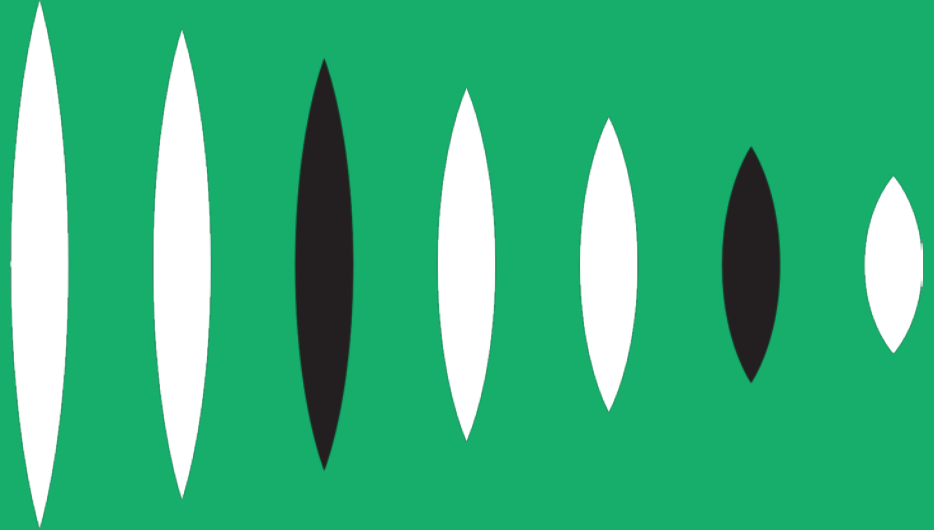


National Energy Guarantee

Comments prepared for the ESB
Forum

2 July 2018

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A/g CEO



Independent Review into the Future Security of the National Electricity Market

— — —
June 2017



“Action should be taken with the aim of creating a market environment in which the electricity sector has the confidence to invest. The impact of a high degree of market uncertainty is ultimately borne by consumers in the form of a more costly, less reliable system. Governments must provide the sector with a transparent, credible and enduring strategy that sets out priorities and expectations for the sector. This strategy should provide the framework under which the sector is confident to make long-term investment decisions. To be seen as credible and to deliver planning benefits to the sector, the strategy must include a long-term emissions reduction trajectory for the sector and an emissions reduction mechanism with widespread community and political support to achieve the trajectory.”

Final Report Independent Review of the Future of the Electricity System, page 78

Recommendation 3.2

There is an urgent need for a clear and early decision to implement an **orderly transition** that includes an agreed emissions reduction trajectory, a credible and enduring emissions reduction mechanism and an obligation for generators to provide adequate notice of closure.

- The Panel **recommends** that the Australian and State and Territory governments agree to an emissions reduction trajectory for the National Electricity Market.
- Both a Clean Energy Target and an Emissions Intensity Scheme are credible emissions reduction mechanisms because they minimise costs for consumers, are flexible and adaptable, and satisfy security and reliability criteria. Both mechanisms are shown to deliver better price outcomes than business as usual.
- With the additional context that a Clean Energy Target can be implemented within an already well understood and functioning framework, and has better price outcomes, the Panel **recommends** a Clean Energy Target be adopted.
- To support the orderly transition, the Panel **recommends** a requirement for all large generators to provide at least three years' notice prior to closure. The Australian Energy Market Operator should also maintain and publish a register of long-term expected closure dates for large generators.


Energy Security Board

A National Energy Guarantee



October 2017





The proposed National Energy Guarantee aims to support the provision of reliable, secure and affordable electricity with a focus on ensuring:

- **the reliability of the system is maintained**
- **electricity sector emissions reductions needed to meet Australia's international commitments are achieved**
- **the above objectives are met at the lowest overall costs.**

Overview of the National Energy Guarantee process

- On 24 November 2017, the COAG Energy Council agreed that the ESB should provide further advice on the Guarantee.
- On 15 February 2018 the ESB published a consultation paper for the draft design of the Guarantee. This consultation paper was prepared by the ESB to facilitate public consultation on the high-level design of the proposed Guarantee and to seek stakeholder submissions.
- On 20 April 2018, the ESB's high level design proposal for the Guarantee was presented to a meeting of the COAG Energy Council on 20 April 2018. It was agreed for the ESB to progress development of the detailed design of the Guarantee, for determination at the COAG Energy Council's 10 August 2018 meeting.
- On 15 June 2018 draft Detailed Design of the National Energy Guarantee (Guarantee) was released by the ESB for public consultation. The Commonwealth Government has prepared a draft detailed design document, [National Energy Guarantee Draft Detailed Design - Commonwealth Elements](#), for consultation on the design elements that are its responsibility.

Our approach to the National Energy Guarantee

Energy Consumer Australia supports the designing of a National Energy Guarantee mechanism to:

- deliver targeted progress towards lower emissions through renewable energy sources; while
- maintaining an energy system we can depend on; but
- at a cost the community thinks is value for money.

Three things we want addressed in the architecture:

- addressing the risk of over-investment in generation assets and demand response, that turns out not to be needed;
- safeguarding competition, while ACCC will do the heavy lifting in its recommendations;
- downward pressure on prices.

Design issues – can the NEG lower prices?

- ✓ Certainty in the mechanism to integrate energy and emissions policy, lowering risk for investment in generation capacity
- ✓ The technology-neutral nature of the reliability requirement means both demand and supply-side resources can be used, ensuring that the supply-demand balance is achieved efficiently
- ✓ As renewable generators supply firm-capacity contracts such as swaps and caps and compete with existing dispatchable capacity, lowering contract prices ...BUT
- ? As contracting for generation increases it could reduce the level and volatility of spot prices. But does this increase contract prices, for a given level of generation capacity?

Design issues – can the NEG safeguard competition?

- ✓ Obligations for the reliability and emissions requirements managed by whatever contract arrangements deemed appropriate, with compliance with emissions reduction requirement managed through the registry
- ✓ Limits on carry-forward provide sufficient opportunity to secure adequate contracts, addressing risk to competition, while under-achievement allows for temporary shortages
- ✓ Exemption (first 50,000 MW) assists smaller market participants
- ✓ Managing costs of the mechanism – inclusion of large customers in the obligation
- ? Working out what we think - Specific transparency and liquidity measures – the Market Liquidity Obligation, Trade Repository and voluntary AEMO book-build

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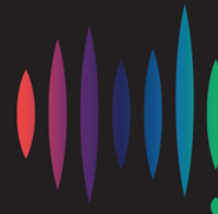
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