



Attn: Ms Kerry Schott
By email: info@esb.org.au

Monday, 19 October 2020

RE: Australian Pipeline Limited (APA) Response to P2025 Market Design Consultation Paper

Dear Ms Schott,

APA would like to thank the Energy Security Board (ESB) for the opportunity to comment on the post 2025 Market Design Consultation Paper. We strongly support the development of a market design for the NEM that delivers secure and reliable power at least cost to consumers and accommodates changes already underway and expected in the future.

APA is an ASX listed owner, operator, manager and developer of energy infrastructure assets across Australia. APA owns and/or operates over A\$20 billion of energy infrastructure assets across every State and Territory on mainland Australia. Of this portfolio APA has constructed several billion dollars of major infrastructure including gas and renewable power stations, pipelines, and gas processing infrastructure. Our investments, include in excess of \$750m in renewable generation, emphasising our commitment to supporting the energy transition taking place across Australia.

We currently own, either directly or indirectly, and operate, 418MW of gas fired generation, 342 MW of Wind and 149.3 MW of Solar power generation; 244 km of high voltage direct current (HVDC) electrical transmission assets. APA also owns and operates gas infrastructure that is key to providing energy security including a number of gas processing plants and gas storage facilities such as our LNG storage facility in Dandenong, Victoria.

As one of the leading energy infrastructure developers and owners in Australia, APA believes that any reforms need to be balanced, pragmatic and flexible to ensure private sector investment by providing long term investment signals. In support of this we provide the following comments for your consideration.

Overview

APA supports the development of a market that delivers on the National Electricity Objective (NEO) "to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity" with respect to reliability and quality.

APA is of the view that there are some high-level criteria for identifying the options that best deliver on the NEO. APA believes that the selected options should:

- Support investment by the private sector to deliver flexible, innovative, and market driven outcomes
- Enhance competition in the electricity and complementary markets; and

- Maximise to the extent possible technologically agnostic investment to deliver socially optimal outcomes during the transition

We think the approach outlined in the consultation paper has the potential to deliver on this and facilitate the private sector investment needed to support electricity grid reliability, emissions reductions and improved affordability a reality. APA is supportive of this balanced and pragmatic approach that avoids picking technological winners and maintains flexibility to maximise the potential of the ESB objectives.

APA welcomes the seven work streams proposed in the paper and believe that they are in keeping with this pragmatic, technology neutral approach.

First, each work stream defines and expands on the challenges faced within the NEM, with the proposed approach allowing for discussion and feedback on potential solutions unique to the current operating systems, whilst ensuring near term investment already in place is supported through the transition.

Second, each individual work stream accepts the need to modify current NEM rules to enable the transition at different rates, based on different rates of technology retirement or adoption. APA agrees that this flexible approach is essential to ensure the value of assets and resources in place are complimented with adaptable policy measures for the future.

APA believes that this flexibility is particularly important with respect to the “resource adequacy” and “scheduling of ahead mechanisms” work streams. APA’s investment criteria is not to participate in the short term market but to work with market participants on building long term infrastructure investments. We would welcome legislative amendments to the extent that any adopted mechanisms provides confidence for long term investment reducing the need for short term intervention and consequences.

The ESB has highlighted that the energy system is changing and there is a need for capital replacement. APA considers that risks during this transition period include under-investment stemming from uncertainty about the market. As such we believe that the design options should be approached in such a way so as to enhance confidence for investment where possible. We believe the social costs of modest excess adequacy are likely to be less than the consequences and any intervention required if uncertainty results in pervasive under-investment.

APA also welcomes the acknowledgement of the interrelationship of each work stream and the focus on maximising private sector investment to increase grid reliability and affordability while enabling greater uptake of renewable and low carbon energy sources.

APA knows that gas already plays a strong role in this regard, and considers that the features of gas-fired generation and gas storage will remain an important technology for long term system reliability. The economic value of using cost-effective, domestic energy resources and infrastructure already in place such as natural gas and its pipelines to develop low carbon energy solutions and enhance grid reliability is a vital part of the transition.

APA is also currently on its own decarbonisation pathway through involvement in development of hydrogen and other 'green gas' technologies. As part of this we recognise that gas plays an important role to assist in the adaptation of emerging fuels such as green hydrogen or renewable methane making gas a vital element in the suite of technology solutions.

Finally APA notes that significant industry investment will be critical to deliver a cost effective increase in the reliability of the electricity grid and to achieve the goals of the ESB. APA as an energy infrastructure developer is keen to be part of this development. Governments by ensuring a stable policy environment facilitates and enables investment. Achieving integrated energy policy across all levels of government through a staged and transparent approach in consultation with industry and stakeholders, as proposed in the consultation paper is strongly supported by APA.

Conclusion

APA is ready to play its part in helping make the goals of the ESB a reality and bring about positive outcomes for the industry, consumers, the economy and the environment. Given APAs role in developing and operating energy infrastructure in Australia we believe we have a unique ability to provide insights into the key development of market design requirements in the NEM. APA would welcome the opportunity to participate in associated Working Groups as they form over the coming months.

In the interim, to discuss any of these issues further, please feel free to contact APA's Regulatory Manager, Mark Allen on 02 9275 0010 or at mark.allen@apa.au.

Yours sincerely



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APA Group