

5 October 2022

Reference: kbjb 051022
Enquiries: Ms J Bennett: 0428 690 935

Mr Daniel Westerman
CEO and Managing Director
Australian Energy Market Operator
nem.retailprocedureconsultations@aemo.com.au

Dear Mr Westerman,

Re: Concerns about the ongoing costs of Unaccounted for Energy

Local Government Regional Joint Organisations (JOs) were proclaimed in May 2018 under the NSW Local Government Act 1993. The Central NSW Joint Organisation (CNSWJO) represents over 157,000 people covering an area of more than 47,000sq kms comprising the Local Government Areas of Bathurst, Blayney, Cabonne, Cowra, Forbes, Lachlan, Oberon, Orange, Parkes, Weddin, Central Tablelands Water, and Upper Macquarie County Council.

Tasked with intergovernmental cooperation, leadership and prioritisation, JOs have consulted with their stakeholders to identify key strategic regional priorities. The CNSWJO Strategic Plan can be found here: https://docs.wixstatic.com/ugd/51b46b_31886650ecf546bc916f15e99a733b3e.pdf.

Energy has emerged as a priority for the Joint Organisation over the past few years due to the significant change to the grid and the transition to renewables.

The CNSWJO also works with neighbouring Joint Organisations to collaborate on projects such as a recent renewable electricity supply agreement for 16 councils in Central NSW and the Riverina. Furthermore, the CNSWJO is part of the [Southern Lights Group](#) which consists of Joint Organisations representing 41 councils in regional NSW who are actively working with Essential Energy to achieve better outcomes for streetlighting. The work of the Southern Lights Group includes advocating for and supporting the transition to LED upgrades, for cost-reflective pricing of streetlighting through the AER Determinations, and for improved service levels through the NSW Public Lighting Code.

The concerns we raise in this letter are predominantly focused on the Unaccounted for Energy (UFE) charges that our councils have recently started seeing on their bills.

Councils were notified by their large sites' retailer in April 2022 that UFE charges would be included on invoices under a new item from May 2022. The correspondence from the retailer advised the UFE charges would be approximately +/-5% and that the charges include adjustments to distribution loss factors, estimation errors and commercial losses.

From recent bills, we have identified the percentage UFE charged to the eleven councils in the CNSWJO region to range from 8.63% of total consumption in June 2022, 9.97% in July 2022, and 6.02% in August 2022. The total cost of UFE charges for the councils in our region for these 3 months

was \$73,738. Should the UFE charges continue at this rate, our councils will be charged close to \$300,000 per annum.

With councils being rate pegged at 0.7% in 2022/23 (noting that some councils received a special rate variation), it is extremely difficult to absorb these significant charges.

We also highlight the following concerns:

- According to AEMO's UFE Trends Report dated 1 June 2022, the UFE percentage for the three NSW network distributors varies significantly, with Ausgrid ranging from -2% to +1.25%, Endeavour Energy ranging from -4% to +1%, while Essential Energy ranges from -0.5% to +16%.

It is concerning that the residents of regional NSW are bearing the cost of a network that is experiencing much higher UFE, while having fewer customers among which to share the cost.

The councils and JOs who form the Southern Lights Group have been advocating tirelessly over the past few years to Essential Energy to make the case to install smart controls on the streetlighting network, which is assumed to be one of the components of UFE. The smart controls would, amongst other things, address inventory inaccuracies, and notify the DNSP that a light is on, or off, when it shouldn't be without the need for it to be reported by a member of the public or through a night patrol on major roads. Councils are charged for the electricity consumed by the light regardless of whether or not it is working. Furthermore, should Minor Energy Flow Metering come into effect, smart controls provide further benefit by allowing customers to be charged for the actual electricity consumed by the lights rather than an estimation, while also providing the opportunity to realise savings through the ability to dim and trim the lights.

It is understood that other DNSPs in NSW are taking up this technology, however the regional DNSP is less willing. The Southern Lights Group continues to lobby Essential Energy in this regard.

