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Enquiries: [REDACTED]

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Dear Mr Gulbenkoglou,

RE: Essential Energy Determination 2024-29 –Pricing Proposal

Thank you for the opportunity to submit comments on the 2024-29 regulatory proposal.

Central NSW Joint Organisation (CNSWJO) represents eleven Councils and one County Council, with a combined energy consumption of more than 50 gigawatt-hours from Essential Energy's network at more than 1,000 sites.

Each of our member Councils have adopted an energy strategy which seek to improve energy efficiency and respond to innovative opportunities for improved energy management. Most Councils have already implemented substantial solar PV projects, and all have identified further opportunities to reduce cost and promote sustainability and emissions reduction through additional investment in solar PV and battery energy storage.

The comments in this submission are made on behalf of CNSWJO member Councils and are as follows.

6. What do you think about the proposed scope of the targeted review?

- **The Connection Policy (Attachment 10.04) fails to adequately address the split-incentive problem for new connections.**

The Regulatory Proposal (Chapter 10) states:

"Connection Policy reflects a user-pays requirement, such that when a specific service is provided to benefit an identified user then they should pay for the cost of that work, keeping overall bills lower for other customers. This policy is included in Attachment 10.04."

On the surface this appears to be a sensible approach, however, in practice we have found that this creates a split-incentive problem for businesses in our towns. It appears that for most small commercial premises a 'basic connection offer' is rarely offered.

A 'standard connection offer' seems to be the norm for most businesses wishing to obtain a new connection or upgrade an existing connection, however, the cost of Level 2 works (usually involving the upgrade of an already-overloaded Essential Energy transformer) is prohibitive.

Business cannot unilaterally afford this upgrade cost, especially since the benefit of network upgrades is typically shared. It is our view that Essential Energy under this proposal is misrepresenting its capital investment, when in fact the customer will continue to be liable to pay for all capital works should they require even a small augmentation to their connection.

The effect of burdening businesses with the capital cost of upgrades means that expansion of industry in our towns is being stymied. When faced with a \$500,000 power upgrade, businesses simply do not proceed to expand, or move out of town to larger cities where capacity is available. Worse still, some businesses considering moving to the smaller towns to set up their operations are put-off by the lack of available power. Any innovation for electrification of fleets or equipment is similarly prohibited.

It is our view that many of the network upgrades being faced by businesses and Councils alike are:

- a) Required anyway (in that many parts of the Essential Energy network are already overloaded), and yet the next business requiring augmentation pays for the whole upgrade;
- b) Unfairly allocated to sites when other customers (and Essential Energy) also receive benefit; and
- c) Prohibitively expensive

We feel that the focus areas announced in the Regulatory Proposal do little to address these issues and that too much burden is being placed on customers to pay for network augmentation.

- **The Replacement Expenditure Proposal does not reflect the recent burdens placed upon Councils by Essential Energy.**

In our view, the proposal by Essential Energy to *"provide continued focus on higher-risk asset classes, including power poles and pole top equipment"* is completely at odds with our recent experience with Essential Energy.

Previously, Essential Energy had maintained and repaired all overhead power electrical assets located on Council owned, managed and operated facilities, such as showgrounds, parks and reserves, water or sewer treatment plants etc. Changes in legislation and direction from Essential Energy have resulted in a significant number of electrical assets no longer being maintained by Essential Energy. Council has been notified that they must now maintain these assets at Council's cost with little to no consultation or explanation as to the reason for the change.

Essential Energy have been undertaking network inspections on such poles being identified as a private pole on Council land and, where they find electrical defects, they are issuing Council with defect rectification notifications. The notices require rectification work to be completed within 6 weeks otherwise the work will be completed by Essential Energy and charged to Council. Due to the nature of the defects, the works require level 1 and 2 electrical contractors to complete the

rectification works, usually from out-of-town contractors. This results in significant additional mobilisation and demobilisation charges to have the work carried out.

Due to the large number of assets now classed as 'private' coming to the end of their useful life and this unexpected change by Essential Energy, there is a substantial number of asset rectifications that will require action from Council. This will add considerable unexpected costs to Councils water, sewer, parks, reserves and building budgets. Based on quotations received to date, the cost to rectify one currently identified defect is estimated to be in excess of \$50,000 as reported by a member council. By nature, these costs are not in Councils' forward budgets and money is not always available to pay for such rectification works at such short notice.

17. Do you consider that Essential's proposal provides reasonable balance between progressing tariff reform against customer impacts?

- **Councils intend to take advantage of the proposed Sun Soaker tariff.**

The proposed BLTTSS1 tariff clearly incentivises site owners to shift consumption into the 'new' off-peak period from 10am until 3pm. Where possible, Councils will investigate opportunities to shift their consumption to suit this tariff structure. However, for many facilities, load shifting will not be possible.

Many of Council's sites with existing or planned solar PV are expected to regularly incur the Band 2 export capacity charge and the symmetrical reward for export between 5pm-8pm – particularly in the summer (daylight savings) months.

This is because, in our view, solar has become sufficiently affordable such that over-sizing the quantity of solar is economically rational to maximise morning, afternoon and winter self-consumption - with low value summer export as trade-off.

Essential Energy's provided modelling for a commercial customer with a "large 10kW" solar system in our view is conservative – most of our small commercial sites have PV systems much larger than 10kW.

Clearly these sites are likely to far exceed the 3kW Band 2 threshold, however, we expect the export capacity charge and the export reward to largely be beneficial to the customer.

Broadly speaking, we believe that with some tariff re-assignment of our older sites (BLNN1AU), and some modest energy management to suit the pricing signals of the new tariff, our Councils can be better off with the proposed tariff.

- **Opportunities for flexible exports are being missed.**

Clearly, the intent of the proposed Sun Soaker tariff is to reduce midday exports and reward embedded generation in the evening peak.

However, most of our existing solar PV sites are export limited. It is our view that fixed export limits are becoming antiquated and export restrictions should be replaced by smarter control to suit the Sun Soaker tariff.

If sites are to be rewarded for evening export then why does the fixed export limit remain? We believe that the introduction of this new tariff provides an excellent opportunity to introduce flexible export limits at our sites – including a lower export limit between 10am-3pm and a higher (or unlimited) export limit between 5pm-8pm.

We invite Essential Energy to work with our member Councils to trial flexible exports to help accelerate our transition to the new Sun Soaker tariff, as per Essential Energy's - 12.01 Tariff Structure Statement (p41).

- **The impact of the Sun Soaker at larger sites and sites with demand tariff is unclear.**

The Sun Soaker tariff is currently only proposed to be available to small business and residential tariffs. We advocate for a comparable export for large site tariffs such that they are appropriately incentivised to reduce peak demand and where possible reduce midday export.

In the proposal, it is foreshadowed that large sites on demand tariffs will have a disproportionate export reward to the capacity export charge. This will fail to provide appropriate incentives for customer to shift load and provide export in the 5-8pm period.

For the Sun Soaker tariff on small sites there is no longer a shoulder period, and this should be the same for large sites and other alternative tariffs. The incentive for energy management at sites on the BLND3AO tariff to "Soak Up" solar is very low under this structure.

We similarly advocate for a substantial reduction in capacity charges at these sites in the off-peak / shoulder period, if not the total elimination of capacity charges outside the 5pm-8pm window.

We welcome the AER's review of Essential Energy 2024-29 proposal. If you require further information or clarification on comments, please do not hesitate to contact me on [REDACTED]

Yours sincerely,

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