

Have your say

On behalf of the Consumer Trustee, the Department is seeking feedback on the proposed Long-Term Energy Service Agreement (LTESA) terms and conditions. The paper sets out specific questions in each section for feedback, your views will help inform the final design of the LTESA.

Feedback

You can provide your feedback by:

- completing the online submission form: [Long-Term Energy Service Agreement Design Consultation Paper Submission form](#)
- downloading this Word version of the [submission form](#) and returning via Electricity.Roadmap@dpie.nsw.gov.au
- providing a free form submission via email to Electricity.Roadmap@dpie.nsw.gov.au with **'Your Name – LTESA design consultation submission'** in the subject line.

The consultation will be open for four weeks from Monday 9 August to **5pm Friday 10 September 2021**.

Please note that providing a submission is entirely voluntary, is not assessable, and does not in any way include, exclude, advance or diminish any entity from any future procurement or competitive process in regard to Renewable Energy Zones and/or the LTESA under the Roadmap, or any other NSW Government program.

The Department is committed to an open and transparent process, and all online responses and submissions will be made publicly available, except those requested to be kept confidential. The Department will redact personal details from submissions made by individuals to protect personal information. If a submission author considers any content in their submission to be revealing of protectable corporate intellectual property, they should clearly note and define this in their submission. In the absence of an explicit declaration to the contrary, the Department will assume that information provided by respondents is not considered intellectual property of the respondent. Written submissions should be provided as documents that can be published on the Department's website.

Confidentiality and intellectual property

If you wish for your written submission to remain confidential (except to Department project staff/officers and advisors, who are subject to appropriate confidentiality arrangements), please clearly state this in your submission, and only your organisation's name will be published.

The Department may disclose confidential information provided by you to:

- the NSW Minister for Energy and Environment or Minister's office
- the NSW Ombudsman, Audit Office of NSW or as may be otherwise required for auditing purposes or Parliamentary accountability
- directly relevant departmental staff/officers, consultants and advisors
- the Australian Energy Market Operator (AEMO), Energy Security Board (ESB), Australian Energy Market Commission (AEMC), Australian Energy Regulator (AER) or the Australian Competition and Consumer Commission (ACCC)

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- the legal person appointed, or to be appointed, to the position of Consumer Trustee (including its staff/officers, consultants and advisors)
- Clean Energy Finance Corporation (CEFC) or the Australian Renewable Energy Agency (ARENA) or distribution network service providers
- other parties where authorised or required by law to be disclosed.

Where the Department discloses this information to any of these parties, it will inform them that the information is strictly confidential. The Department may publish or reference aggregated findings from the consultation process in an anonymised way that does not reveal confidential information.

Please ensure to identify if you would like your submission to be confidential or anonymous, using the 'Confidentiality and submission publication preferences' section of this form.

Your details

Submission type	<input type="checkbox"/> Individual <input checked="" type="checkbox"/> Organisation <input type="checkbox"/> Other (please specify) Click or tap here to enter text.
Author name	Craig Memery
Organisation	The Public Interest Advocacy Centre (PIAC)
Author title	Director, Energy and Water Consumers' Advocacy Program
Phone	<input type="text" value="Enter phone number"/>
Email	<input type="text" value="cmemery@piac.asn.au"/>
Stakeholder group	<input type="checkbox"/> Generation or storage infrastructure provider <input checked="" type="checkbox"/> Electricity consumer or representative body <input type="checkbox"/> Network infrastructure provider <input type="checkbox"/> Energy retailer <input type="checkbox"/> Government or market institution <input type="checkbox"/> Individual <input type="checkbox"/> Debt provider <input type="checkbox"/> Equity investor <input type="checkbox"/> Other (please specify) Click or tap here to enter text.

Confidentiality and submission publication preferences

Would you like all or part of your submission to be confidential? If so, please identify the part(s) in your submission	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Some confidential submissions may be shared with the Australian Energy Market Operator (AEMO), Australian Energy Market Commission (AEMC), Australian Energy Regulator (AER), the Energy Security Board (ESB), the Clean Energy Finance Corporation (CEFC), Australian Renewable Energy Agency (ARENA), Essential Energy, Endeavour Energy and/or Ausgrid to better understand and respond to issues raised. Would you like your submission to be kept confidential from these parties?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
If published, only your name and organisation would be published. Would you like your submission to be anonymous and these personal details redacted?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Questions

You do not need to answer every question. Please answer the questions of interest to you. Please identify the part(s) of your submissions that you would like to be confidential in each relevant response below.

