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Mr Alex Oeser
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000

ENERGY CONSUMERS AUSTRALIA SUBMISSION - PARTICIPANT DEROGATION - FINANCEABILITY OF ISP PROJECTS

Dear Mr Oeser,

We appreciate the opportunity to comment on the Australian Energy Market Commission's (AEMC) consultations on the proposed rule changes about the financeability of the Integrated System Plan (ISP) Projects. This submission addresses both TransGrid and ElectraNet's rule change requests.

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the then Council of Australian Governments Energy Council in 2015, our objective is to promote the long-term interests of energy consumers with respect to price, quality, reliability, safety and security of supply.

The scale and timing of investment in transmission which is considered necessary to connect renewable generation and address issues of system security and reliability is unprecedented and is stress testing the current regulatory framework. This stress test has shown that there is a need for governments, policy makers, regulators and industry together to explicitly consider not just the security and reliability of the energy system, but also the affordability, for consumers and industry alike, throughout the planning and decision making processes.

We do not support the proposed rule change. The fact that these financeability issues have arisen, and are now being sought to be addressed at so late a stage in the process for the specific Project Energy Connect have led us to the view that investment of the scale contemplated in the Integrated System Plan should be considered as part of a national infrastructure framework. Clearly, while there has been much work to adapt the existing regulatory framework for these changed circumstances, they are still very much grounded in the original purpose of securing incremental transmission capacity when needed. Further, we are concerned that the rule change proposal perpetuates this approach by addressing the financing concerns through the National Electricity Rules rather than considering alternative, innovative approaches that avoid passing both cost and risk inappropriately on to electricity consumers with uncertainty around the timing of any benefits.

Concerns with the current model

Like TransGrid and ElectraNet, we are concerned that the current regulatory framework is not appropriate for determining and managing transmission investment on this scale. We believe that in these circumstances it cannot deliver good outcomes for electricity consumers, at a time when they are only beginning to see falling prices after a decade of significant price increases that well outstripped inflation and wages.



The old model for cost-sharing between consumers at either end of the interconnector has been challenged and appears to be no longer fit for purpose as there appears to be a misalignment between those customers who pay the costs and those that receive the benefits. We have seen this play out under Project Energy Connect (PEC) where advocates raised concerns early in the project process about whether inter-regional charging should be reformed to better balance costs and benefits between regions. The latest data on PEC shows that typical electricity bills are estimated to reduce annually by \$100 in South Australia and by between \$58-64 in NSW¹ however NSW customers are expected to fund approximately 80% of the project costs. While small, it is understood there are also benefits to the Victorian market, yet no costs are assigned to consumers in that jurisdiction.

In addition, the mismatch in timing between committing to the project and finalising cost estimates is further undermining consumer trust and confidence in the project. We have seen a substantial increase in costs for PEC of 58 per cent, from \$1.91 billion to \$2.4 billion. This raises questions about the method of calculating costs and benefits of large transmission projects, particularly those which are committed to (as actionable ISP projects) before the final costs are known. While estimates for subsequent projects in the ISP will be subject to new rules – allowing the recovery for the costs of better quantifying at an earlier stage the potential cost of the project – there is now doubt that the current ISP 2020 adequately reflects a more realistic or likely assessment of the total scale of investment required. In these circumstances, it is reasonable that electricity consumers could think that they are being asked to sign a blank cheque.

Electricity consumers' capacity to pay

Recent decreases in network and wholesale prices are starting to flow through to electricity prices, however they remain at historically high levels (see Figure 1). While the downward trend is encouraging, recent stressors, including the bushfires, drought, and COVID-19, have had a significant impact on residential and small business consumers' cost of living in 2020.

