

1 June 2022

James Hay
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Dear Mr Hay

Draft Network Authorisation Guidelines – 11 May 2022

EnergyAustralia is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts across eastern Australia. We also own, operate and contract a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 4,500MW of generation capacity.

We appreciate the opportunity to provide feedback on guidelines describing how the Infrastructure Planner (EnergyCo) and Consumer Trustee (AEMO Services) will identify and authorise network infrastructure projects in Renewable Energy Zones (REZ). Network investment in NSW REZs is estimated to result in direct costs for customers of around \$1 to 2 billion per REZ on average, and will occur under a unique mix of national and jurisdictional investment frameworks, hence these guidelines warrant careful attention.

We consider that the draft guidelines can be improved in two key areas:

1. generally containing more detail on the respective tasks of EnergyCo and AEMO Services, including procedural steps and timeframes.
2. clarifying the how project benefits will be assessed between the Planner and Trustee.

We expand these issues and list other specific recommendations below. Several matters raised previously by the Department also appear to be unresolved and may warrant inclusion in guidelines or in the Regulations.

The guidelines need more details

There is a limited amount of prescription contained in the EII Act and in the draft guidelines. Notwithstanding changes to national frameworks arising out of the AEMC's Transmission Planning and Investment Review, there is far more detail and process prescription around RIT-Ts under the NER and associated AER guidelines. The EII Act (particularly section 30(5)) provides for regulations around network authorisations for NSW REZs. We assume that NSW regulations will not be made for the foreseeable future, hence the guidelines are intended to contain the entirety of details of the network investment approval process to be followed for NSW REZs.



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The integrity of options and net benefit assessments for these large investments is critical. Rather than prescribing processes in detail, the draft guidelines appear to place heavy reliance on the broad accountability of the Planner and the Trustee, including the Trustee's role in independently authorising recommendations of the Planner. Providing EnergyCo and AEMO Services flexibility in discharging their functions may enable faster investment approvals, and more agility in pursuing Objects of the EII Act in a dynamic environment. However, a lack of clarity in process, and inconsistency in approach across different REZ network projects, may undermine investment certainty. Confidence in the broader NSW policy framework could also be eroded if investments and associated bill impacts come about via an opaque approvals process. This concern will be heightened given the large scale of REZ network investments, and the inherent risk and uncertainty that will ultimately be worn by energy consumers in NSW and across the NEM. This experience has been borne out in the prolonged debate around Project EnergyConnect, which was due to large revisions in cost estimates, in the context of relatively small net benefits, rather than any issues with onerous regulatory requirements. These types of investments are legitimised by needing to pass through robust and open approval frameworks, rather than in being expedited by the responsible agencies.

Opportunities for stakeholder input, as part of staged decision-making processes, should therefore be made more explicit. Figure 2 of the draft guidelines lists topics and process stages where stakeholders may have the opportunity to provide input. This should be expanded to provide more clarity to all parties, including network proponents. This could be via an example timeline, noting where the respective agencies have discretion (or not) to consider certain matters or to extend consultation timeframes. The draft guidelines state indicative timelines for the Trustee's decision-making process and similar timelines should be listed for the Planner. The Trustee and Planner should also indicate minimum or likely forms of data that it will release for public scrutiny at each decision point.

The Planner must conduct comprehensive cost-benefit assessments

The Planner will need to fully assess benefits, and not just costs, in order to make credible recommendations to the Trustee. The guidelines should be definitive on this. It is not sufficient for the Trustee to calculate benefits merely for the purposes of determining a breakeven or maximum project cost that binds the Regulator as explained in section B.4.5.

Section A.6.2 of the draft guidelines states that the Planner need not assess customer benefits, while table 2 identifies network benefits are within scope (and potentially others in considering "financial value to customers"). If the guidelines foresee instances where detailed modelling of benefits is not required, this should be explained further. Section A.6.2 of the guidelines refers to materiality in the need to model benefits. As explained for the Trustee's proposed benefits assessment in section B.4.5.2, the intent of materiality thresholds relates to the proportionality of time or resources involved in calculations, for example as seen in NER clause 5.15A.2(b)(6)(ii), and should be clarified in these terms. Some sections of the draft guidelines appear to provide for certain types of benefits to be disregarded, merely on the basis of not being "materially different" across options or relative to counterfactuals. Notwithstanding administrative burden, it is critical for stakeholders to have full transparency of all project benefits and to be able to scrutinise this analysis.