Generation LTESA

<p>Question 1.</p> <p>How effective is the proposed generation LTESA design in meeting the intended objectives, as outlined in Section 3: LTESAs in detail?</p> <p>(Please select numerical value between 1 (not effective) and 10 (effective) from the provided drop-down)</p>	<p>PIAC broadly supports the intent of the LTESA design concept and considers incentivising and encouraging renewable energy generation to meet system needs is appropriate.</p> <p>In PIAC's view, the proposed generation LTESA design could be improved to better meet two of the objectives in Section 3. These objectives are:</p> <ul style="list-style-type: none"> • Protect the financial interests of NSW electricity consumers by supporting sufficient (but not excessive) generation, long duration storage and firming projects; and • Achieve an efficient risk allocation between projects and NSW electricity consumers. The outcome of an efficient risk allocation is expected to be investors providing low-cost capital to fund projects. <p>We discuss this in specific sections below.</p>
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<p>a. What are your views on the overall generation LTESA design concept?</p>	<p>PIAC broadly supports the intent of the LTESA design concept and considers incentivising and encouraging renewable energy generation to meet system needs is appropriate.</p> <p>PIAC supports encouraging opportunities to integrate renewable energy in the COVID-19 economic recovery, and the National Energy Market (NEM).</p> <p>PIAC strongly supports policy and regulation which deliver a just and fair transition to a zero-carbon energy system and society.</p> <p>Further details on PIAC's views of the generation LTESA design concept are in Question 3.</p>
<p>Question 2. Beyond those mentioned in the paper, are there other major considerations that should be factored into the design concepts?</p>	<p>PIAC considers generators connected in Renewable Energy Zones (REZ) should be required to pay for access to the REZ, in particular, the costs of the shared transmission infrastructure in the REZ. If not recovered through access fees, this should be factored into the price generators will receive under an LTESA.</p>

Question 3.

We are seeking feedback on how risk has been allocated within the generation LTESA design concept. How can the risk allocation be optimised to meet the design objectives?

The proposed LTESA design Objectives are a strong signal to protect the financial interests of NSW consumers. However, PIAC considers 'Section 4 Price terms for generation' does not share risks in a way that will adequately protect consumers from high prices and guarantee them long-term value.

PIAC considers the following measures would improve financial risk sharing for consumers:

- Not compensating generators at all during negative price intervals. Paying generators to generate during negative intervals would have a perverse impact on the efficient operation of the energy market and system. The intention of negative pricing is to send a signal to generators that can switch off and ramp down quickly – like wind and solar – to do so, to avoid oversupply and risk to system security. Further, generators staying on at that time may drive wholesale prices further down, to the detriment of other generators.
- 'Uncapping' Long-Term Energy Service (LTES) operator repayments to the Scheme Financial Vehicle by delinking them from the amount paid by the generator.
- While PIAC understands the incentivising intent of the proposal, it is not clear why a cap on repayments is in the long-term financial interests of consumers, or that the lack of one would deter investors from developing new renewable projects under an LTESA.
- Capping repayments places price risk on consumers rather than appropriately sharing the risks based on who is best placed to manage them. In PIAC's view, continuing repayments to the scheme is unlikely to discourage investment or increase the strike price for an LTESA. The upside value to investors of the LTESA in preventing lost revenue would be higher than the downside value of sharing more of the benefit of sustained higher wholesale prices.

With uncapped repayments

If an investor enters an LTESA and repayments are uncapped, repayments to the scheme would be made for as long as wholesale prices are higher than the strike prices. The project would continue to benefit from higher wholesale price, while consumers benefit from a share of the repayments to the scheme.

If an investor is confident prices will be higher in the longer term, to the extent they are likely to return more funds to the scheme than they have received from it, they have an incentive to invest without the support of the scheme. This decision would be in the long-term financial interest of consumers.

With capped repayments

If, however, repayments to the scheme are capped

- consumers have taken the downside risk of paying into the scheme without any upside risk of benefits. Effectively, consumers will have provided free insurance.

The risk of 'losing' money is asymmetrical as: consumers can only 'lose' money to the scheme or, at best, break even; and projects can only 'make' money from the scheme or, at worst, break even.

The Consumer Trustee should be required to demonstrate how consumers are receiving a net-benefit from providing a 'sovereign or near sovereign credit rating' to the Scheme Financial Vehicle. If this rating comes from consumers taking on all the downside price risk while receiving capped repayments it is unclear how LTESA design and approach is delivering them benefits commensurate with the risk they are taking on.

