

2 February 2024

NSW Department of Climate Change, Energy, the Environment and Water

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Orderly Exit Management Framework

Energy Networks Australia (ENA) welcomes the opportunity to make this submission in response to the NSW Government progressing the development of this proposal to establish an Orderly Exit Mechanism Framework (OEM) on behalf of Energy Ministers.

ENA represents 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.

The OEM framework seeks to manage the timing of exiting dispatchable thermal generators with the entry of new renewable generation to ensure a reliable and secure power system through the negotiation of contracts and associated payments. The stated policy intent is to ensure that all load customers share in the payment of these transitional costs.

Key Messages

ENA supports managing reliability and system security throughout the transition at the lowest possible cost to consumers, and offers the following comments and suggestions to help ensure a practicable and workable framework:

- ENA notes that there appear to be more efficient cost recovery mechanisms to pass these costs onto consumers via retail bills, as opposed to recovery via network charges to retailers.
- ENA also notes that a framework is already in place for distribution cost recovery in the form of jurisdictional schemes which are being used for this purpose, and jurisdictions would retain this option. However, ENA suggests a number of clarifications to enable a workable framework, should a TNSP cost recovery mechanism be adopted.
- ENA recognises the challenges of negotiating these contracts with the System Significant Generators in a rapidly transitioning environment. In establishing these contracts, the jurisdiction and Australian Energy Regulator (AER) should consider any other revenue streams the System Significant Generator may be receiving for transitional services, inertia services or system strength services to ensure consumers do not pay more than is necessary.
- ENA notes the flexibility that the OEM framework provides for a jurisdiction to opt in. However, the quantum of costs involved is unclear as is the impact on

network charges. It is important that TNSPs are left whole, as this is a cost recovery mechanism only.

- The jurisdictional Government needs to be transparent and engage with customers to explain the basis and rationale for the costs being passed through.
- ENA recommends, given the complexities of Chapter 6A, that the rules amendments proceed via the Australian Energy Market Commission's (AEMC's) Rule change processes to establish the framework.

We expand on these comments below.

System Needs Assessment

Under the proposed framework when a generator brings forward a closure date a shortfall in reliability or system security could be created and the Australian Energy Market Operator (AEMO) may be directed to undertake a Systems Needs Assessment. ENA suggests that there should be a rule that requires AEMO to consult with the TNSPs in undertaking this assessment as there may be other system security or reliability implications with the generator retiring early. This should be done before the System Needs Assessment is provided to the Minister.

Cost Recovery Structure

16. 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")?

In view of the complexity of introducing the TNSP Cost recovery mechanism as outlined below and the need for the costs to pass to distribution and then retail to charge load consumers, ENA questions whether this is the most efficient mechanism to pass costs through to consumers. Such an approach could send unintended pricing signals, which may lead to inefficient bypass. An exemption framework may also reduce the transparency of the TNSP cost recovery approach proposed.

ENA recognises the complexity of establishing this cost recovery mechanism in transmission charges when a framework is already in place for distribution in the form of jurisdictional schemes which are currently being used for this purpose. There is a trade-off to be made between the added complexity and burden of creating a new TNSP cost recovery pathway for OEM Contributions and the equity of sharing costs across a broad set of consumers. ENA notes that any jurisdiction would be able to select recovery of OEM Contributions directly via distribution charges or using this potential new framework via transmission and distribution charges.

It would be more efficient for generation costs to flow through the market arrangements. To this end an OEM Contribution could as easily be recovered directly from market customers and added to the AERs default market offer determination and charged by all retailers to small and large load consumers.

The consultation paper is not clear whether the adjustment for TNSP cost recovery is in the Maximum Allowed Revenue (MAR) or through another separate means. ENA suggests that the OEM Contribution be addressed via a “side adjustment” rather than a MAR adjustment which may unnecessarily impact benchmarking and other arrangements associated with the MAR.

A simple, mechanistic process like the National Transmission Planner (NTP) approach is an example of a side adjustment which could be adopted for the OEM Contribution. To the extent that the estimated / AER approved OEM Contribution is different to what is needed by the OEM Fund, the consultation paper proposes that the OEM Fund manages the overs and unders and any smoothing in the OEM Contribution needed. It would not be appropriate for TNSPs to manage overs and unders as this could give rise to cashflow risk for TNSPs and highly variable and unstable prices for consumers.

The consultation paper also suggests that this OEM Contribution is passed through to postage stamped common service prices. ENA does not have a strong position on the relative merits of passing through the costs via the common services or the non-locational transmission pricing components. However, if costs were recovered via non-locational or common services charges, they would be postage stamped across the entire transmission customer base.