- It is unclear what methodology has been approved by AEMO for retailers to charge UFE. Our current large sites' retailer has advised they are using the contracted rate to calculate the charges, but there is little transparency on the bill for customers to understand exactly how the UFE allocation for their local area is incorporated. Through speaking to other retailers, we understand some are using a spot market price approach to calculate the UFE charges, and others are not charging UFE at all.

We are very concerned that using spot market pricing could encourage gaming by retailers. There is no question that a standard methodology for calculation of UFE which is fully transparent to the customer is needed. It is not equitable for customers with different retailers to be charged under different pricing methodologies for what is supposed to be a pass-through charge. We also note that our existing retailer has a separate line item for UFE charges whereas others reportedly combine it into a broad market charges line item.

- While it is not currently mandatory for local government to report emissions, many of the councils in Central NSW do report emissions. Councils are working on strategies to reduce their emissions, and some have targets in place to align with state and federal government targets. It is the view of the councils that emissions associated with UFE should not be assigned to metered sites, but this in turn raises the question of where these emissions are correctly allocated.

Where UFE charges are listed as a separate line item on the invoice, which shows the UFE in kWh, there could be implications for organisations for whom emissions reporting is mandatory. Organisations would need be careful not to report the entire electricity consumption as shown on the bill, but rather what is actually consumed at the site. This is likely to cause unnecessary confusion.

Consistency in billing is required for retailers, with the preference being that UFE in kWh does not count towards the total electricity consumed by the site.

- It is unclear whether UFE charges apply to both large sites (>100MWh p.a. in NSW) and small market sites (<100MWh p.a. in NSW), or only large sites. Our member councils' existing small sites' retailer advises that UFE is not applicable, whereas the new small sites' retailer we are in the process of transitioning to advises that UFE is applicable.

Clarity on the applicability of UFE charges across residential, small market sites and large market sites would be appreciated as it appears the understanding varies from retailer to retailer.

- It is understood that AEMO is required to recommend actions to reduce the amount of UFE in the local area, however it is not clear how allowing charges to be passed on to the end user will incentivise AEMO, DNSPs or retailers to prioritise and carry out any such actions. On the surface it appears that the adoption of the UFE supports inefficient delivery of energy to customers. If there are no financial consequences to inefficient service delivery because the customers are picking up the full cost, there is no incentive to change.

The CNSWJO would like to better understand how AEMO plans to use UFE charges to fix the UFE issues. It is not a sustainable long-term strategy for the UFE charges to continue to be charged to the end user without some sort of consequence applied to the network provider, or to incentivise them to fix the network issues.

- In addition, CNSWJO would like to better understand how AEMO ensures that UFE charges and Distribution/Transmission Losses charges do not result in double-dipping and windfall profits for the retailer or distributor. How is the difference between a loss through distribution/transmission and a loss through UFE determined?

In its final rule determination, the Australian Energy Market Commission (AEMC), stated that it made the rule change to avoid administrative burden on AEMO and argued that UFE is expected to be very small and randomly positive and negative and so would be inconsequential. This is clearly not the case for councils in the Essential Energy region which covers most of regional NSW. An increase to electricity bills of \$300,000 per annum over 11 councils is significant and not sustainable.

Our member councils have been working hard over the past few years to undertake energy efficiency activities, install on-site renewable energy generation and other activities to reduce their electricity bills, however UFE charges have the potential to negate that work by eating into those cost savings. Councils have also spent the past 12 months trying to get smart meters installed on sites consuming >30MWh p.a. and on sites where there are regular estimated bills. While some progress has been made, there are still many sites that have not received the requested smart meters for a variety of reasons including site-related issues.

Councils, and indeed businesses and residents, are already experiencing significant increases in the cost of electricity, and these additional charges further add to the strain on regional NSW in such turbulent times.

