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Liam Ryan
Executive Director, Strategy and Implementation
NSW Department of Planning, Industry and Environment
Locked Bag 5022
Parramatta NSW 2124

Submitted online: Electricity.Roadmap@dpie.nsw.gov.au

Dear Mr Ryan

Infrastructure Safeguard (Part 6 of the Electricity Infrastructure Investment Act) – Policy Paper

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on the NSW Department of Planning, Industry and Environment's (DPIE) Infrastructure Safeguard (Part 6) Policy Paper. Our views on key aspects of the paper are outlined below and responses to the specific questions raised by DPIE are provided in Attachment 1.

- **Tendering for Long-Term Energy Service (LTES) Agreements and access rights:** We understand more detailed consideration will be given to the design of the combined tender process and the application of access fees through upcoming consultation processes. There are several issues that will need to be addressed to help clarify how the mechanism is intended to work. These include:
 - whether combined tenders will be conducted on a REZ specific basis and if so, how projects located outside of the target REZ will be treated;
 - what a combined tender process will entail and the criteria that will be used to evaluate bids;
 - the purpose of access fees, their relationship to tender bids and how any rights associated with the fee would apply in practice; and
 - whether the REZ targets established in the *Electricity Infrastructure Investment Act* (EII Act) are linked to specific network capacity, or simply set out how much generation capacity should be accommodated within the REZ.

With respect to the treatment of non-REZ projects, Origin considers the most practical way to give effect to the 'outstanding merit' criteria would be to conduct a pre-approval process ahead of each tender to identify non-REZ projects that offer additional benefits (e.g. efficient utilisation of existing infrastructure) and allow authorised projects to then participate in the tender process. Where a non-REZ project is authorised to participate in the tender process and valued above other relevant projects based on its tender bid, this should be regarded as demonstrating 'outstanding merit'.

- **LTES Agreements for firming infrastructure:** Origin agrees demand response could play a role in providing firming services but will likely have unique characteristics that would need to be catered for under any associated LTES Agreement. More detailed consultation on the design of LTES Agreements for firming infrastructure is required to consider these issues, as the former LTES Agreement Design Consultation Paper focussed principally on the design of agreements for generation and long duration storage.

- **Risk management framework:** Origin is supportive of ensuring the risk management framework allows the Scheme Financial Vehicle (SFV) to enter into hedging arrangements and on-sell contracts to manage its exposure to LTES Agreement payments and crucially, support market liquidity. Establishing regulations that require the risk management framework to cater for these scenarios is therefore appropriate.
- **Scheme governance and controls:** Regulations should be established that require: the actions of scheme bodies and process outcomes to be transparently reported; broad stakeholder consultation to be undertaken on key processes; and ex-post reviews of key areas (e.g. tender outcomes). This will facilitate informed decision making and ensure the design of key scheme elements can be refined over time (if needed) to facilitate efficient outcomes for NSW consumers.
- **Infrastructure Investment Objectives (IIO) Report:** Given the importance of the IIO Report in setting out the plan to construct generation infrastructure in NSW, it would be prudent to require the Consumer Trustee (CT) to conduct a two-stage consultation process (i.e. publish an initial consultation paper drawing out any pertinent issues, followed by a draft report). The inputs, assumptions and scenarios adopted by the CT should also be consistent with those applied under AEMO's Integrated System Plan (ISP), given they appropriately capture a range of future risks, uncertainties and behavioural changes.

If you wish to discuss any aspect of this submission further, please contact Shaun Cole at [REDACTED] or on [REDACTED]

