



10 February 2022

Ms Anna Collyer
Chair
Energy Security Board
GPO Box 787
Canberra ACT 2601

Email: info@esb.org.au

Dear Ms Collyer

Response to capacity mechanism project initiation paper

Thank you for the opportunity to respond to the Board's Capacity mechanism project initiation paper (the Paper).

As you know, EDL is a leading global producer of sustainable distributed energy. We own and operate close to one hundred power stations across Australia, North America and Europe, both grid connected and remote and fueled by 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 Paper seeks input regarding the high level design choices for a capacity mechanism. In particular, it asks stakeholders for their views as to what a centralised mechanism may look like. EDL has consistently advocated a strong preference for a centralised approach throughout the Post-2025 National Electricity Market (NEM) design review. This submission restates our rationale for that preference (see Answer 5 below) and responds to a number of the Board's questions.

Q1. *Considering the design principles from Energy Ministers, are there any additional assessment criteria the Board should use when assessing identified issues and possible solutions?*

A1. EDL generally agrees with the assessment criteria but considers that they should explicitly include delivering efficient capacity market outcomes. On this, we restate the point we made in earlier submissions that measures to mitigate the effect of market power should be included to ensure those efficient outcomes. Our views on what those mitigation measures might look are set out in Answer 16 below.

Q3. *Are there specific design choices from international capacity markets the ESB should explore in a NEM context?*

Q4. *Are there other international examples of valuing capacity that the ES should consider?*

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A3/4. EDL operates across a number of international energy markets. As previously submitted, EDL's view is that the UK and Irish capacity market designs should form the basis of a NEM design. They exhibit many of the features sought in the design principles set by the Energy Ministers including:

- an independent assessment of reliability needs coupled with a centralised approach to procurement
- technology neutrality with transmission expansion, demand side management and generation all able to compete
- providing confidence in supply with long term contracts (up to 15 years) available to underpin new capacity projects and
- greater competition via mechanisms designed to remove the market power of incumbents.

Q5. *What design choices do stakeholders consider would work well for the NEM?*

A5. Consistent with our earlier submissions, EDL strongly prefers a centralised model where an independent body determines the capacity required and a second body (such as AEMO) undertakes the procurement. This approach:

- reduces the regulatory burden on retailers and market customers
- avoids the challenges previously raised by the Board concerning compliance and enforcement under a decentralised approach
- addresses any incentive to over-procure
- provides for penalties in the event of a failure to provide promised capacity and
- most importantly, provides a longer-term investment signal than would be likely under a decentralised model, helping to deliver stable electricity prices and the levels of reliability expected by the community.

A7. *Do you have any views on whether there are other design areas the ESB will need to consider in the design of a capacity mechanism?*

A7. The Paper appears to identify all the relevant design building blocks and interactions.

Q9. *Do stakeholders have views on the definition of reliability at risk periods?*

A9. EDL agrees that the increasing penetration of Variable Renewable Energy, as well as changing consumption patterns, mean that the definition of "at risk" periods is changing and will likely continue to do so. The capacity market should be designed with a requirement to periodically review what the drivers for those periods are, when they are likely to occur and their potential duration.

Q13. *Which of the procurement approaches is best suited to the NEM and why?*

A13. As noted in response to Question 5 above, EDL strongly supports centralised forecasting and procurement, undertaken by separate entities. As the Paper adverts to, separating the two functions minimises the risk of over-procurement.

Q14. Which of the outlined approaches to addressing transmission constraints can be expected to work best in the context of the NEM?

A14. EDL does not support the introduction of locational pricing signals to address transmission congestion. As previously submitted, introducing such a major change would involve unworkable levels of uncertainty for current market participants. And it must not be done unless and until proper analysis has been undertaken that demonstrates a genuine net benefit from the change, a detailed design completed and thoroughly tested and an agreement reached with market incumbents regarding appropriate transitional arrangements.

Q16. Are there any suggestions for ways that market power could be mitigated?

A16. EDL notes the Paper agrees that the high concentration levels in the real-time and prospective capacity market make it important that the capacity market design includes appropriate mitigation mechanisms. The design should advance the benefits from competition. This should include offer caps for participants above certain volume thresholds. EDL also agrees that the Australian Energy Regulator should have a monitoring and enforcement role in the capacity market.

Q19. Which of the options for demand side incentives and compliance would work well, or not work well, and why?

A19. EDL agrees that centralised procurement simplifies demand side compliance.

Q20. Which of the options for supply side incentives and compliance would work well, or not work well, and why?

Q21. Are there any other issues the ESB needs to consider when developing the approach to penalties and compliance?

A20/21. EDL considers that the key objective of ensuring there is adequate capacity available when it is needed requires an effective penalty regime, not just the ability to derate future participation. To this end, EDL supports penalties beyond simply returning the capacity payment. The additional penalty should be based on the capacity revenues earned and capped at a suitable level. The Paper notes the UK has such a model and EDL submits it could provide a suitable starting point for a NEM version.

EDL looks forward to participating in the detailed design of the capacity market mechanism in the coming months. 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.

Kind regards

A handwritten signature in black ink, appearing to read 'James Harman', written in a cursive style.

James Harman
Chief Executive Officer