The Planner's **Network Infrastructure Strategy** is mentioned in section A.6.2 and the role of the Trustee with respect to this Strategy, and in benefits assessment generally, should be clarified:

- The Trustee is ultimately responsible for approving network investments, not just assessing consumer interests, so has a role in validating the entirety of cost-benefit assessments of the Planner. Allocating different elements of a net-benefits assessment between the two agencies, for example to avoid duplication, does not seem like it would produce a robust or workable outcome.
- it is not clear to us that section 60(4) of the EII Act was specifically intended to enable the Planner to request advice on benefit assessments from the Trustee. This interpretation also blurs the division of responsibilities under sections 30 and 31, for example, the Trustee would end up reviewing, in part, its own advice.
- The Planner's recommendations on cost recovery (under section 30(2)(c) of the EII Act, and potential government contributions as suggested under A.6.4 of the draft guidelines) as well as consideration of financial value to customers, also needs to be based on an assessment of how benefits will accrue.

Other detailed observations on the draft guidelines

The multicriteria analysis of 'affordability' and financial value to customers listed in table 2 should explicitly include **expected bill impacts for different classes of customer**. Expressions of network investment in terms of societal NPVs (while a valid decision rule) are too abstract from real life customer impacts. Further to our points on benefits assessment, it will be necessary for the Planner to conduct a robust calculation of the benefits of different options, relative to a counterfactual or baseline, in assessing financial value to customers.

The guidelines should be **more explicit around how risk and uncertainty will be accommodated**. Section A.6.1 states the Planner may conduct a probability-weighted present value assessment given uncertainty in costs, and table 3 briefly mentions the use of scenario analysis as best practice. The estimation and realisation of benefits will be subject to greater uncertainty than project costs, and this should be explored.

The guidelines (primarily section A.3.2) should explicitly discuss the **assessment of prudent timing** of projects. Decisions on timing are critical and will be affected by changed market circumstances, including changes in project costs as estimates become more accurate, as well as changes to benefits or critical risks to customer reliability due to commissioning delays. The guideline should cross reference any timing considerations in the latest Development Pathways analysis or in other broader planning documents.

Decisions should be **consistent with concurrent planning and economic assessments**. We consider that some instances of the guidelines with respect to the Planner's recommendations need to be prescribed in terms of minimising departures from the findings and inputs underpinning the Development Pathway, IIO Report and even AEMO's ISP, where relevant. Section A.2.3 states that the Planner "may have regard to" the Development Pathway, but then section B.4.2 states that the Trustee will assess the Planner's recommendation on the basis of consistency with the Development Pathway. Consistency and continuation of prior analysis can be one means of

streamlining assessments while also allowing updates for new market information or specific stakeholder issues that have not been previously raised. These streamlining features appear in the Integrated System Plan's designation of 'actionable' projects, use of scenarios, and the 'feedback loop' with subsequent RIT-Ts.

The **Network Infrastructure Strategy needs to be further defined** in terms of its scope and preparation. This Strategy is not mentioned in the Act or Regulations. Figure 2 of the draft guidelines states that the Strategy will specify the range of network infrastructure options and REZ delivery schedule, which are critical in terms of customer and market impacts, however appears to be out of scope of these guidelines. If this Strategy contains any decisions affecting options or timing, or contains any net benefit calculations, it should be subject to proper public scrutiny and consultation as per the Planner's project recommendations and the Trustee's authorisations.

Matters from prior consultation that are unresolved

There are also a range of issues raised in the Department's October policy paper¹ that appear to be unresolved and should potentially be clarified in the guidelines, in the Regulations, or in explanatory materials to understand where the Government stands on particular matters. Those that appear to be important are:

- oversight of the costs incurred by the Planner in preliminary options assessment. These are briefly referred to in section B.4.5.1. The October paper suggested these costs might be significant and include land acquisition.
- interaction with LTESA and access right allocations, and REZ generation and storage investment generally. The October paper discussed the possibility and desirability of having 'preliminary' recommendations and authorisations of network projects, in order to help concurrent generation and storage proponents to scope their investments, thus assist in optimising the final technical parameters for a network option.
- whether there is any flexibility in project scope as a result of authorised investment being put to tender, and if so whether this affects the maximum project allowance determined by the Trustee
- incentives on the network operator to deliver projects as per optimal timing (noting this is probably more an issue for the Regulatory rather than the Trustee or Planner).

If you would like to discuss this submission, please contact me on 03 8628 1655 or Lawrence.irlam@energyaustralia.com.au.

Regards

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¹ <https://www.energy.nsw.gov.au/sites/default/files/2021-10/network-infrastructure-projects-part-5-of-the-electricity-infrastructure-investment-act-2020-policy-paper.pdf>