CNSWJO and our member councils are constantly lobbying the DNSP for initiatives that lead to better outcomes, rarely with any success. Recent examples include:

- An audit of significant overcharges due to inaccurate street lighting inventories was commissioned by the DNSP over 2 years ago and still remains unresolved. Concerns are held that errors and overcharging are not being picked up by councils who do not have the capacity to do such a thorough check of bills and inventory where there are close to 20,000 lights in the CNSWJO footprint. With the technology advancements such as smart controls, it is baffling that such manual intervention is required to ensure accurate inventory and billing (to date this has not been achieved).
- The Southern Lights Group has been lobbying the DNSP for around 5 years to install smart controls on street lights. The DNSP led an extensive Expression of Interest process more than 2 years ago with technical support from a highly reputable consultant funded by the councils; however, the process was ceased by the DNSP prior to awarding a contract. Subsequently, through further requests by the Southern Lights Group, the DNSP has since undertaken various unknown internal processes which to date have still not resulted in this internationally recognised standard asset management solution being rolled out across the Southern Lights footprint to give the DNSP better visibility of their assets. Where advice from the DNSP regarding their approach to smart controls continues to change, for example an internationally one-of-a-kind model has been recently mooted and this region would argue is unworkable, councils are expressing engagement fatigue.
- A collaborative application to RACE for 2030 was commenced in 2021 to the *Low Voltage Network Visibility and Optimising DER Hosting Capacity Program*, for a project titled *Alleviating Constraints and Optimising Capacity of the Electricity Network in the NSW Central West*. This research project was identified by and requested from CNSWJO member councils where evidence from AREMI mapping confirms some areas of the region are energy insecure. A recent example is the desire from councils to install electric vehicle charging stations with there being insufficient information readily available to identify locations where charging stations could be installed.

The application process for this proposal commenced in May 2021 in collaboration with the University of Technology, Sydney (UTS), NSW Department of Planning Industry and Environment (DPIE), Essential Energy and CNSWJO. Recent advice is that the DNSP is making alternate arrangements to those originally agreed to be included in the proposal and has subsequently pulled out of the application at the final moment prior to project approval. Given the above evidence of pivoting and lack of follow-through on projects such as smart controls, our confidence that the alternate internal arrangement around network capacity constraints is ever likely to happen is low. Many people who have devoted their time and effort to the extensive application process have expressed their disappointment in the DNSP withdrawing at such a late time in the process. Ways to complete the work without the DNSP's involvement are being explored.

Given the higher UFE charges in the Essential Energy footprint, and the challenges in implementing solutions in this region, CNSWJO is seeking for specific attention to be given to this region and its issues.

We believe further work needs to be done by AEMO and other relevant organisations with regard to UFE charges, including:

- Investigating opportunities to at least share the UFE burden with the network providers, particularly in regional NSW, and/or retailers. Passing these costs through to customers who

have meters and who are trying to explore opportunities for costs savings is not sustainable. More work needs to be done on identifying actions to correct the issues that cause unaccounted for energy and fairly apportioning the cost burden to the parties who have the ability to fix the issues. It is the view of the CNSWJO Board that the DNSP for this region ought to have a better understanding of its assets. Clearly, the UFE costs being passed through is the financial outcome of this poor understanding.

- Encouraging DNSPs to be actively fixing the issues through initiatives such as accelerating the installation of smart electricity meters where bill estimates are another contributor of UFE.
- A transparent, clear and consistent approach to UFE charging methodology for all retailers.
- A consistent approach to how UFE charges are listed on the bill, including so that UFE in kWh does not appear to contribute to the electricity actually consumed by the site for emissions reporting purposes.
- Clarity for retailers and consumers as to whether the UFE charges are applicable to all sites or only large market sites consuming greater than 100MWh p.a.
- An auditing and dispute resolution regime delivered by AEMO that ensures that there is no double-dipping in respect to charges for Transmission Losses and charges for UFE and where customers can lodge complaints regarding the quantum of these charges.

We thank you for your time and consideration of the points raised in this letter and welcome clarity and consultation on how to address the concerns raised.

Please contact Executive Officer Jenny Bennett on 0428 690 935 if you would like to discuss any of the above any further.

Yours sincerely,



Cr Kevin Beatty
Chair
Central NSW Joint Organisation

cc:

Australian Energy Market Commission
Australian Energy Regulator
Energy Networks Australia
Essential Energy
Independent Pricing and Regulatory Tribunal
NSW Energy Ombudsman