Surveys by the Australian Bureau of Statistics, which is monitoring the impacts of the pandemic on Australians, show that 1 in 7 Australians have made changes to their financial arrangements due to COVID-19, deferring payments or applying for early access to superannuation. Of those who accessed superannuation, nearly two thirds planned to use the money to pay household bills.²

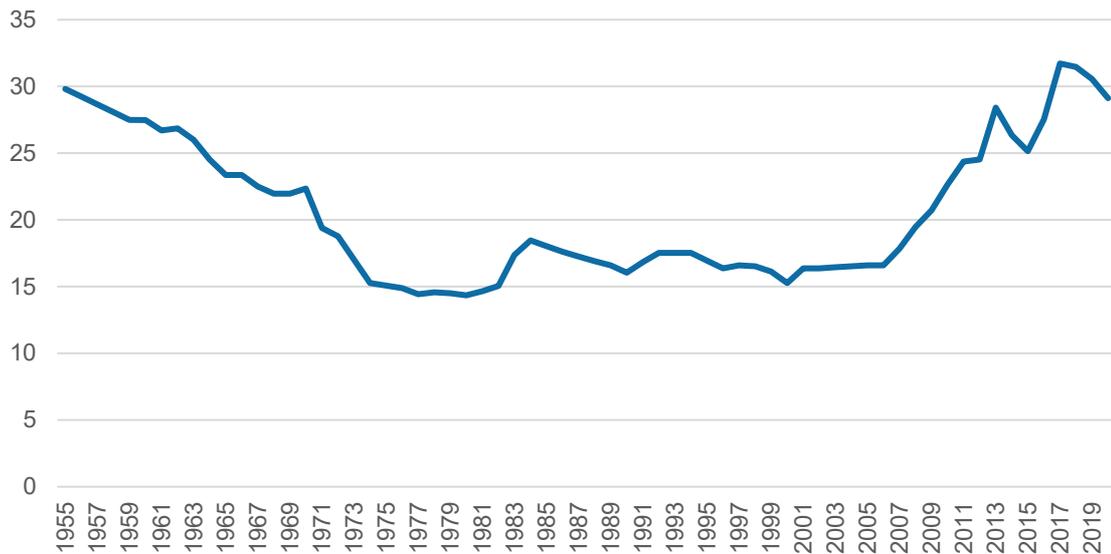
These impacts make it even more important to ensure that affordability remains a limiting constraint on energy market decisions, and not just as aspiration. Given the re-building that many consumers need to do in response to the events of 2020, including finding a job, rebuilding savings, paying off accrued debt and rebuilding their superannuation, we do not believe that now is an appropriate time to increase price risk and volatility.

¹ <https://www.projectenergyconnect.com.au/>

² <https://www.abs.gov.au/statistics/people/people-and-communities/household-impacts-covid-19-survey/latest-release#financial-arrangements>



Figure 1: Australian electricity prices (real c/kwh)



Risk allocation

Not only would the rule change proposals add to already high electricity costs in the short term, but both run counter to the idea that consumers should pay in line with the benefits they receive by seeking to ‘front-end’ cost recovery from consumers. This means that consumers must take on trust that the anticipated benefits will arrive, and that they will arrive at an anticipated future time. We are concerned that this shifts risk from network operators to consumers, whether large or small, who have fewer tools to manage financial risks stemming from changing circumstances in the energy market and are least able to manage it.

In a submission in 2018, we noted that “where the timing and scale of benefits are inherently uncertain – where the business and consumer case for projects is not clear – but the project is nevertheless considered by government to be critical, that there should be an appropriate sharing of the risks between electricity consumers and taxpayers.”³ We maintain this position, and it is in keeping with government approaches to large, “nation-building” infrastructure investments that have been contemplated in other sectors in the economy.

Investment in ISP projects is an investment in national infrastructure

That the financeability issue was not addressed by policy and rule makers, regulators, or market participants as part of the development of the ISP is an oversight. It is disappointing that consideration of this issue is occurring under the rule change framework, which might limit the potential responses that the AEMC could take. We would encourage the AEMC to consider all possible alternatives for funding ISP projects which deliver on the intended *purpose* and *outcomes* of the ISP – that is, projects which improve system security and resilience across the market.

