



ESB MEDIA RELEASE

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CAPACITY MECHANISM HIGH-LEVEL DESIGN PAPER RELEASED

The Energy Security Board (ESB) has released a high-level design paper for a capacity mechanism seeking stakeholder feedback on key issues that will inform the final detailed design recommended to Ministers.

Energy Ministers tasked the ESB with progressing detailed design work on a mechanism that specifically values capacity in the National Electricity Market (NEM), as part of the broader post-2025 suite of reforms.

The proposed high-level design outlines the ESB's preferred approach to key design choices, including:

- who is eligible to participate,
- the degree of centralisation of forecasting and procurement,
- the nature of the obligation placed on capacity providers in return for a capacity payment,
- the role of interstate trade, and
- how costs are passed through to customers.

One of the principles provided by Ministers to guide the design is to focus on continued emissions reductions in electricity supply. The ESB is seeking further guidance on this principle from Energy Ministers, to assist the ESB in appropriately reflecting this principle in detailed design choices regarding eligibility and auction design. This would not affect a jurisdiction's ability to determine which technology is eligible to participate.

ESB Chair Anna Collyer said a capacity mechanism will be a key tool to ensure we maintain reliability as the NEM undergoes an unprecedented period of transition.

“Coordinating exit and entry of supply, including the mix of resources to ensure an orderly transition, is an enormously complex task,” Ms Collyer said.

“A capacity mechanism – which pays providers to have capacity available during certain periods – will help reduce the risk of a disorderly transition. It will provide a more direct and certain way to ensure we have the right amount of capacity and right mix of capacity available when and where we need it so we can continue to deliver reliable and affordable power as our system decarbonises.

“This is not a new concept – most markets in the world already operate markets that explicitly value capacity – but it is a big change for the NEM, so we are encouraging all stakeholders to participate in the design process so we can deliver a considered and collaborative design that is fit for the future.”

The ESB is aware of concerns that a capacity mechanism could cause customers to pay more for the same level of service. This is not the intent, and will be avoided through careful design that balances the income that capacity providers would earn between capacity and energy sources to promote lower cost investment while ensuring payments are only made where benefits to consumers can be demonstrated.



The ESB will continue working with stakeholders on developing the final design, with a final recommendation due to Ministers by the end of the year.

Submissions on the paper are due by 25 July 2022, with details of a stakeholder webinar to be confirmed and circulated in the coming days.

For more information and to read the paper, click [here](#).

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