

RESPONSE #4749 SUBMITTED ON 05/21/2021 02:14:28 PM

Tranche two regulations issues paper consultation submission form

Your details

Submission type	Organisation
If Other, please describe	No answer given
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Stakeholder group	Electricity consumer or representative body
If Other, please describe	No answer given

Questions**Chapter 4 – Energy Security Target**

Question 1: Should the Energy Security Target Monitor define the method to determine the derating factor or should the method be defined in the regulations? If not by the derating factor, how else should the regulations address the probabilistic nature of semi-scheduled generators in the context of the deterministic Energy Security Target?

See attachment

Question 2: Should the regulations prescribe any other matters for inclusion in the Energy Security Target Monitor's report? If so, what are they?

See attachment**Chapter 5 – Electricity Infrastructure Investment Safeguard**

Question 3: To what extent are the requirements for carrying out competitive tenders of Long Term Energy Service agreements appropriate? Are there any other requirements that should be considered?

See attachment

Question 4: Do you agree with the matters the Consumer Trustee must take into account when preparing the Infrastructure Investment Objectives Report? Are there any other matters that should be taken into account?

See attachment

Question 5: In what circumstances should the Consumer Trustee prefer long duration storage over firming infrastructure to meet the reliability standard?

No answer given

Chapter 6 – Classification of Renewable Energy Zone (REZ) network infrastructure

Question 6: Are there any other considerations that should be taken into account in classifying REZ network infrastructure in regulations, including the need for, and scope of, sub-classifications?

No answer given

Question 7: What types of network infrastructure could be subject to economic regulation under Part 5 of the EII Act?

No answer given

Supporting information

If you have additional information you would like to provide to support your views, please provide it here

No answer given

If you have additional documents to provide to support your views, please upload them here

Tranche Two Regulations to support the electricity infrastructure roadmap - Business NSW - May 2021.pdf

Confidentiality and submission publication preferences


Would you like all or part of your submission to be confidential?

No

Would you like your submission to be anonymous and these personal details redacted?

No

Attached Files

 Tranche Two Regulations to support the electricity infrastructure roadmap - Business NSW - May 2021.pdf

<https://nswdpietfaforms.net/uploads/get/18cd2e07911f410c6ec65a59d981e59d-TrancheTwoRegulationstosupporttheelectricityinfrastructureroadmap-BusinessNSW-May2021.pdf>
(<https://nswdpietfaforms.net/uploads/get/18cd2e07911f410c6ec65a59d981e59d-TrancheTwoRegulationstosupporttheelectricityinfrastructureroadmap-BusinessNSW-May2021.pdf>)

21 May 2021

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TRANCHE TWO REGULATIONS TO SUPPORT THE ELECTRICITY INFRASTRUCTURE ROADMAP

Business NSW welcomes the opportunity to consider and respond to the [second tranche of proposed regulations to support the electricity infrastructure Roadmap](#).

The *Electricity Infrastructure Investment Bill* (2020) has set the stage for a sweeping makeover of NSW's electricity market, introducing a new auction-driven process for renewable generation, storage, and electricity firming capacity. If NSW can deliver the bill savings it has projected, it will be welcome relief for businesses in NSW for whom energy costs remain a concern. The policy design challenges for such a large and complex reform are substantial. Done well, it has the potential to put the NSW economy on track to cut greenhouse gas emissions by 2050, while keeping the costs of the transition under control. Done poorly, it could leave billpayers on the hook for growing costs while reliability deteriorates. Decisions taken over the next few months will determine which track we are on.

Consumer Trustee Guiding Principles

Recommendation 1: The regulations should set out clear expectations about how the Trustee should consult with consumers and other users in making its decisions.

Business NSW is pleased that Government has identified the critical issues for making a success of the system it is introducing. Specifically, we support:

- The emphasis on competition to maximise the value from consumers' payments.
- The objective to construct infrastructure that is necessary to minimise electricity costs
- Conducting tenders in a way that aims to be resilient to multiple possible future scenarios, and that is adaptable to changing circumstances.
- An efficient process that minimises transaction costs, is fair and ethical, and encourages new entrants to participate.

The challenge for the Department, the Consumer Trustee, and for the users of the electricity system, is converting these principles into meaningful decisions. It is all very well to say that the Trustee should "minimise electricity costs for NSW electricity consumers"; the difficult part is *how* to minimise costs for consumers. The critical trade-off, between cost to users and benefits of incremental increases in security of supply, is left wholly to the Trustee to resolve.

The role of the Trustee is the most significant ‘black box’ sitting at the centre of the Infrastructure Roadmap proposals. Crucial choices about how much to spend, what to spend it on, and when, fall mostly or entirely under its jurisdiction. Yet it remains at time of consultation almost totally opaque. Its structure, personnel, and lines of accountability are unspecified. Its decision-making is shaped by vague principles without any guidance as to how conflicting priorities will be reconciled. While the regulations should not (and probably can not) specify exactly how this tension is to be resolved, they can and should set out clearer expectations about how the Trustee should engage with consumers and other users to reach its decisions.