³ <https://www.electranet.com.au/wp-content/uploads/projects/2016/11/180904-Energy-Consumers-Australia-SAET-PADR.pdf>



In its rule change proposal, TransGrid states that “...addressing the issue using a non-market solution such as a CEFC or Government loan also undermines the market-based principles of the regulatory regime. Non-market debt or contributions should not be needed to address a market failure due to an issue in the regulatory framework. The issue should be addressed through changing the regulatory framework.”⁴

While we appreciate the theory behind this statement, we consider that current circumstances, that is, significant, unparalleled expenditure in the National Electricity Market coupled with the economic impacts of a global health crisis, mean that affordable electricity for consumers must remain our priority.

In 2018, Infrastructure Australia developed 11 decision-making principles for infrastructure projects. The introduction to the principles refers to transparency and accountability around governments “...investing limited public funds in infrastructure that will bring strong productivity benefits to the economy, support our quality of life, and help to deliver a collective vision of a strong, fair and prosperous Australia for many years to come.”⁵

This statement acknowledges that funding of national infrastructure projects has a limit. Similarly, discussions on ISP projects should acknowledge that consumers also have limited funds, not only for electricity costs, but for their cost of living expenses more broadly.

This pause in the investment process provides an opportunity to consider how infrastructure projects in other sectors address financeability risk. The National Broadband Network (NBN) provides an interesting case study. The Statement of Expectations document from the previous Commonwealth Government indicates that “NBN Co will be funded with Government equity until NBN Co has sufficient cash flows to support private sector debt without explicit Government support.”⁶ Such an agreement would be reviewed annually, but would provide certainty to the market.⁷ This is an interesting case study in how a multi-billion dollar national interest project can be transitioned from government loans to being privately funded in a short space of time.

Results from our latest 2020 Energy Consumer Sentiment Survey⁸ tells us that satisfaction with the reliability of electricity supply is steady for household consumers with 78 per cent satisfied with the number of times they have lost power (and 68 per cent for small business). However, household consumers’ confidence that the energy market is working in their long-term interests remains very low at 38 per cent, and 45 per cent for small business.

Our view is that trust and confidence is built through steady or declining prices and is undermined by price volatility. In this context, we would welcome more innovative thinking in the energy market about how to address the financing of these large national interest infrastructure projects.

⁴ TransGrid, *National Electricity Rules change proposal – 30 September 2020. Making ISP projects financeable – Participant Derogation*, page 24. Accessed online at <https://www.aemc.gov.au/sites/default/files/2020-10/New%20Rule%20Change%20Proposal%20-%20National%20Electricity%20Rules%20-%20TransGrid%20-%20Making%20ISP%20projects%20financeable%20-%2020200930.PDF>

⁵ Infrastructure Australia, *Infrastructure Decision-making Principles*, page 2. Accessed online at https://www.infrastructureaustralia.gov.au/sites/default/files/2019-06/Infrastructure_Decision-Making_Principles.pdf.

⁶ Penny Wong, (former) Minister for Finance and Deregulation and Stephen Conroy, (former) Minister for Broadband, Communications and the Digital Economy, *Statement of Expectations*, page 11. Accessed online at <https://www.nbnco.com.au/content/dam/nbnco/documents/statement-of-expectations.pdf>.

⁷ <https://www.financeminister.gov.au/media-release/2020/05/12/nbn-co-secures-61-billion-private-sector-funding>

⁸ To be released shortly at <https://energyconsumersaustralia.com.au/projects/consumer-sentiment-survey>



Should you have any questions about our comments in this submission, or require further detail, please contact Shelley Ashe, Associate Director Advocacy and Communications by email at shelley.ashe@energyconsumersaustralia.com.au.

Yours sincerely,

Lynne Gallagher
Interim CEO
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