

8 MARCH 2018

**TO:** Energy Security Board and policymakers

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**FROM:** CEOs of 10 Australian electricity retailers representing residential, commercial and industrial customers and more than 19TWh of electricity annually (10% of the National Electricity Market)

## Response to the National Energy Guarantee Consultation Paper

The need for enduring bipartisan national energy policy is compelling. Energy affordability is a threat to jobs, industry and our nation's economic prosperity. Energy reliability has been tested by rapid changes in the energy mix. The transition to renewables is necessary and inevitable but not simple or cheap. Concentration of generation ownership, vertical integration and availability and price of gas have compounded issues. A decade or more of mixed investment signals as a result of inconsistent energy policy means we face several years in a difficult transition period.

The temptation may be to make major, sweeping changes however there must be recognition that huge amounts of low-emissions electricity (3800MW) are coming online in the next few years in the form of renewables projects, in addition to 40,000MW<sup>1</sup> of proposed build which includes Snowy Hydro 2.0. There is currently no forecast reliability gap. Technology is likely to make today's issues moot within five years. We need to proceed with caution to avoid making significant, costly changes that have dire consequences.

## Obligations

The National Energy Guarantee must ensure investment in the right infrastructure in the right locations based on well-forecast reliability gaps and a clear emissions target. It must not create major market disruption, undermine competition, damage market liquidity and price transparency, all of which will add more cost to already-burdened energy consumers.

The current proposal to place obligations on retailers is perverse. To hold retailers responsible for generator reliability, emissions and investment is mis-placed risk that poses a range of market implications.

## Design – an alternative

A simple, more direct, lower-cost approach is to replace the retailer obligations with good forecasts and targets which provide signals to the market on what and where to invest, backed by a safety net (procurement of last resort) which allows the market to respond prior to any centralised procurement. Our proposal addresses the fact that loss of market liquidity and market power abuse are greater risks than is the risk of over-build.

## Design imperatives

In whatever way the Guarantee evolves, there are several critical design considerations:

- Competition cannot be undermined. Generator market concentration and gentailers pose added risk under the proposed policy which places high value on the resource of reliability i.e. firm generation. This hands more market and pricing power to large, incumbent generators so there will have to be mechanisms to ensure generators and gentailers provide access to reliability products and don't undertake discriminatory pricing.

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1.\*<https://www.aemo.com.au/Electricity/National-Electricity-Market-NEM/Planning-and-forecasting/Generation-information>

- Retailers must be able to access deep and liquid contract markets. The design must support existing financial markets and allow any new obligations to be met through generic, fungible, traded products. Energy is key to our economy and we'd be taking an enormous risk by hoping that new, liquid, secondary markets form to facilitate energy contracts and supply.
- Prices for reliability and emissions must be transparent and open to the market. Customers expect and demand this.
- Tagging and tracing emissions on contracts is complex, probably impossible. Emissions calculations would have to be aggregated quarterly or annually at generator level and allocated to retailers due to the fact that electrons cannot be tagged and traced on a contract without imposing prohibitive costs on the market and consumers, particularly in a five-minute settlement market. Any compliance regime under the NEG must be effective and low cost; and
- Forecasting the reliability shortfall or gap should target real periods of system shortfall to guard against over-build and mass over-investment i.e. gold plating which drives up cost for energy users.

We look forward to working with you through the course of consultation.

Yours sincerely

**JON STRETCH**

*CEO*

**ERM POWER**

**LIAM FODEN**

*CEO*

**1ST ENERGY**

**CHARLES HUANG**

*CEO*

**COVAU**

**DAMIEN GLANVILLE**

*CEO*

**LOCALITY PLANNING ENERGY**

**ADRIAN MERRICK**

*CEO*

**ENERGY LOCALS**

**DOMINIC DRENEN**

*CEO*

**CLICK ENERGY**

**TOM PATSAKOS**

*CEO*

**WINCONNECT**

**RYAN O'HARE**

*CEO*

**NEXT BUSINESS ENERGY**

**JOHN MCCLUSKEY**

*MD*

**GLOBIRD**

**DOMENIC CAPOMOLLA**

*CEO*

**BLUENRG**