Yours Sincerely,



Steve Reid
Group Manager, Regulatory Policy

Questions	Feedback
Planning for private sector infrastructure investment	
1. What requirements for stakeholder consultation on the IIO Report should be implemented to ensure the Consumer Trustee's report is informed by the best available information?	<p>Given the importance of the IIO Report in setting out the plan to construct generation infrastructure in NSW, it would be prudent to require the CT to conduct a two-stage consultation process (i.e. publish an initial consultation paper drawing out any pertinent issues, followed by a draft report) and address stakeholder feedback.</p> <p>Where necessary, the CT should also seek to leverage AEMO's existing ISP Consumer Panel rather than establish a NSW-specific group to ensure consistency between the IIO Report and the ISP.</p>
2. How should changes in technology, consumer behaviours, customer investment in generation (e.g. distributed energy resources) and demand uncertainty be treated to determine the requirements for large-scale infrastructure investment?	<p>The inputs, assumptions and scenarios adopted by the CT should be consistent with those applied under AEMO's ISP, given they appropriately capture a range of future risks, uncertainties and behavioural changes and are comprehensively consulted on with stakeholders. This approach will also minimise the potential for duplication of processes and ensure the IIO Report and ISP do not present conflicting information for planning purposes.</p> <p>Where the plan is to be informed by inputs/assumptions that are inconsistent with the ISP, this should be transparently communicated and consulted on with stakeholders through the process described in Q1 above.</p>
3. What assumptions, scenarios or approaches could be prescribed by regulation to encourage an independent Consumer Trustee to make appropriate decisions regarding the treatment of future risks and uncertainties in planning for infrastructure investment?	
Policy considerations for LTES Agreements	
4. What role could demand response play as 'firming infrastructure' under the EII Act and are any special considerations required in LTES Agreement design?	<p>Demand response could play a role in providing firming services under the EII Act and supporting the state's Energy Security Target. In general, the overarching EII requirement that firming infrastructure must be scheduled in central dispatch should assist with ensuring synchronous generation/storage and demand response are treated on an equal basis for the purpose of providing firming services. However, as identified in the Policy Paper, demand response has different characteristics that will likely need to be catered for in the design of any associated LTES Agreements, given providers can face a range of operational constraints related to load consumption that may limit the level of firm response available at a point in time.</p> <p>We consider more detailed consultation on the design of LTES Agreements for firming infrastructure is required to consider these issues, noting the LTES Agreement Design Consultation Paper focussed principally on the design of agreements for generation and long duration storage.</p>
5. Other than those prescribed in the EII Act, are further LTES Agreement design principles required to support spot, contract and system service market operation and greater consistency across jurisdictional schemes and	<p>Origin is supportive of establishing an overarching set of LTES Agreement design principles that build on the existing high-level provisions of the EII Act. To this end, we consider the CT should be required to design LTES Agreements in a way that:</p> <ul style="list-style-type: none">ensures LTES operators continue to bear investment risk and face incentives to respond to wholesale market price signals in both operational and planning timeframes – this includes locational price signals and signals related to essential system services; and

more broadly, innovation over time?	<ul style="list-style-type: none"> enables the SFV to readily on-sell contracts (which could entail re-packaging its position into standard exchange traded products) and hedge its exposure to potential LTES Arrangement payments where necessary to manage risk, consistent with the overarching risk management framework. <p>We also agree that DPIEs proposal to adopt a fixed shape/volume structure for generation LTES Agreements is broadly consistent with these principles.</p>
Tendering for and recommending LTES Agreements and access rights	
6. What do you think is important to include in a regulation to define 'outstanding merit'?	<p>Origin is supportive of allowing the CT to award LTES Agreements to generation projects located outside of a REZ, noting this will be contingent on the project demonstrating 'outstanding merit'. The Policy Paper indicates the starting point for determining whether a non-REZ project shows outstanding merit is to ensure it delivers better outcomes for consumers and communities when compared to a similar REZ project. We consider the most practical way to give effect to this requirement would be to conduct a pre-approval process ahead of each tender to identify non-REZ projects that offer additional benefits. Criteria that could be considered in this context includes:</p> <ul style="list-style-type: none"> community benefits; efficient use of existing infrastructure (e.g. connection at a brownfield site where plant has retired or in locations outside of REZs with spare transmission capacity); and network benefits (e.g. provision of stability services or congestion alleviation). <p>Approved projects could then be authorised to participate in the tender process. To the extent a non-REZ project is pre-approved and valued above other relevant projects based on its tender bid, this should be regarded as demonstrating 'outstanding merit'.</p> <p>This approach would ensure a level playing field between prospective bidders in the tender process, which is important in the context of facilitating efficient market outcomes. It would also remove the need for the CT to apply some arbitrary test when assessing the comparative value of non-REZ project tender bids relative to REZ projects.</p> <p>Origin also understands that any tenders for long-duration storage and firming capacity will be location-neutral and therefore not be subject to the 'outstanding merit' criteria – we are supportive of this approach.</p>
7. Are there further matters that should be considered when setting and using REZ access fees?	<p>It is difficult to meaningfully comment on the factors that should be considered by the CT when setting REZ access fees in the absence of further clarity around the purpose and expected application of those fees. To facilitate more comprehensive feedback from stakeholders under the upcoming Central-West Orana (CWO) REZ access rights design paper, DPIE should seek to:</p> <ul style="list-style-type: none"> clarify the purpose of the fee, including how it differs from other charges such as bids for access rights and connection fees; and finalise how access rights will work in practice and which network infrastructure those rights will apply to. <p>Where access fees are intended to be separate/unrelated to proponent bids for access/LTES Agreement rights, they should be transparently set prior to any tender to allow for informed participation in that process.</p> <p><u>Other issues for consideration</u></p> <p>We also understand that more detailed consideration will be given to the design of the combined tender process and its relationship to the application of access fees through upcoming consultation processes. Based on the high-level information outlined in the Policy Paper relating to these matters, there is a range of uncertainties that should be clarified through those processes to facilitate meaningful feedback from stakeholders, as outlined below.</p> <ul style="list-style-type: none"> <u>Bidding for LTES Agreements and/or access rights:</u> The Policy Paper notes the CT is expected to conduct a combined tender process that will allow

