

10 September 2021

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

*Submitted via email to [electricity.roadmap@dpie.nsw.gov.au](mailto:electricity.roadmap@dpie.nsw.gov.au)*

Dear Mr Hay,

## **Energy Networks Australia – LTESA design consultation submission**

Energy Networks Australia appreciates the opportunity to make a submission to the Department of Planning, Industry and Environment’s (the Department) consultation on the design of long-term energy service agreements (LTSEA)<sup>1</sup>, which are option contracts to access price guarantees for infrastructure required under the NSW Electricity Infrastructure Roadmap (the Roadmap).

Energy Networks Australia (ENA) is the national industry body representing Australia’s electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

ENA supports the Roadmap’s objective to deliver the necessary transmission, generation, long duration storage and firming infrastructure to modernise the electricity system. The energy system is undergoing transformation to a consumer-centric, bi-directional energy future that will require significant investment in energy infrastructure to deliver high-value consumer outcomes.

To improve the design of LTESAs, ENA recommends that the Department consider further incorporating the views of customers into the design of LTESAs and implement transparency provisions on cost drivers and the consumer trustee. We also support the development and implementation of a smoothing mechanism to minimise the risk of exposing consumers to potentially volatile escalations in electricity bills. Each of these suggested improvements are discussed further below.

## **Consumers should be consulted further on the proposed risk allocation**

ENA supports the NSW Government’s aim for LTESAs to achieve an efficient risk allocation between projects and NSW electricity consumers, noting that risks should be placed on the party most able to manage them. The Consultation Paper states that

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<sup>1</sup> Department of Planning, Industry and Environment, *Long-Term Energy Service Agreement Design Consultation Paper* (2021)

consumers will share in the risks and rewards that would normally be borne by private investors.

It appears that under the proposed LTESA design, risks that would normally be borne by investors would be shifted to consumers, such as a portion of wholesale risk. As the Consultation Paper is designing a risk allocation framework between investors and consumers, it is appropriate that both the views of investors and consumers are sought and considered in developing LTESA design.

ENA's view is that the Consultation Paper would benefit from placing further emphasis on the risk preferences of consumers, and their perspectives on the design of LTESAs. For instance, the LTESA contract terms are proposed to stand for up to 20 years and whilst this contract length may deliver investor value, there is little discussion to indicate that this transfer of risk is acceptable to customers. Customer perspectives on the potential for the timing of LTESA costs flowing through to customer bills to misalign with the timing of LTESA benefits for customers must also be considered.

ENA therefore recommends that the Department undertake further engagement with consumers and their advocates on the proposed risk sharing and cost recovery mechanism to feed into the final design of the LTSEA framework.

## The cost of investment incentives should be minimised

The amount of private-sector investment required to deliver the infrastructure recommended in the Roadmap is estimated to be around \$32 billion<sup>2</sup> and the costs to incentivise this anticipated level of investment are likely to be significant.

While ENA broadly supports the delivery of this infrastructure, we recommend the development of carefully designed incentives to mitigate the potential for overinvestment and minimise the cost impacts on consumers. In particular, ENA suggests further consideration of LTESA design elements that are intended to ensure sufficient, but not excessive, investment in infrastructure.

## A smoothing mechanism would support better consumer outcomes

Under any of the proposed designs for the LTESA, payments from the Scheme Financial Vehicle to the Long-Term Energy Service (LTES) operator will be linked to the wholesale price. The wholesale price can be subject to extreme volatility in short periods of time and therefore could give rise to payments from the SFV that are also highly volatile.

It is proposed that the Scheme Financial Vehicle will recover its payments to LTES operators from Distribution Network Service Providers (DNSPs) as a jurisdictional scheme through distribution tariffs. Without implementation of a smoothing mechanism, recovery of LTESA costs via distribution tariffs risks exposing end

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<sup>2</sup> Department of Planning, Industry and Environment, *NSW Electricity Infrastructure Roadmap Detailed Report* (2020), p. 5.

consumers to material and potentially volatile escalations in electricity bills. This is particularly the case for vulnerable consumers, who tend to consume more electricity on average and would be disproportionately impacted by electricity price increases.

The recent bill increases in the ACT of nearly \$300 for residential consumers as a result of the large-scale feed-in tariff jurisdictional scheme<sup>3</sup> is a clear example of the potential volatility of jurisdictional schemes. ENA understands that the Department is currently considering the design of a smoothing mechanism, which ENA supports. ENA encourages the Department to provide further clarity of the financial flows potentially arising under LTESAs, including how any proposed smoothing mechanism would address potential price fluctuations, and any subsequent price impacts on consumers.

### **Other potential impacts of jurisdictional scheme cost recovery**

Recovering Roadmap costs through distribution network tariffs may also have the unintended consequence of incentivising connections direct to the transmission network when it may have been more efficient to connect at the distribution level. ENA therefore encourages the Department to explore the potential consequences of recovering Roadmap costs through distribution tariffs, with an intent to minimise any unintended consequences.

## **Transparency should be supported**

### **Cost drivers**

As consumers continue to become more central in a bi-directional energy future and have more options to manage their energy bills, ENA believes that it is imperative to present cost drivers transparently to consumers to enable them to make informed decisions about their energy consumption. ENA believes that this principle is likely to inform and empower consumers to make decisions that support their long-term interests.

ENA therefore recommends that further consideration be given to increasing the transparency of Roadmap costs to consumers, including the option of identifying these costs as a separate item on consumer bills.

### **Consumer trustee**

The Consultation Paper outlines that the Consumer Trustee will have sole discretion on the final structure of the LTESA – within the constraints of the legislation – and will also determine the amount of generation and storage capacity ultimately tendered each year. The Consultation Paper describes the role of the Consumer Trustee more generally but lacks detail on the transparency or accountability measures that should ensure the Consumer Trustee is sufficiently carrying out its responsibilities.

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<sup>3</sup> Evoenergy, [Network pricing proposal 2021/22](#), p. 34, or explained [here](#) in more detail.

We support including a more detailed discussion on the appropriate governance, transparency and reporting measures that might apply to the Consumer Trustee as consultation progresses, which will then promote stakeholder confidence in the LTESA design process and its implementation more broadly.

## Distribution-connected generators in a REZ should automatically be eligible for LTESAs

The Consultation Paper does not provide detail as to whether distribution-connected generators would be eligible to enter a LTESA. ENA encourages the Department to explicitly acknowledge the eligibility requirements for projects inside a Renewable Energy Zone (REZ).

ENA's preference is that eligible distribution-connecting generators in the REZ will automatically be eligible to apply for LTESAs. Ensuring that distribution-connected generators within a REZ are automatically eligible to apply for LTESAs can avoid unnecessary new network investment and reduce line losses, promoting the long-term interests of consumers.

## Future transition clarity

The Roadmap's objective is focused on the delivery of long-term infrastructure to replace aging electricity assets, with the Consultation Paper detailing that LTESAs are likely to have a contracting period of up to 20 years. However, the Consultation Paper does not provide detail on the transition pathway back to national arrangements once the objective of the Roadmap has been achieved.

ENA recommends that the Department provide clarity to stakeholders on its expected transition pathway back to national arrangements.

If you have any questions or would like to discuss any aspects of this submission, please contact Chris Gilbert, Senior Economic Advisor at [cgilbert@energynetworks.com.au](mailto:cgilbert@energynetworks.com.au).

Yours sincerely,



**Andrew Dillon**  
Chief Executive Officer