

19 October 2020

Energy Security Board
Level 15
60 Castlereagh Street
SYDNEY NSW 2000

Submitted by email info@esb.org.au

Dear Sir/Madam

Post 2025 Market Design Consultation Paper

Thank you for the opportunity to respond to the consultation paper on Post 2025 Market Design published on 7 September 2020.

ATCO commends the work of the Energy Security Board (ESB) to consider the future design of the energy market and accommodate the rapid changes that are affecting the market in Australia. The work programs outlined in the paper will need further consultation to evaluate the detail of proposals as they progress, to ensure the best outcomes for consumers.

Consistent with the National Electricity Objective to promote efficient investment, ATCO would like to see a level playing field to encourage new entrants into the market. The regulatory regime and market structure are factors influencing ATCO's investment decisions in the National Electricity Market.

ATCO have outlined comments on two work programs (Market Design Initiatives), for consideration from the perspective of a new market entrant.

Market Design Initiative A - Resource adequacy mechanisms

ATCO agrees with the issues identified by the paper in this area including the need to ensure sufficient and timely investment in a mix of resources to deliver a secure, reliable and affordable supply of electricity. Given the transition in generation mix from base load thermal generation to interruptible renewable generation, the current structure of the market presents risks that deter investment in firming capacity.

The consultation paper accurately identifies reasons for a real lack of certainty around returns earned on capital invested and its impact on investment confidence. The current market design favours the incumbent generators who have available peaking capacity with sunk capital costs. New entrants are actively deterred by the inability to forecast revenue with certainty. ATCO supports the creation of options which unbundle the pricing of energy and capacity. Enabling the pricing of available capacity similar to other markets globally will deliver greater revenue certainty and encourage investment in generation.

Market Design Initiative G - Transmission Access and the Coordination of Generation and Transmission

The establishment of Renewable Energy Zones (REZ) regulatory framework provides the opportunity to ensure competition across the energy market is encouraged from new entrants into the market. For this to occur, the market design needs to support new entrants and incumbents equally, provide revenue certainty and clearly allocate risk.

We would like to re-iterate ATCO's August 2020 submission to the ESB on the REZ design report that highlighted the need for changes to the REZ planning framework to avoid providing the incumbent transmission network service providers some advantage in the market. ATCO highlighted the following key areas where there is the opportunity to achieve more competition from new entrants in the market by ensuring:

- the Jurisdictional Planning Body for the REZ design report has sufficient flexibility to allow State Governments to select parties other than the incumbent transmission network service provider to produce design reports. For example, ATCO proposed an alternate approach that would require the State Government in each jurisdiction to appoint a master developer for each REZ or allow an independent body such as Australian Energy Market Operator to undertake the role across the national energy market; and
- an alternative funding mechanism for REZ design reports - the approach proposed by the ESB provides an advantage to incumbents and will deter new entrants to the market. ATCO suggested a model for funding arrangements that is controlled by the State Government and allocated to the creation of design reports on a case by case basis for each REZ.

About ATCO

ATCO has been proudly operating in Australia and providing employment opportunities for almost 60 years. ATCO is a customer-focussed global company that develops, builds, owns and operates a range of energy infrastructure assets, supporting residential, business and commercial consumers. ATCO is committed to investing in its people, innovation and technology to drive leading-edge application-based research.

In Australia, ATCO:

- owns and maintains the largest (Mid-West and South-West) gas distribution network in Western Australia, together with two non-regulated gas distribution networks in Albany (LPG) and Kalgoorlie (natural gas), servicing over 760,000 connections through more than 14,000 km of natural gas pipelines and associated infrastructure;
- owns an alternative electricity retailer (Source Energy Co.) in Western Australia that provides cleaner, affordable and innovative energy solutions to around 500 embedded network customers in strata developments through a combination of solar photovoltaic systems, grid purchases and battery storage;
- owns and operates two power generation facilities (a joint-owned facility in Adelaide and a wholly-owned facility in Karratha) with a combined capacity of 266 MW;
- is drawing on its established expertise in natural gas to explore the future role of hydrogen through a number of projects, including the Clean Energy Innovation Hub (an embedded hybrid microgrid system that incorporates renewable solar generation, battery storage, natural gas backup generation and blends green hydrogen produced with natural gas used onsite), are working in collaboration with Fortescue Metals Group to establish a hydrogen refuelling facility at the Hub, and are currently conducting a feasibility study into the development of a commercial scale renewably hydrogen production facility, the Clean Energy Innovation Park; and

- manufactures and delivers modular building solutions to a diverse group of customers.

ATCO's Australian businesses are part of the worldwide ATCO Group with approximately 6,500 employees and assets of \$22 billion. ATCO is a diversified holding corporation with investments in Structures & Logistics (workforce housing, innovative modular facilities, construction, site support services, and logistics and operations management), Energy infrastructure (electricity generation, transmission and distribution; natural gas transmission, distribution and infrastructure development; energy storage and industrial water solutions; and electricity and natural gas retail sales), Transportation (ports and transportation logistics) and Commercial Real Estate.

If you have any questions or would like to discuss any of these issues further please contact me or Ben Bolot, Executive General Manager Business Development East on 0400 995 022.

Yours sincerely



J.D. Patrick Creaghan
Managing Director & Chief Operating Officer