

2 February 2024



Jason Scattolin
A/Director National Energy Market
Energy, Climate Change and Sustainability, NSW DCCEEW
E: jason.scattolin@planning.nsw.gov.au
CC: energy.consult@dpie.nsw.gov.au

24-28 Campbell St
Sydney NSW 2000
All mail to
GPO Box 4009
Sydney NSW 2001
T +61 2 131 525
ausgrid.com.au

Dear Mr Scattolin

Ausgrid submission to the NSW Government's OEM Framework

Ausgrid thanks NSW Energy, Climate Change and Sustainability for the opportunity to respond to its Orderly Exit Mechanism (OEM) Framework. Ausgrid operates a shared electricity network that powers the homes and businesses of more than 4 million Australians living and working in an area that covers over 22,000 square kilometres from the Sydney CBD to the Upper Hunter.

We understand that the OEM Framework would only result in passing on cost recovery to energy consumers in the National Electricity Market (NEM) jurisdiction when the Minister believes that there is a need for a backstop to temporarily adjust the closing date of a coal or gas-fired generator.

As the largest distributed network service provider (DNSP) in the NEM, Ausgrid supports an orderly transition towards net zero. We consider that transmission network service providers (TNSP) recovering the costs via other transmission connected customers and DNSP customers to be fairer than implementing a standard jurisdictional scheme, where only DNSPs collect the funds from DNSP customers.

Design the OEM Framework to embed customer and stakeholder cost transparency

We encourage the NSW Government to provide transparency for customers and other stakeholders about how the cost recovery mechanism for the OEM Fund would operate. This could be achieved by developing principles for forming the cost recovery method and approach and identifying the alternative solutions in the OEM framework. Further, during the Australian Energy Regulator's (AER) assessment of the likely costs of a Notice of Mandatory Operation, the AER should be required to consult on the likely cost methodology so that stakeholders can provide feedback on the method and approach.

The OEM Framework should also include requirements to provide transparency of the amount being recovered on consumer electricity bills. This could occur by updating the NSW Government's its 'understand your energy bill' webpages to include information about the OEM Fund and other jurisdictional schemes. We recommend that the NSW Government also consider amending the National Energy Retail Rules to split out transmission and distribution cost recovery mechanisms as individual line items, or be explained as a footnote on bills against the network component.¹

Consider additional financial support for low income and vulnerable customers

The development of the OEM Framework in NSW, reinforces the need to support customers with their energy bills, especially low income and vulnerable energy customers. For example, the NSW

¹ The OEM Fund, Electricity Infrastructure Investment Act's Scheme Finance Vehicle (SFV), the Climate Change Fund and the OEM Fund

Government could review its Energy Social Programs to address the forecast significant increases in network costs from the SFV and the OEM Fund. The NSW Government could consider other complementary measures to support low income and vulnerable customers as part of this review.

The OEM Framework should include a mechanism for shared cost recovery across NEM jurisdictions

When a coal generator retires in one region, all other NEM regions are likely to experience higher wholesale prices. This is because the NEM price setting model takes into account generator volume offers from all regions.

A recent example of interregional price impacts is the Callide C generator outage in Queensland on 25 May 2021, which triggered significantly higher NEM prices in both Queensland and NSW. This would suggest that other NEM regions should contribute to the OEM Fund if enacted for Eraring Power Station, so that NSW energy customers do not subsidise other jurisdictions' energy customers. This would result in a more equitable transition to net zero.

The NSW Government could explore using the proposed 'providing flexibility in the allocation of interconnector costs' rule change (ref: ERC0382) pending consideration by the Australian Energy Market Commission as a mechanism for sharing the OEM costs between states.² We understand that, if enacted, this rule change enables state governments to agree to the allocation of the interconnector's costs recovered from the consumers of each state.

Mandate advising DNSPs and Network Operators of their allocated OEM contribution

We recommend that the relevant TNSP be required under the OEM Framework legislation to advise DNSPs and Network Operators about their allocated amount of OEM Fund contribution from the AER's Transmission Cost Recovery determination. This will ensure that DNSPs are able to communicate to customers and retailers the extent that the new fund has impacted network electricity bills. This is important for transparency given the different nature of network costs and jurisdictional schemes. It will also support the preparation of the annual default market offer which has different retail allowances for each distribution network.

The OEM Framework should not include exemptions for customers from the Fund

We do not support the OEM Fund having exemptions for certain customers, as occurs under the Electricity Infrastructure Investment Act. Instead, the OEM Fund should operate procedurally in an equitable manner for all customers, and any equity mechanisms for low income or vulnerable customers addressed through a separate mechanism via energy retailers. Should the NSW Government decide to proceed with an exemptions model, then it should be managed independently by the NSW Government and not DNSPs.

We would be happy to discuss our submission with NSW Climate and Energy Action. Please contact Naomi Wynn, Manager Regulatory Policy at naomi.wynn@ausgrid.com.au.

Regards



Fiona McAnally
Acting Head of Regulation

² AEMC (2023). Providing flexibility in the allocation of interconnector costs. <https://www.aemc.gov.au/rule-changes/providing-flexibility-allocation-interconnector-costs/>.