



8 June 2021

Dr Kerry Schott AO
Chair
Energy Security Board
GPO Box 787
Canberra ACT 2601

Email: info@esb.org.au

Dear Dr Schott

Post 2025 market design options paper

Thank you for the opportunity to respond to the Board's Post 2025 Market Design Options Paper (the Options Paper).

As you know, EDL is a leading global producer of sustainable distributed energy. We own and operate nearly one hundred power stations across Australia, North America and Europe, both grid connected and remote and using wind, solar, gas, liquid fuels and storage. We have a thirty year reputation for developing innovative, tailored clean and green energy solutions.

EDL continues to support the secure, reliable, affordable and sustainable supply of electricity to meet the needs of Australian households and businesses.

The focus of this submission concerns the Board's proposed reforms regarding resource adequacy and thermal generation exit. Our positions on the remaining three reform areas remain largely unchanged from our previous submissions with brief comments on each set out further below.

We believe it is worth restating two of the high level reform considerations raised in our previous submissions. These are that:

- in a time of rapid transition, technologies can evolve faster than market designs adapt — designs should therefore be fit for purpose but not unduly prescriptive and should be revisited and adapted as the National Electricity Market (NEM) changes and
- the wholesale market remains highly concentrated — the design should therefore include features to address this where that concentration is likely to hamper the objectives of the reforms, including delivering efficient outcomes.

Resource adequacy and thermal generation exit

In terms of the Board's proposed initial reforms, EDL agrees that there is a risk that financial contracting under the Retailer Reliability Obligation (RRO) will not be sufficient to signal the need for generation capacity to respond to either short term low reserve conditions or for longer term closure replacement.

Without the link between physical and financial contracts there remains a risk there is a mismatch between the financial and physical positions and generation capacity is not incentivised to respond to manage price risk. EDL agrees that physical certificates would ensure the link back to the assets responding when needed and supports this concept.

Without a long-term incentive to invest however, such is as seen in the UK capacity market, the Commonwealth's Underwriting New Generation Investment scheme or the NSW Electricity Infrastructure Investment scheme, investors will continue to find it difficult to invest in capacity that is often only used at times of greatest need.

Recent investment decisions such as Energy Australia's 316 MegaWatt (MW) Tallawarra B gas generator¹ and Snowy Hydro's 660MW Kurri Kurri gas generator² are only being undertaken with Government ownership or support. Those parties that to date have not had financial support, such as AGL and Origin, have effectively deferred their investment decisions³.

EDL considers that, while removing the T-3 obligation will assist in providing an investment signal, it remains short of what is required. The RRO continues to remain vulnerable to the lack of competition that is a current feature of the NEM⁴ with large retailers able to manipulate, and thereby weaken, the investment signal by effectively being able to move capacity in and out of the market. That is, they are often the party deciding to close generation while also the party that can underpin it.

As previously submitted, EDL's first preference remains that the Board revisit adopting one of the off-the-shelf centralised capacity market approaches used overseas. Doing so would provide a far more stable, longer-term signal⁵. Again, an independently set reliability target, a knowledgeable system operator acting as procurer and the proper accountability of that system operator can overcome the concerns previously raised by the Board regarding the relative merits of a centralised approach.

Should the Board continue to prefer the decentralised physical certificates model, then the design should incorporate elements to ensure that smaller generators have a meaningful opportunity to compete to help deliver the reliable supply of energy⁶.

¹ <https://reneweconomy.com.au/energyaustralia-to-build-first-green-hydrogen-gas-generator-in-nsw/>

² <https://www.theguardian.com/australia-news/2021/may/18/morrison-government-to-fund-600m-gas-fired-power-plant-in-nsw-hunter-region>

³ <https://www.goldcoastbulletin.com.au/business/origin-ceo-frank-calabria-warns-on-messy-coal-exit/news-story/9456a5ae0eec5f23bf4b4d741a51ce6d?btr=62fee58bcde3549aec989c366706e11f>

⁴ See references to agency findings in our October 2020 submission including those of the Australian Competition and Consumer Commission in its 2018 Retail Pricing Inquiry.

