

10 February 2022

Ms Anna Collyer
Chair
Energy Security Board
Lodged by email to: info@esb.org.au

Dear Ms Collyer,

Response to *Capacity mechanism - Project initiation paper*

The Clean Energy Investor Group (CEIG) welcomes the opportunity to provide feedback on the Energy Security Board (ESB)'s *Capacity mechanism - Project initiation paper* (the Initiation paper) published on 16 December 2021.

CEIG represents domestic and global renewable energy developers and investors, with more than 11GW of installed renewable energy capacity across more than 70 power stations and a combined portfolio value of around \$24 billion. CEIG members' project pipeline is estimated to be more than 18GW. CEIG strongly advocates for an efficient transition to a clean energy system from the perspective of the stakeholders who will provide the low-cost capital needed to achieve it.

KEY POINTS

- As part of its 2022 consultation program, the ESB should review international and domestic (Western Australia) experiences of capacity markets, demonstrate the need for a capacity market and why it would yield better outcomes than amending current market rules (including a robust assessment of both costs and benefits).
- Notwithstanding CEIG's reservation about the need for a capacity market, CEIG supports the proposals from the ESB that:
 - set up an Advisory panel and Working Group to ensure regular and deep engagement with a broad range of stakeholders; and
 - provide for regular formal consultations on its work throughout 2022.

- The Ministers' *Principles to guide Capacity Mechanism development* provide a useful set of guardrails, particularly:
 - the need for the capacity market to support emission reduction efforts in the electricity supply;
 - the flexibility for jurisdictions to determine which technologies would be eligible to participate; and
 - the options for jurisdictions to opt in or out.
- In designing its capacity market, the ESB must follow all the Ministers' Principles, not merely investigate their suitability, to avoid stakeholders losing confidence in the design process.
- The need for Ministers to include emission reduction objectives in their Principles demonstrates that a simple consideration of the National Electricity Objective (NEO) as it is written today is no longer sufficient to guide energy market design.
 - CEIG continues to argue that an environmental objective should be added to the NEO.

THE ESB NEEDS TO MAKE THE CASE FOR A CAPACITY MARKET

The ESB's recommendation to Energy Ministers in July 2021 to adopt a capacity market was not foreseen by stakeholders and that option was not canvassed in previous consultation papers.

As part of its 2022 consultation program, the ESB should:

- thoroughly review international and domestic (Western Australia) experiences of capacity markets; and
- demonstrate the need for a capacity market and why it would yield better outcomes than amending current market rules (including a robust assessment of both costs and benefits).

ESB'S APPROACH TO CONSULTATION WITH INDUSTRY

Notwithstanding CEIG's reservation about the need for a capacity market, CEIG welcomes the publication of the ESB's Initiation paper and the proposed work plan that will guide the development of the detailed design for a capacity mechanism throughout 2022. The Initiation paper provides useful clarity on the work program ahead.

CEIG also supports the ESB's establishment of an Advisory panel and Working Groups to ensure regular and deep engagement with a broad range of stakeholders. CEIG thanks the ESB for the invitation to participate in those Groups. CEIG looks forward to bringing the investor voice and engaging constructively with the market bodies to progress the necessary reforms for the National Electricity Market (NEM)'s transition to clean energy.

SUPPORT FOR MINISTERS' PRINCIPLES TO GUIDE CAPACITY MECHANISM DEVELOPMENT

CEIG acknowledges the *Principles to guide Capacity Mechanism development* (the Ministers' Principles) issued by Energy Ministers to the ESB in 2021. The Ministers' Principles provide a useful set of guardrails to help the ESB design the proposed capacity mechanism.

More specifically, CEIG is pleased to see that the Ministers' Principles:

- focus on continuing to reduce the emissions of the electricity supply:
 - considering the urgent need to decarbonise the electricity supply, CEIG agrees that focus should be on incentivising investment in zero-emission technologies in the NEM;
- provide sufficient flexibility for jurisdictions to determine which technologies would be eligible for participation in a capacity mechanism in their region:
 - this condition tightens the broader requirement for the scheme to be technology neutral;
 - the requirement to be technology neutral may not be sufficient in itself to decrease the risk that a capacity market may unnecessarily extend the economic life of thermal plants;
- provide jurisdictions with the option to opt in or out of the scheme.

The ESB must follow the Ministers' Principles

The ESB suggests that some Ministers' Principles may not be fully implemented as part of the capacity market design:

Some of the Energy Ministers' design principles are readily addressed in developing a capacity mechanism that is best suited to the NEM's future needs and will apply across the NEM. Other design principles will require careful investigation to ensure that the capacity mechanism satisfies them as best as possible while meeting the objective of ensuring investment in an efficient mix of variable and firm capacity that meets reliability at the lowest cost.

CEIG is highly supportive of the Ministers' Principles as they reflect legitimate concerns of Ministers that have also been echoed by industry. In progressing the design of its capacity market, the ESB must follow all the Ministers' Principles, not merely investigate their suitability, to avoid stakeholders losing confidence in the design process.

Need for an environmental objective in the National Electricity Objective (NEO)

The need for Ministers to include emission reduction objectives as part of their Principles demonstrates that a simple consideration of the NEO as it is written today is no longer sufficient to guide energy market design.

In our [Clean Energy Investor Principles](#), CEIG has noted that the need for consistency with the Paris climate Agreement must cascade down through the work programs of the market bodies.



An environmental objective should be added to the NEO to recognise the need to reduce carbon emissions in the pursuit of efficient investment in, and operation, of electricity services. It would allow the market bodies to then revise the assessment criteria they use to inform policy and regulatory decisions.

CEIG thanks the ESB for the opportunity to provide feedback on its Initiation paper and looks forward to continued engagement on those issues. Our Policy Director Ms. Marilyn Crestias can be contacted at marilyne.crestias@ceig.org.au if you would like to further discuss any elements of this submission.

Yours sincerely,

Simon Corbell
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