

AREAS FOR FEEDBACK ON THE NATIONAL ENERGY GUARANTEE (NEG) CONSULTATION PAPER

BACKGROUND

The Energy Security Board invited comments from interested parties in response to an initial consultation paper that was issued on 15 February 2018 by 8 March 2018.

It was stated that all submissions would be published on the COAG Energy Council's website, subject to any claims of confidentiality.

COMMENTS ON THE NEG CONSULTATION PAPER

Triggering the requirement

There is an at length discussion as to how participants in the market are supposed to react when a reliability gap is identified during a forecasting period. It however fails to address the situation if the forecast is incorrect as the developer/generator could end up out of pocket if the situation as forecasted fails to materialise. It is indeed mentioned that participants could adopt a wait and see approach but that could pose a risk in itself due to the time that it will take to get new generation on line.

Greater clarity need to be provided on the allocation of risk should developers and generators act on forecasted shortfalls.

Book building

The book building alternative at first glance seems to be an effective solution to retailers and customers who want to secure additional capacity that is required when gaps are identified. It is however unclear how the offer to invest (from retailers and customers) will translate into opportunities for sellers (developers and new generators) and what the duration of such contracts would be as there is only a mention of 5-year contracts.

The financing period for numerous generation options are well in excess of 10 years and 5-year contracts are likely to prove to be unbankable for new build opportunities.

It furthermore seems strange that AEMO would be "refereeing" the awarding of these contracts as AEMO would more than likely award such contracts to established developers/generators as they already have a track record rather than venturing out to award contracts to new entrants to the

market. As we are such a new entrant the barriers to entry are significant and it was hoped that the new guarantee would improve access to such opportunities rather than limiting them.

Greater clarity therefore need to be provided on the process to be followed when contracts are awarded. It is also unclear if a retailer can engage a generator directly to address the identified gap and then just inform AEMO, greater clarity to be provided.

Inter connectors

The treatment and deployment of interconnectors are also unclear, greater clarity is required as this would have a direct bearing on whether retailers need to contract with new generators or not for it may not be necessary for new generation if another state has spare generation capacity that could meet demand (of the required type and dispatchability) in another state.

In addition, the deployment of new interconnectors will impact the choice of supply of the retailers, especially if the retailers can secure the requirement more cheaply via the interconnectors they may abandon/cancel contracts with new generators, especially if savings to be had are greater than penalties for cancellation with new generators.

Large Energy Users

The consultation paper states “While large energy users registered as a Customer are small in number, they account for a sizeable proportion of energy supplied in the NEM. Therefore, the efficacy of the reliability requirement could be materially affected if these large users are exempt from compliance. Further, an exemption could provide a perverse incentive for large users that are currently contracted with a retailer to become market customers.”

The impact of large users on the NEM is significant and if they are exempt of having to comply with the NEG, they should also not be allowed to approach the market for supply if they experience unexpected shortfalls, as such large unexpected demand may not be readily available as the market did not provide for it and will more than likely increase spot prices.

It is however simply not feasible to exclude them in such a fashion and they would therefore also need to comply in one form or another. If it is really not feasible for them to comply, a requirement needs to be included whereby they would have to provide evidence showing that they would be able to

address any unforeseen shortfalls without coming to the market for that shortfall.

This area requires further analysis as the solution is not obvious or straight forward and the solution has to be proportionate to the benefit that could be gained if they are accountable in terms of the guarantee.

- Energy mix

NEG assigns retailers with the responsibility of securing the correct energy mix and face stiff penalties (and more) if they fail to comply. The allocation of this responsibility to retailers could backfire as retailers are unlikely to be knowledgeable or experienced enough to manage this requirement effectively and it is likely to increase the cost to the consumer as specialised skills will have to be acquired or contracted in.

Greater clarity need to be provided as to how retailers will be assisted to comply with such new requirements.

-Procurer of last resort

If the market fails to address any gap, then AEMO will procure resources to fill the gap. This is likely to distort market signals to provide the capacity the requirement is seeking to incentivise.

It is unclear how AEMO will achieve this and at what cost as the market may already have investigated the opportunity and concluded that the risks associated with addressing the gap is too great and that is why it has not been filled.

Greater clarity therefore need to be provided as to how this will be achieved in a cost-effective manner to the satisfaction of the user, retailer, generator and developer.

Market Triggers

- What is the minimum feasible time period for the market to alleviate a potential shortfall?

The market would have to prepare and develop potential shortfall projects that are ready to be deployed should the shortfall arise. This will impact on the costs for retailers as at any point in time these projects need to be ready for deployment if the shortfall is realized

- Definition and interpretation of “reliable adequate dispatchable capacity”

The details regarding the actual capability of the additional reliable supply need to be defined to ensure that it is unambiguous and clear, the definition should include variables such as the ramp rate to full load, the quantum of spinning reserve, grid frequency support etc.
In addition, consider requiring that the generation mix prescribed by each state for the guarantee should have bias towards dispatchable power with an inherent lower carbon footprint.