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<p>Question 4.</p> <p>How can we reduce the complexity of the design without significantly altering a project's cost of capital or bid prices?</p>	<p>Remove the cap on repayments to the scheme as discussed in Question 3.</p>
<p>Question 5.</p> <p>The generation LTESA design is intended to support participation in the contracts market. Are any of the proposed design terms likely to interfere with participation in the contracts market? Which terms are most likely to enhance participation?</p>	<p>Click or tap here to enter text.</p>
<p>Question 6.</p> <p>Our intention is for the LTESA fixed price to cover debt service covenants, and the repayment threshold price to be set for a reasonable equity return.</p> <p>a. What factors will be considered in formulating a bid?</p>	<p>Click or tap here to enter text.</p>
<p>b. What are the benefits of allowing bidders to nominate a profile of fixed prices for each option period compared with a single nominal fixed price across the LTESA term?</p>	<p>Click or tap here to enter text.</p>
<p>Question 7.</p> <p>What are the key cashflow concerns for projects under the generation LTESA design? Has the LTESA design alleviated cashflow concerns that may exist for projects without a LTESA?</p>	<p>Click or tap here to enter text.</p>
<p>Question 8.</p> <p>We would like your feedback on the generation LTESA repayment mechanisms.</p> <p>a. How will the proposed repayment mechanism affect the fixed price and repayment threshold price in tender bids?</p>	<p>Refer to earlier points on repayment.</p>
<p>b. Are there any issues with the repayment design that might impact a project's operating or contracting strategy?</p>	<p>Refer to earlier points on repayment.</p>

Please provide any other feedback on the repayment mechanism here.

As noted in Question 3, PIAC considers repayments to the Scheme Financial Vehicle should be uncapped by delinking them from the amount paid by the generator.

While PIAC understands the incentivising intent of the proposal, it is not clear why a cap on repayments is in the long-term financial interests of consumers, or that the lack of one would deter investors from developing new renewable projects under an LTESA.

Capping repayments places price risk on consumers rather than appropriately sharing the risks based on who is best placed to manage them. In PIAC's view, continuing repayments to the scheme is unlikely to discourage investment or increase the strike price for an LTESA. The upside value to investors of the LTESA in preventing lost revenue would be higher than the downside value of sharing more of the benefit of sustained higher wholesale prices.

With uncapped repayments

If an investor enters an LTESA and repayments are uncapped, repayments to the scheme would be made for as long as wholesale prices are higher than the strike prices. The project would continue to benefit from higher wholesale price, while consumers benefit from a share of the repayments to the scheme.

If an investor is confident prices will be higher in the longer term, to the extent they are likely to return more funds to the scheme than they have received from it, they have an incentive to invest without the support of the scheme. This decision would be in the long-term financial interest of consumers.

With capped repayments

If, however, repayments to the scheme are capped:

- consumers have taken the downside risk of paying into the scheme without any upside risk of benefits. Effectively, consumers will have provided free insurance.

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	<ul style="list-style-type: none"> The risk of 'losing' money is asymmetrical as: consumers can only 'lose' money to the scheme or, at best, break even; and projects can only 'make' money from the scheme or, at worst, break even. <p>The Consumer Trustee should be required to demonstrate how consumers are receiving a net-benefit from providing a 'sovereign or near sovereign credit rating' to the Scheme Financial Vehicle. If this rating comes from consumers taking on all the downside price risk while receiving capped repayments it is unclear how LTESA design and approach is delivering them benefits commensurate with the risk they are taking on.</p>
<p>Question 9.</p> <p>The Department's reasoning for proposing fixed shape fixed volume contracts is that projects are best placed to manage their shape and volume risk, as outlined in Section 4: Price terms for generation LTESAs.</p> <p>a. How will the proposed risk sharing approach impact projects' risk position (including the credit risk of projects)?</p>	<p>Click or tap here to enter text.</p>
<p>b. How will the proposed risk sharing approach impact projects' LTESA fixed price and cost of capital?</p>	<p>Click or tap here to enter text.</p>
<p>c. The Department will consider other risk sharing arrangements if these arrangements can address the matters outlined in Section 4: Price terms for generation LTESAs. If proposing an alternate approach, please address these in your response.</p>	<p>Click or tap here to enter text.</p>

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<p>Question 10.</p> <p>We are seeking feedback on projects' decision making for exercising their generation LTESA options.</p> <p>a. What are the key factors that will influence the decision to exercise an option?</p>	Click or tap here to enter text.
<p>b. Would a project operate differently if it has exercised an option?</p>	Click or tap here to enter text.
<p>c. How would exercising an option affect the contracting strategy of a project? Will projects sign a power purchase agreement during an exercise period?</p>	Click or tap here to enter text.

