) while South Australia and Tasmania do not have any coal fired power stations.

The EUAA agrees with the Energy Ministers' views that the challenges and subsequent delays in building network infrastructure are creating delays in building the required renewable energy generation and storage. At the same time as these delays, coal-fired generators are bringing forward their closure dates creating scenarios where there is the potential for supply and system security shortages impacting the reliability of the NEM. For this reason, the EUAA supports the need for an OEM where coal-fired generation is privately owned, to have some temporary framework to ensure jurisdictions have adequate supply of electricity, system security and system reliability.

The EUAA agrees with the four stages proposed for the OEM Framework, noting that getting expert advice on whether early closure may be a problem, including examining solutions and understanding indicative costs, negotiating with the generator owner and having power to force a deal if required and then cost recovery is the proposed methodology.

While the OEM framework provides for a solution to the information asymmetry associated with governments negotiating closure contracts with generators, the Consultation Paper does not discuss, nor provide a solution to the information asymmetry between these closure contracts and consumers, who will ultimately pay the compensation described in these contracts.

The Consultation Paper also does not discuss in enough detail how the compensation will be collected from consumers in an equitable way.

The EUAA proposes that transparency should be at all stages of the OEM Framework:

- Stage 1 – AEMO should engage with consumers on their System Needs Assessment (Section 6.2.3);
- Stage 2 – consumers should be actively involved in developing the Consumer Benefit Assessment (Section 8.2) e.g. as part of a Consumer Reference Group and have the ability to engage through submissions/discussion on a draft of that Assessment. The AER should consult on a draft of any indicative cost report it is asked to prepare (Section 8.4);
- Stage 3 – consumer involvement to ensure that, where a generator is earning revenue outside of the provision of system services under the Notice of Mandatory Operation, consumers share the benefits of that revenue; as consumers are protecting the generator’s downside risk so they should get a substantial share of the upside; and
- Stage 4 – consumer engagement on how the costs will be recovered from different customer classes and pricing mechanism.

## RESPONSE TO SELECTED CONSULTATION QUESTIONS

### 6. What information should be published to the market regarding AER decisions?

The EUAA has many members that utilise significant proportions of each jurisdiction’s total electricity supply. As such, the financial impact of any pass-through mechanism whereby consumers pay for the OEM Contracts may have significant impacts to the operations of those facilities. These large energy consumers currently play a critical role in the NEM (large, stable, curtailable load), that benefits all energy users.

Bearing in mind that the AER decisions related to the OEM are likely to contain commercial-in-confidence information that may need to be redacted, the EUAA considers that consumers as well as the Jurisdiction Minister and System Significant Generator should have the opportunity to comment on any draft determinations. This consideration is to ensure that the large consumers, in particular, are acutely aware of impending cost impacts and either budget accordingly or raise their concerns in submissions.

### 7. Are there other key issues that need to be considered as part of the commercial component?

On page 41 in Section 10.10, the Consultation Paper states that:

*“The generator should be able to earn a return that is at least commensurate with the risks involved with its continued operation.”*

While the EUAA acknowledges this statement, in considering the commercial components of the OEM, the generators return on revenue (RoR) should reflect the fact that consumers are paying for downside protection for the generator, and where the generator earns other income, consumers should get a substantial share of that additional revenue.

The EUAA requests further information on how this RoR is going to be set and what level of transparency will exist have on both the process to set the RoR and the result?

Ideally, the EUAA recommends the Energy Ministers establish a Consumer Reference Group to advise on the development and implementation of the OEM as it impacts consumers.

## 8. What do you think of using the proposed new transmission cost recovery mechanism compared to the existing distribution network cost recovery mechanism contained in the national electricity rules (“Jurisdictional Scheme”)?

The EUAA supports recovery from both transmission direct connected customers as well as distribution connected customers. The EUAA considers this a more equitable model than, say, the *NSW Electricity Industry Roadmap*, noting that Section 11.3 allows a jurisdiction to grant exemptions to the OEM Contribution.

The exemptions process is supported by EUAA members.

Without an exemption, the Energy Ministers should note that large energy users play a critical role in the NEM (large, stable, curtailable load), that benefits all energy users and usually contribute less to the evening peak, so it would be fair to allocate a larger portion of OEM costs to smaller energy users who typically drive the evening peak:

- The large number of smaller energy consumers significantly dilutes the impact on any one consumer
- Much of the requirement for keeping the coal generators online is to cover the evening peak demand, in which the large energy users’ share of demand diminishes significantly.

