



Submission on Proposed Capacity Mechanism – Post-2025 Energy Market Design

The Smart Energy Council – the independent peak body for Australia’s solar, storage, renewable energy and renewable hydrogen industry – is pleased to provide this submission on a capacity mechanism, which is being proposed as part of the post-2025 energy market design.

The Smart Energy Council does not support the proposed capacity mechanism. It will incentivise fossil fuel generation and capacity at the expense of cheaper renewable energy and it will make it more difficult and more costly to achieve Australia’s international emissions reduction commitments.

As the Institute for Energy Economics and Financial Analysis (IEEFA) notes in its submission, the proposed capacity mechanism will likely “overcompensate fossil fuel generators and undercompensate low emissions generators”.

The Smart Energy Council calls on all governments to fast-track and only support new zero emissions capacity into the energy market, including both distributed energy resources and large-scale renewable energy projects. It is long past time to remove the unnecessary barriers to the uptake of cheap, zero emissions residential, commercial and large-scale renewables and that should be the front of mind focus for all Australian governments.

The Smart Energy Council again calls on governments to amend the National Electricity Objectives to ensure reducing greenhouse emissions, consistent with Australia’s international climate change commitments, is a National Electricity Objective.

Key Principles

The Smart Energy Council notes that at their last meeting on 24 September 2021, Energy Ministers agreed a set of principles to guide the development of a capacity mechanism.

THE INDEPENDENT BODY FOR THE SMART ENERGY INDUSTRY IN AUSTRALIA

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The Smart Energy Council particularly notes that governments are able to opt out of any proposed capacity mechanism and we would encourage governments to do so. States and Territories should be able to opt in if they see sufficient merit in the proposal and it is consistent with Australia's climate change commitments.

The agreed principles are:

1. be consistent with the National Electricity Objective
2. focus on affordability, reliability, security, and continued emissions reduction of electricity supply
3. provide a signal to value capacity that best supports the needs of the National Electricity Market (NEM)
4. complement existing energy only market design and well-functioning markets for financial contracts, and other reforms in development
5. minimise regulatory burden for market participants
6. safeguard energy consumers. In particular:
 - a. ensure costs and revenues are efficiently and fairly allocated; and
 - b. avoid duplication of costs to secure reliability
7. ensure sharing of resources across the NEM by supporting inter-regional contracting
8. provide greater certainty around closure dates of exiting generation
9. mitigate reliability risks presented by unexpected closures of existing capacity
10. encourage the timely replacement of existing capacity through driving commitments to new investment within reasonable notice periods of closure of existing capacity
11. to the extent it does not conflict with State and Territory policies, be technology neutral to ensure a focus on the ability of each resource to deliver generation on demand, for the periods when it is most

needed. Jurisdictions must be able to determine, via their regulation, provided for in the National Electricity Law framework, which technologies are eligible for participation in a capacity mechanism in their region

12. recognise relevant State and Territory policies and investment schemes to account for bespoke arrangements to retain and replace existing capacity

13. enable jurisdictions to opt out, via the National Electricity Law framework

14. enable jurisdictions to opt in, through triggered thresholds for the mechanism

The Smart Energy Council broadly supports these principles, noting National Electricity Objectives need to be updated and noting governments cannot take a technology neutral approach if they are concerned about climate change.

Coal Closures

It is well beyond time for the Australian Government to have an honest discussion with Australians about the closure of coal-fired power stations.

Pretending coal-fired power stations will continue to operate when no longer commercially feasible and, even worse, propping up them up financially as a short-term electoral payment – Angus Taylor’s CoalKeeper subsidy - does not help local communities prepare for the inevitable change or help create new local jobs and industries, and is in obvious contravention of Australia’s international climate change commitments.

The draft AEMO Integrated System Plan (ISP) is predicting coal closures by 2040, much earlier than some people have anticipated and some governments have planned for. Indeed, the ISP’s step change scenario is increasingly looking like a business as usual scenario. This reinforces the urgent need for significant investment in renewables and firming technologies to be connected and online in coming years.

The Institute for Energy Economics and Financial Analysis (IEEFA), a member of the Smart Energy Council, has submitted a comprehensive submission on the proposed capacity mechanism. The Smart Energy Council endorses the submission and its key conclusions.

Should you wish to discuss these matters further, please contact Wayne Smith, Manager External Affairs with the Smart Energy Council at: wayne@smartenergy.org.au or on 0417 141 812.

Sincerely,



John Grimes
Chief Executive
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