Firming LTESA

<p>Question 11.</p> <p>What should be considered for the design of a firming LTESA.</p> <p>a. How suitable are the proposed long duration storage LTESA design and terms as a basis for a firming LTESA?</p>	Click or tap here to enter text.
<p>b. What other designs could be suitable for a firming LTESA? For example, an option to enter a cap contract.</p>	Click or tap here to enter text.
<p>c. Do you have any other feedback on the firming LTESA design?</p>	Click or tap here to enter text.

Long Duration Storage LTESA

<p>Question 12.</p> <p>How effective is the proposed long duration storage LTESA design in meeting the intended objectives, as outlined in Section 3: LTESAs in detail? (Please provide numerical answer between 1 (not effective) and 10 (effective))</p>	Choose a value
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<p>a. What are your views on the overall long duration storage LTESA design concept?</p>	<p>The long-duration storage LTESA design should maximise value to NSW consumers by incentivising an efficient mix of storage across a range of sizes and duration. The proposed restriction on long-duration storage to minimum 8 hours may hinder achieving this. Restricting to more than 8 hours is not clearly necessary and favours investment in certain storage types despite shorter and smaller storage solutions being adequate and providing important value. To ensure the right mix of storage types is reached at least cost and to avoid ruling out battery investment that is in the interest of consumers, the requirement for minimum 8 hours of storage should be altered so it is based on operational potential not nameplate capacity.</p>
<p>Question 13. Which is your preferred long duration storage LTESA design? Please explain your response or describe an alternative.</p>	<p>Storage systems in the energy-only market would optimise their State of Charge (SoC) with respect to their own market position, which may not be aligned with system-wide needs. When energy storage systems become a significant portion of the market, such that the market relies on them for capacity at times, this could result in a protracted lack of total capacity in the system. This risk and how it can be managed in LTESAs, for example by including some type of control over storage devices, should be considered. PIAC seeks further discussions with the Consumer Trustee around this issue.</p>
<p>Question 14. We are seeking feedback on how risk has been allocated within the long duration storage LTESA design concept. How can the risk allocation be optimised to meet the design objectives?</p>	<p>Click or tap here to enter text.</p>
<p>Question 15. How can we reduce the complexity of the design without significantly altering a project's cost of capital or bid prices?</p>	<p>Click or tap here to enter text.</p>

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<p>Question 16. Our intention is for the long duration storage LTESA contracted annuity amount to cover the expected shortfall of net operational revenue in meeting the minimum revenue required for investment. How would a project develop a bid for the annuity amount?</p>	Click or tap here to enter text.
<p>Question 17. The Department wants to ensure that the long duration storage LTESA retains the incentive for a project to operate in a profit-maximising way. To what extent is this encouraged in the Annuity Payment Option? Will the reduction in a project's annuity payment as its revenue approaches the net revenue threshold continue to incentivise profit-maximisation?</p>	Click or tap here to enter text.
<p>Question 18. We would like to understand the market opportunities for long duration storage:</p> <p>a. Which markets and services (both existing and future) are expected to be valuable to a long duration storage facility with 8 hours of storage?</p>	Click or tap here to enter text.
<p>b. How will revenues from these markets affect the contracted annuity amount that is bid?</p>	Click or tap here to enter text.
<p>c. Will a long duration storage LTESA change a facility's participation in other markets?</p>	Click or tap here to enter text.
<p>Question 19. We would like your feedback on the long duration storage LTESA repayment mechanisms?</p> <p>a. How will the proposed repayment mechanism affect the contracted annuity amount that is bid?</p>	Click or tap here to enter text.
<p>b. Are there any issues with the repayment design that might impact a project's operating or contracting strategy?</p>	Click or tap here to enter text.
<p>Please provide any other feedback on the repayment mechanism here.</p>	Click or tap here to enter text.

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Question 20. We are seeking feedback on projects' decision making for exercising their long duration storage LTESA options. a. What are the key factors that will influence the decision to exercise an option?	Click or tap here to enter text.
b. Would a project operate differently if it has exercised an option?	Click or tap here to enter text.
c. How would exercising an option affect the contracting strategy of a project?	Click or tap here to enter text.

Legal and project terms

Question 21. Which legal terms have the most significant impact and least significant impact to project certainty, bid prices and the weighted average cost of capital?	Click or tap here to enter text.
Question 22. Are there any other substantive legal terms we should consider?	Click or tap here to enter text.

Supporting information

If you have additional information you would like to provide to support your views, please provide it here. If you have additional documents to provide to support your views, please email it with your submission.	Click or tap here to enter text.
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