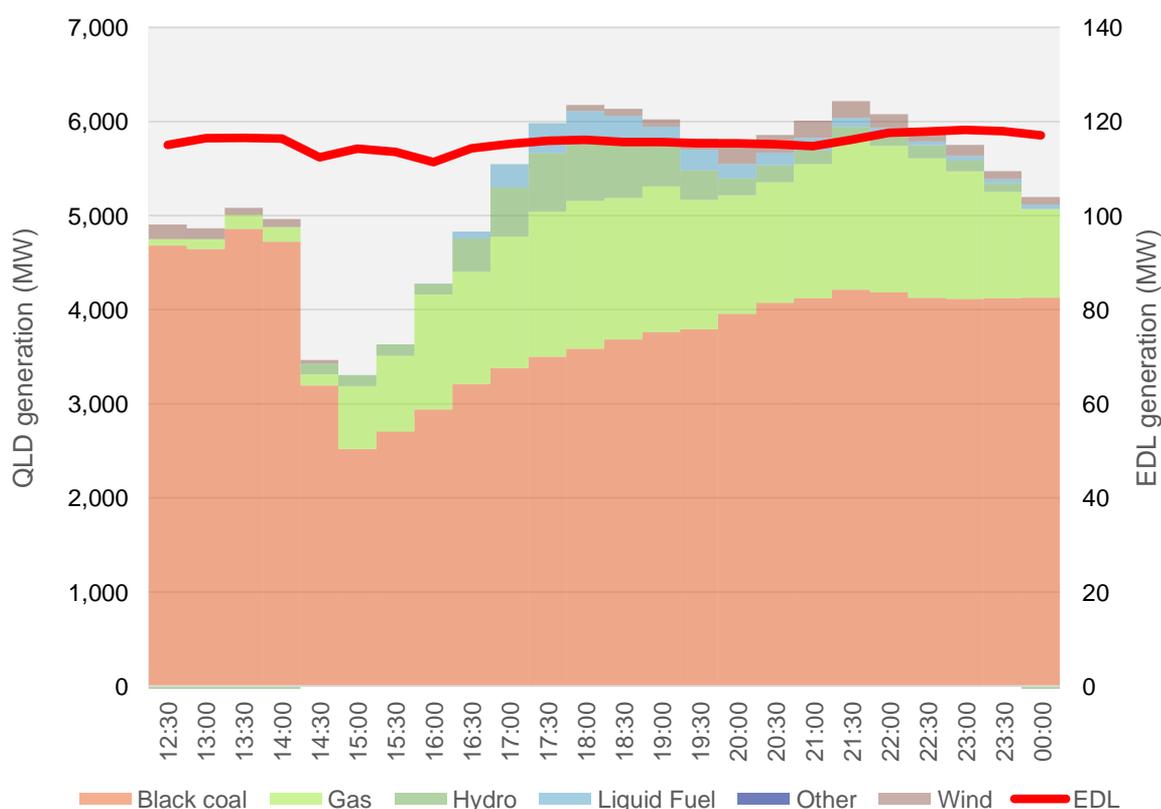
⁵ For example, the UK capacity mechanism involves 15 year contracts for new investments (see <https://www.engie.co.uk/wp-content/uploads/2016/07/capacitymarketguide.pdf>).

⁶ This might, as is the case in some US markets, involve the ability to "fetter" bids from large suppliers (see FTI Consulting, *Resource Adequacy Mechanisms in the NEM* (2020), p 64) as well as ensuring that the cost of participating in the capacity market does not present a barrier to smaller providers.

It is worth highlighting the contribution that smaller generation can make. The figure below illustrates how, during the supply shortfall on 25 May 2021 caused by Callide C, EDL's Queensland assets (indicated by the red line) continued to deliver firm electricity when many much larger generators were unable to.

