On Monday 9 August 2021, the NSW Government released a consultation paper (Consultation Paper) seeking industry feedback in relation to its Long-Term Energy Service Agreements (LTESAs) proposals.

But you may ask, what are LTESAs and how can you have your say?

Well...

THE ROADMAP AND LTESAS

In November 2020, the NSW Government unveiled the Electricity Infrastructure Roadmap (Roadmap), a framework to modernise (or dare we say 'bedazzle') the NSW electricity system. The release of the Roadmap garnered a lot of excitement from the
industry (and from us, which you can read here), and key parts of the associated consultation process are now underway.

An important part of the Roadmap was the establishment of the Electricity Infrastructure Investment Safeguard (Infrastructure Safeguard) as an investment signal to the market to deliver new electricity infrastructure.

LTESAs are the cornerstone of the Infrastructure Safeguard and will be option contracts for eligible generation, long duration storage and firming projects which give them optional access to competitively set a minimum price for their energy service.

LTESAs will be awarded periodically as part of a competitive tender process run by the Consumer Trustee (a role to which AEMO Services Ltd, a subsidiary of the independent Australian Energy Market Operator, was recently appointed).

KEY DESIGN CONCEPTS - GENERATION AND LONG DURATION STORAGE LTESAS

The two LTESA design concepts detailed in the Consultation Paper are Generation LTESAs and Long Duration Storage LTESAs, which are summarised below.

Generation LTESA

A Generation LTESA will be a series of options granting an Long-Term Energy Service (LTES) operator the right to exercise a swap arrangement referencing the wholesale electricity spot price at the NSW Regional Reference Node.

Key components:

- Fixed shape and fixed volume contract.
- Contract term up to 20 years with a fixed number of options to enter a swap (each with an option period of two financial years).
- Target dates for key project milestones with sunset dates attaching to termination rights.
- Fixed price per megawatt hour set through competitive tender process (with no escalation).
- A fixed repayment threshold price per megawatt hour higher than the LTESA fixed price will also be set in the tender process.
- Zero-price floor and LTES operator holds negative price risk.
- Repayment mechanism applies in non-exercise periods where the dispatch-weighted average price is above a fixed repayment threshold price.
- Share in net cost savings that emerge for projects between the tender and financial close but no share in net cost increases during that period.
Long Duration Storage LTESA

A Long Duration Storage LTESA will be a series of options granting an LTES operator the right to receive a minimum payment for the services it provides, either by way of an annuity payment, a swap arrangement or an agreed price for dispatch during 'super peak' hours in a day.

Key components:

- Contract term of up to 14 years for chemical batteries or up to 40 years for pumped hydro with a fixed number of options to enter an annuity payment contract (each with an option period of two financial years).

- Target dates for key project milestones with sunset dates attaching to termination rights.

- Fixed annuity amount will be bid in a competitive tender process (with no escalation).

- A net revenue threshold amount above which additional provisions apply for the annuity payment and repayment mechanism will also be set in the tender process.

- Annuity payment is made where net operational revenue is below net revenue threshold and will be the lesser of the contracted annuity amount or net revenue threshold minus net operational revenues.

- Repayment mechanism applies where net operational revenue is above fixed net revenue threshold.

- Share in net cost savings that emerge for projects between the tender and financial close but no share in net cost increases during that period.

HAVE YOUR SAY

The Consultation Paper (which can be accessed here) outlines in detail the NSW Government's design concepts and proposed structural elements of LTESAs and seeks broad feedback on every aspect.

This consultation is open from 9 August 2021 to 5.00 pm on 10 September 2021. If you would like to provide feedback, you can do so by:

- completing the Long-Term Energy Service Agreement Design Consultation Paper: Submission Form, available here; or

- 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.

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