Without distributing the liability for the OEM Contribution equitably amongst those who most benefit from the OEM, the Energy Ministers risk placing significant strain on large consumers. As an example, it is estimated that to keep Eraring open could cost up to \$3 billion. For a large energy user that consumes >10% of NSW electricity, they could be liable for up to \$300 million, which could be the “killer blow” to the business’s viability.

An example of how to minimise the “killer blow” of the OEM costs would be to base the allocation of costs on a split between \$/MWh and \$/NMI, similar to how AEMO has allocated its market fees in 2023-2024.

EUAA members have advised that cost pass-throughs such as the OEM are increasingly challenging the cost base of large energy users (along with compensation market suspension/APC/directions etc). All of these types of costs fall outside of the long term “energy” contracts that were initially put in place to maintain a stable cost base/cashflow.

Consumers need to be consulted in the development and implementation of the methodology in a similar way to the engagement with consumers required of network service providers in developing their network revenue proposals. This is to ensure that consumers have a say in not only the costs that they will be liable for, but also the levels of system security and reliability that will be provided by the OEM Framework and the components that make up the OEM Contribution.

- page 50 of the Consultation Paper mentions  
*“...payments associated with the final closure of the System Significant Generator”*

Consumers should not be saddled with the entire generator remediation costs – generators have a provision for remediation and the only cost that consumers should pay is the incremental remediation cost of keeping the generator open a bit longer, which would require a baseline remediation cost to be set within the OEM contract. EUAA would suggest the following words:

*“The OEM Contribution should also include provisioning for other payments such as payments associated with the final closure of the System Significant Generator (for example, the incremental cost for site remediation)”*.

- page 51 says that the costs will be recovered by the TNSP that “...will apply the approved pricing methodology to set annual transmission prices”

The EUAA contends that this is vague and the Energy Ministers need to have an open consultation process to develop the approved pricing methodology and how this will work in practice, noting that the costs will only be recovered from customers in that jurisdiction.

**9. Noting the aim of a cost recovery estimate is to even out impact to energy consumers, should the estimation be averaged out over the entire period or allocated as expected by year with a re-estimation every year to correct for any variations?**

The EUAA prefers the estimation to be averaged out over the entire period to reduce consumers exposure to the expected lumpy cost to extend the operational life of a coal-fired generator.

**A Other comments from EUAA**

While not part of this submission, the EUAA believes that work needs to be done on extending the coal caps/coal reservations in NSW to prevent earlier retirement of coal generators (and minimise future costs on tax payers and consumers).

The existing arrangements put in place by the NSW Government are currently slated to end on 30th June 2024.

The earlier these are extended; the less compensation will need to be paid by taxpayers/consumers. EUAA recommends that the NSW government:

- Extend the price caps and reservations before coal contracts are signed to minimise compensation paid by taxpayers in the future; and
- Extend the price caps and reservations before generators decide to close to reduce incidence of early coal generator retirement and minimise costs to energy users if the OEM kicks in

**CONCLUDING REMARKS**

In conclusion, the EUAA is pleased to see efforts of the Energy Ministers to achieve an orchestrated transition to 100% renewable energy through the development of the OEM Framework.

However, the Energy Ministers have not fully considered the impacts to consumers who are proposed to be the liable entities for the OEM Contributions through their transmission use of service charge. The EUAA encourages the Energy Ministers to consider and include consumers more in its development of the OEM Framework by:

- Establishing a consumer reference group that provides:
  - A mechanism for consultation with consumers at all phases of the OEM development and implementation processes
  - Input into the design of the cost recovery mechanism; and
  - Transparency in the decision making and negotiation phases of the OEM Framework,
- Requiring consultation with consumers on documentation prepared by AEMO and/or AER;
- Regularly publishing the cost impact to consumers on a year-by-year basis.

EUAA members have advised that cost pass-throughs such as the OEM are increasingly challenging the cost base of large energy users (along with compensation market suspension/APC/directions etc). All of these types of costs fall outside of the long term “energy” contracts that were initially put in place to maintain a stable cost base/cashflow.

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



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