TNSP Cost Recovery Mechanism

ENA supports that, if a jurisdiction opts in for recovery via the TNSP mechanism:

- » The OEM Contribution needs to be advised by 15 February each year. This aligns with other AEMO charge notifications and allows one month to flow through to the published transmission prices on 15 March. This enables the flow into annual distribution tariff proposals on 1 April and eventually to retailer default market offers.

ENA suggests several clarifications to enable a workable framework, should a TNSP cost recovery mechanism be adopted:

- » It is the Coordinating Network Service Provider (CNSP) or TNSP who has prescribed transmission pricing in a jurisdiction who applies the AER approved pricing methodology and charges load consumers. The framework needs to establish a clear role for the CNSP for example in Vic, SA and NSW where there may be multiple TNSPs.
- » TNSPs can only amend their transmission pricing methodologies each five years as part of the revenue determination process. To allow an OEM Contribution to be passed through within a regulatory control period, the TNSPs approved transmission pricing methodology will need to be deemed to be adjusted to pass the OEM Contribution through or a transitional arrangement provided for an out of revenue determination process update to each of the TNSPs’ pricing methodologies.
- » ENA supports that the OEM Contribution for an opt in jurisdiction are recovered from consumers in that jurisdiction via either the common service or non-locational transmission pricing components, as noted above.

- » As noted above the drafting should be aligned with the simple, mechanistic approach adopted for NTP fees. That is as a side adjustment rather than a MAR adjustment and the adjustment mechanism for the purposes of over recovery amount and under recovery amounts is also clarified in the NER.
- » To ensure that this fee is actually charged to all load consumers as proposed in the consultation paper, the framework should clarify that these costs be treated and recovered via prescribed transmission services.
- » ENA notes that the opt in jurisdiction can identify exemptions. These exemptions need to be explicit and advised to the TNSP. If this allows a range of transmission connected consumers to be exempt from the OEM costs, this serves to increase the OEM costs for all other consumers and reduces the proposed benefit of the TNSP cost recovery mechanism.
- » The status of scheduled transmission connected loads which may be paying for shared transmission services as negotiated transmission services rather than TUOS (such as battery energy storage systems) should also be addressed.
- » Given that the OEM Contribution has not been quantified and could be substantial, we are mindful of the timing of the TNSP cost recovery vs payment. The OEM Contribution to the OEM Fund should only be paid as the TNSP receives the funds e.g. quarterly.

OEM Fund

17. 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?

ENA suggests the following clarifications on the operation of the OEM Fund and estimation process:

- » The working capital needed to meet the expenses of the OEM Fund should be provided by the opt in jurisdiction in the first instance, not by the TNSP. ENA seeks clarification that the OEM will not be seeking credit support from TNSPs.
- » The OEM Fund estimates the OEM Contribution needed that is expected to be required to meet the System Significant Generator requirements. This estimated OEM Contribution will be advised to the AER which makes a Contribution Determination by 15 February.
- » The Government and/or AER may also like to consider any other revenue streams the System Significant Generator may be receiving for transitional services, inertia services or system strength services to ensure that consumers do not pay any more than necessary for security services.
- » ENA are supportive of mechanisms that can reduce the variance of the OEM Contribution from year to year, such as averaging across several years, to avoid large increases in network charges to consumers.

- » ENA support surplus OEM Funds being returned to the TNSP in the respective jurisdiction and being returned to customers in the next annual transmission charges in the same manner they were collected when the Mandatory Operation period ends.

Exemptions

ENA supports the approach in regulations to clarify exemptions and the consequential impact of the exempt portion of costs being redistributed to the non-exempt consumers.

Implementing the OEM Framework

ENA welcomes the opportunity to actively work on any draft of the law and rules amendments needed with DCCEEW to ensure a practical framework. ENA also welcomes the opportunity for further consultation on the exposure draft and rules to ensure no unintended consequences.

ENA recommends, given the complexities of the Rules Chapter 6A, that the rules amendments proceed via the AEMC's processes and not S90F, where the SA Minister makes the rule. We note that a number of other rules are in progress also impacting Chapter 6A and the arrangements needs to be carefully considered alongside these other changes to ensure that they are practical and avoid any unintended consequences.

ENA looks forward to engaging with DCCEEW as they progress the framework. In the meantime, if you would like to discuss this submission, please contact Verity Watson (vwatson@energynetworks.com.au) in the first instance.

Yours sincerely



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