Emissions

Recommendation 2: The impact of proposed projects on emissions, and the state’s ability to meet its 2050 emissions objective should be factored into tendering decision-making (Question 3). The impact of tendering and investment decisions on emissions outcomes should be included in the Infrastructure Investment Objectives Report (Question 4)

The tranche two regulations, and the Roadmap documents more broadly, are unnecessarily coy on the question of emissions. The NSW Government has committed itself to a net zero objective by 2050, and the Roadmap is clearly a key component of NSW’s plan to reach that objective. As a result, we would support the more overt inclusion of the emissions impacts of the plan in the various pieces of regulation being established.

The impact of decisions made under the auspices of the Roadmap on emissions outcomes should be one of the items reported in the Consumer Trustee’s Infrastructure Investment Objectives Report (Issues Paper, p. 20).

It would also be appropriate for the Trustee to consider emissions consequences of alternative proposals it is evaluating, at minimum as a ‘tie-breaker’ in situations where projects with otherwise similar cost and reliability properties are being selected. At this time it is premature to rule out any new emissions-producing generation (for example, as the document identifies the case for gas generation for firming purposes is strong, assuming it is otherwise competitive with alternatives). But it is prudent to prepare, over time, for new projects to be compatible with the 2050 goal including, for example, by making gas power stations hydrogen compatible, or by providing clear sunset dates for emitting generation.

Interactions with other parts of the energy system

Recommendation 3: The interaction with demand-side initiatives and DER should be given explicit consideration in the Infrastructure Investment Objectives Report (Question 4).

Business NSW remains concerned that electricity Roadmap plans have demonstrated very limited consideration of the options and impacts outside the large generation and transmission sectors.

The Roadmap is being undertaken at the same time as a number of other reforms in the National Energy Market (NEM). Those reforms are designed, amongst other things, to develop a more active demand-side capable of responding to market signals, more acute pricing signals designed to elicit responses from demand and supply sides, and the continuing growth of distributed energy resources (DER) including solar PV and increasingly batteries and electric vehicles – including those owned by businesses in NSW. All of these changes are given minimal consideration in the Roadmap and the Issues Paper. Presumably

they are factors to be considered in the assessment of minimum demand (although even this is not explicitly stated). The possibility that demand side alternatives may prove more cost-effective than building new generation or transmission infrastructure is not mentioned, and under the current description of the Consumer Trustee's regulations, may not be permitted to be considered.

If demand-side or DER options are capable of delivering equivalent system security services to large-scale infrastructure, at a competitive price, it is concerning if they are shut out of the market (at worst) or forced to compete on imbalanced terms with government-underwritten large scale infrastructure. If the Department is serious about "minimising electricity costs for NSW electricity consumers", it should not be narrowing its options solely to "construction of generation infrastructure" (Issues Paper, p. 17).

A similar concern arises regarding the Roadmap's treatment of interconnection. Making more efficient use of the generation and demand that exists across the NEM has the opportunity to lower costs for users across the eastern states. Yet the Roadmap proposals are inherently focused around NSW-only solutions. Where opportunities exist to meet users' needs more cheaply via interconnection with inter-state resources than with more costly in-state resources, we would be disappointed if the Trustee is unable to take advantage. The Roadmap is reasonable if it is aiming to bring forward cost-effective new investment; it is not reasonable if it is aiming to establish NSW as an electricity autarky, no better integrated with its neighbours than it is today.

Interactions with Jobs Advocate

Recommendation 4: Clarify the role of the Jobs Advocate in relation to the Consumer Trustee and other decision makers in the Roadmap framework.

It is unclear from the Issues Paper how the advice from the Jobs Advocate will be included in the Consumer Trustee's decisions. Business NSW is comfortable that jobs criteria are not included in the regulations under Section 47 (Issues Paper p. 16-17) – we agree that the primary motivation of the policy should be to meet consumer needs, not producer needs. However, we are concerned that without clarity over the role of the Jobs Advocate in this process, priorities could become blurred. We would welcome greater clarity about the role and limits of the Jobs Advocate within the Roadmap's decision-making framework.

Bill impacts

Recommendation 5: Include a statement of the impact of the infrastructure roadmap on electricity bills as part of the Infrastructure Investment Objectives Report (Question 4)

Business NSW supports transparency over the impacts of decisions taken under the auspices of the electricity infrastructure roadmap. The extent to which Roadmap decisions are lowering overall bills or raising them, for which consumers, over what time period, is vital information for ensuring efficient and well-judged decisions. A suitable model for this information could be the publications issued by the UK's Department of Energy & Climate Change in the early years of its Energy Market Reform process, entitled [Estimated impacts of energy and climate change policies on energy prices and bills](#). Those reports proved a vital tool for assessing whether policy decisions were meeting consumers' needs. Including equivalent information in the Infrastructure Investment Objectives Report should be part of the Trustee's commitment to transparency and minimising costs for consumers.

Not addressed in the tranche two regulations, but also in need of consideration, is the question of how the costs associated with the policy are itemised on users' bills. The expectation is that wholesale costs will fall, but that the costs of contracts (LTESAs) incurred will appear to users under network charges. This risks being misleading about both the costs and benefits of the Roadmap. A separated line item on bills would help reduce confusion between 'traditional' network costs, and the costs associated with consumer payments for LTESAs.

If you have any questions about our submission or would like to discuss in more detail, please feel free to contact me at [REDACTED]

Yours sincerely

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