Regarding the proposed immediate reforms designed to address the risks associated with thermal generation exit, EDL notes that there is likely to be very limited value in including the mothballing of generation in the Notice of Closure obligation. The temporary withdrawal and re-entry of capacity is driven by medium rather than longer-term market signals and is already effectively captured under Medium-Term Projection of System Adequacy (MT-PASA) disclosure requirements. It is possible that AEMO or others may react to what can be a short term decision to remove capacity for commercial reasons. For example, a coal generator removed from one quarter of the year may return quite quickly if price signals justify it. Adding more reporting is likely to increase complexity and the risk of reactive and poor decisions, add cost and duplicate the function the MT-PASA already undertakes.

Figure EDL and other Queensland generators output on 25 May 2021



Essential system services (ESS), scheduling and ahead mechanisms

EDL again agrees that the changing supply technology mix coupled with a more active and varying demand side requires a broader range of essential system services beyond those currently provided. We agree that, where feasible, these services should be provided on a market basis or, otherwise, via a structured approach. However:

- care should be taken to ensure that, as technologies evolve, the arrangements do not inadvertently restrict the uptake of potential solutions

- there should be no weakening of the tests regarding the efficiency of procurement via the networks or the system operator. There is no reason why if a need was signalled to the market it couldn't be addressed by the market as either a service to the network or to parties in the market requiring essential system services (existing proponents and/or developers). We need to continue to be careful to ensure new investments are the most efficient and don't free ride through having costs smeared across all customers. As to the latter, further analysis and engagement is needed to ensure that the proposed short-term System Security Mechanism will deliver efficient outcomes and
- longer-term, market-based services should only be co-optimised with the energy spot market where there is confidence that this is technically and commercially feasible, noting that the services should also be able to be hedged to maximise efficiency.

The integration of distributed energy resources and demand side participation

Effective and efficient two-sided markets and DER integration will both be important features of the future NEM. Work should continue to evolve their development noting that EDL does not see them as having the same current priority as the resource adequacy and ESS mechanisms.

Transmission and access

EDL agrees that the NEM (and the economy more widely) would benefit from a consistent set of Renewable Energy Zone arrangements and a harmonised approach to access between those zones and the regional reference nodes. However, we remain of the view that a move towards the AEMC's proposed COGATI reforms (locational marginal pricing and "firm" transmission rights) would introduce unmanageable uncertainty, risk and cost to market participants and energy consumers, particularly at a time when the more pressing issues discussed above need addressing. Indeed, given the Board's view in the recent Directions Paper, it is surprising to see that that view has changed, particularly given the limited analysis in favour of doing so provided in the current Options Paper.

This also impacts on the merits of the interim steps (a combination of generator charges and rebates, network connection and use fees) newly proposed in the Options Paper. Again, there appears to have been limited analysis conducted and discussed regarding the size of the problem, how those mechanisms would operate in combination and how doing so would sufficiently lower the likely risks and costs to make generation investable during their operation.

In the circumstances, EDL once again strongly submits that the proposed reforms should be deferred until beyond 2025.

EDL would also be concerned if critical mechanisms for ensuring the efficiency of proposed transmission investments, such as the Regulatory Investment Test-Transmission (RIT-T), were weakened. Inefficient investments not only serve to increase costs to energy customers but can have serious impacts on the dispatchability and viability of existing and future generation in related parts of the network.



Concluding remarks

EDL very much supports the Board's efforts. While we welcome specific reform initiatives, we nevertheless remain concerned that there has been insufficient analysis, including stakeholder engagement regarding the results of that analysis, that would lead us to be comfortable with a number of the Board's key proposals as outlined above.

I note the Board has only a very short window to take into account submissions on the Options Paper, conduct further analysis and then finalise its recommendations to the National Cabinet Energy Sub-Committee. We would argue strongly that those recommendations should not be put forward until further work and stakeholder engagement has been undertaken.

Please do not hesitate to contact Anthony Englund, Head of Regulatory Affairs at anthony.englund@edlenergy.com or on (0412) 039 860 should you wish to discuss any aspect of this submission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J Harman', is positioned above the printed name.

James Harman
Chief Executive Officer