

NSW Department of Planning, Industry and Environment

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Submission to NSW Department of Planning, Industry and Environment Infrastructure Safeguard (Part 6 of the Electricity Infrastructure Investment Act 2020) Policy Paper

The Australian Energy Council (AEC) welcomes the opportunity to make a submission to the NSW Department of Planning, Industry and Environment (DPIE) Infrastructure Safeguard (Part 6 of the Electricity Infrastructure Investment Act 2020) Policy paper (Policy paper).

The AEC is the industry body representing 20 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the majority of the electricity in Australia, sell gas and electricity to over ten million homes and businesses, and are major investors in renewable energy generation.

Introduction

The NSW Electricity Infrastructure Investment Act 2020 (the Act) is prescriptive and requires by 31 December 2029, at a minimum the construction of:

- 11GW of renewable generation in the New England Renewable Energy Zone (REZ) and Central-West Orana REZ;
- 1GW of additional generation capacity; and
- 2GW of long duration storage.¹

As required in the Policy paper, this AEC submission will focus on high level policy issues.

Questions 6 and 7

Division 1 of the Act allows for the Minister to declare a new REZ.² However, as noted in the Policy paper the Consumer Trustee (CT) has discretion to recommend a project outside a REZ if it, “shows outstanding merit” under section 48(3) of the Act.³ The AEC is of the view that the CT is best placed to decide whether a project outside of a REZ can qualify for a LTES agreement thereby avoiding the vulnerabilities of politics that may manifest through ministerial discretion. The AEC believes that when considering such a project the CT should apply the following:

- National Electricity Objective (NEO) National Electricity Objective (NEOI, “to promote efficient investment in, and efficient operation and use of, energy services for the long term interests of consumers of energy with respect to price, quality, safety, reliability and security of supply of energy.”;

¹ <https://legislation.nsw.gov.au/view/whole/html/inforce/current/act-2020-044#sec.44>

² <https://legislation.nsw.gov.au/view/whole/html/inforce/current/act-2020-044#sec.19>, Division 1

³ Policy paper, p16

- conduct a pre-approval process ahead of each tender to identify non-REZ projects that offer additional benefits (e.g. efficient use of infrastructure, network benefits). Approved projects could then be authorised to participate in the tender process.

Questions 8-12

As noted in our submission to the NSW Department of Planning, Industry and Environment Long Term Energy Service Agreement Design Consultation paper, “NSW electricity consumers will be exposed to a very large short gamma position”. Accordingly, the AEC is supportive of the Scheme Financial Vehicle (SFV) being able to enter into hedging contracts to manage this risk.⁴

The Act essentially creates another NSW tcorp which will require comprehensive governance and risk management policies. NSW tcorp has \$99 billion of liabilities and is responsible for managing the risks associated with this level of debt. The SFV will be responsible for managing a position which involves being the seller of put options on 12GW of variable renewable energy (VRE) generation output (over 50% of the state’s annual electricity consumption). The AEC believes the SFV should be able to enter into the complete suite of derivative products and should have governance and risk management arrangements that are at the very least commensurate with those that apply to NSW tcorp.

The move to a generation market where VRE is the primary source of supply is likely to create a demand for weather derivate products to manage the risks associated with the intermittent nature of VRE output. The AEC is of the view that the SFV should be able to access (so called) exotic products such as weather derivatives where the SFV may be able to create liquidity in a currently illiquid Australian market. This would offer both retailers and generators (depending on which party is exposed to generation output variability) a market to manage this exposure.

To continue interest rate markets as a metaphor, NSW electricity consumers are effectively exposed to floating interest rates and should be swapped to fixed rates to appropriately reflect their risk profile. The AEC does not have the capacity or resources to assess this in rigorous detail and would like DPIE to utilise its resources to analyse how trading combinations could reduce the exposure of NSW electricity consumers and electricity retailers.

As the seller of put options to underwrite the construction of 12GW of VRE, the SFV will be a very large market participant. Rough calculations of 12GW of VRE and 2GW of long-term storage imply approximately 40TWh of annual generation⁵ in a market with annual consumption of 68TWh in FY2021.⁶ Hence, the FSV will be the counterparty to over 50% of NSW generation output. In light of this, the AEC considers that caution must be exercised if and when the SFV enters into contracts to mitigate its risk exposure. The impact of this output could have broader impacts across the NEM, especially for Queensland which exports over 5TWh of energy to NSW, accounting for over 10% of Queensland’s total electricity generation output.

The appointment of AEMO Services as the Consumer Trustee has the potential to create an actual or a perceived conflict of interest if it is not clear how it is being managed.⁷ This could also change over time as AEMO Services assumes additional functions, which the paper also notes. The AEC requests DPIE should consider additional measures to provide further transparency relating to this issue.¹

⁴ <https://www.energycouncil.com.au/media/yavfckwl/20210910-aec-nsw-dpie-ltesa-consult-paper.pdf>

⁵ Assumes 35% capacity factor for generation and 20% for long term storage

⁶ <https://www.aer.gov.au/wholesale-markets/wholesale-statistics/annual-electricity-consumption-nem>

⁷ Policy paper. P20.

Conclusion

The AEC is keen to see further publicly available modelling and analysis commissioned by NSW DPIE as to how it expects the market to function especially with a participant of the scale of the FSV (ie, 'whale') transacting to mitigate risk to NSW electricity consumers.

Any questions about our submission should be addressed to Peter Brook, by email to peter.brook@energycouncil.com.au by telephone on (03) 9205 3103.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'P Brook', is displayed on a light yellow rectangular background.

Peter Brook
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Australian Energy Council