	<p>proponents to bid for LTES Agreements without bidding for an access right, however, there is no clarity around how the reverse scenario would be treated. Origin considers proponents should be permitted to bid exclusively for an access right, given they may have separate commercial offtake arrangements in place that negate the need for an LTES Agreement. Allowing exclusive bidding for access rights in this manner is consistent with the overarching scheme objective of minimising costs for consumers, given it could reduce their overall exposure to potential LTES Agreement payments.</p> <ul style="list-style-type: none"> ▪ Criteria for assessing and awarding multiple rights: It is currently unclear how LTES Agreement and access rights will be allocated through the combined tender process. We consider a clear set of criteria will need to be established upfront that sets out how tender bids will be assessed. Key issues that will need to be clarified in defining such criteria include: <ul style="list-style-type: none"> - whether combined tenders will be conducted on a REZ specific basis (i.e. multiple rounds of combined tenders, with at least one round for each REZ) and if so, whether all projects located outside of the target REZ will be able to bid for LTESAs based on the 'outstanding merit' criteria regardless of their location; and - whether the CT is likely to assign greater value to combined bids (i.e. where a project bids for both access rights and an LTES Agreement), or if each component will be individually assessed on its own merit relative to other competing bids. ▪ Tender volumes: The EII Act specifies the intended network capacity of the CWO and New England REZs as 3 GW and 8 GW respectively. To allow for informed participation in the tender process, it will be important to clarify whether those targets: <ul style="list-style-type: none"> - will be linked to specific network infrastructure, or simply set out how much generation capacity should be accommodated within the REZ; and - would be used to cap the volume of LTES Agreements awarded through the tender process (noting LTES Agreements can be awarded to projects located outside of a target REZ and therefore notionally capture a larger volume of capacity).
Infrastructure Safeguard governance and controls	
8. How should stakeholders be engaged in key processes so as to ensure the ongoing success of the Infrastructure Safeguard according to the objectives of the EII Act?	<p>Regulations underpinning scheme governance should be established that require:</p> <ul style="list-style-type: none"> ▪ the actions of scheme bodies and process outcomes to be transparently reported; ▪ broad stakeholder consultation to be undertaken on key processes; and ▪ ex-post reviews of scheme outcomes (e.g. tender outcomes). <p>This will facilitate informed decision making by scheme bodies and ensure the design of key scheme elements can be refined over time (if needed) to facilitate efficient outcomes for NSW consumers. The proposed ex-ante and ex-post controls outlined in Table 1 of the Policy Paper appear to be broadly consistent with this approach.</p>
9. Where could the regulations provide guidance to the Consumer Trustee in relation to the risk management framework, to increase transparency and confidence for stakeholders?	<p>Origin is supportive of ensuring the risk management framework allows the SFV to enter into hedging arrangements and on-sell contracts to manage its exposure to potential LTES Agreement payments and crucially, support market liquidity. Establishing regulations that would require the risk management framework to cater for these scenarios (as described under risks 1 and 2 in the Policy Paper) is therefore appropriate. Where the SFV is provided with the flexibility to enter into hedging arrangements, the circumstances under which the SFV would engage in such activity and/or parameters governing that behaviour, should be clearly defined through regulations and the associated risk management framework.</p>
10. When should the Scheme Financial Vehicle enter hedging contracts?	

<p>11. What capabilities will the Consumer Trustee or Financial Trustee need to manage net exposures under hedging contracts and LTES Agreements?</p>	<p>We agree the risk management framework should set out the systems, processes and capabilities required to execute and manage risk management activities, and that the Regulator should be tasked with verifying these are in place before trading commences. Should a cap on net financial exposure form a necessary component of the risk management framework, the cap should also be subject to the approval of the Regulator.</p>
<p>12. What parameters, principles and structures should be regulated to limit net basis risk exposures for consumers?</p>	