



19 October 2020

Dr Kerry Schott AO
Chair
Energy Security Board
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sent via email: info@esb.org.au

Response to P2025 Market Design Consultation Paper

Dear Dr Schott

The Business Council welcomes the opportunity to provide feedback on the Energy Security Board's (ESB) post 2025 Market Design Consultation Paper.

Achieving a fit-for-purpose market design for the National Electricity Market (NEM) is vitally important to our membership, which includes energy businesses and energy users. The energy market has always required substantial and ongoing capital investment to maintain and grow its capacity to meet the energy needs of Australian households and businesses.

However, the uncertainty associated with investing in the energy market remains high due to climate change and related policy responses, developments in technology, and emerging gaps in markets for energy services. This uncertainty has given rise to precaution on the part of governments in response — in terms of intervening in the market or signalling an intention to do so if perceived to be necessary — which has added to the market uncertainty facing investors.

The post 2025 market design “pathway” ultimately adopted out of this project is an opportunity to:

1. drive an efficient investment mix over the longer term, necessary to achieve the National Electricity Objective, consistent with key outcomes set out in the Finkel Review, namely, increased security, future reliability, better rewarding of consumers and lower emissions.¹
2. appropriately balance investment risks between market participants, consumers and taxpayers, and ensure these are efficiently allocated and managed in the market design; and
3. break the vicious cycle of ‘caution’ and ‘precaution’ referred to above with respect to private sector investment and government intervention, which requires the confidence of both investors and governments in the ability of the market design to create the right incentives and signals to deliver on its objectives.

We fully appreciate that determining such a pathway is a very complex process involving a framework with many moving and inter-related parts. Moreover, other policy processes outside of this project, such as those related to the gas sector and emissions mitigation, will continue to have significant implications for electricity market design and of course these can't be ignored.

¹ <https://www.energy.gov.au/sites/default/files/independent-review-future-nem-blueprint-for-the-future-2017.pdf>

We commend the EBS's efforts so far in defining the challenges and options relevant to a market design fit-for-purpose in a post 2025 world. In our view, determining the best pathway for final recommendation to policy-makers must take into consideration the following principles:

- Market-based solutions ought to be considered first and foremost where practicable, for addressing incomplete or missing markets with respect to energy market services and outcomes, notwithstanding the role of centralised solutions to address some problems optimally.
- The market design needs to be as robust as possible to national and state government interventions in the energy market more broadly, to the extent that these continue to be perceived as necessary by governments in the future.
- The market design needs to be robust to progressively tighter emissions profiles in the NEM overtime, consistent with Australia's Paris Agreement commitment and achieving a net zero emissions target for the economy by 2050.
- The full set of possible solutions being considered and adopted in overseas electricity markets needs to be surveyed and evaluated in light of their applicability to domestic market conditions.
- The suite of final market reform initiatives adopted needs to reflect a pragmatic prioritisation given the sheer complexity of this undertaking and that some initiatives will be essential and required urgently, while others will not, albeit theoretically worthy of consideration.
- The shortlisting of possible options needs to be accompanied by rigorous empirical evidence of the effectiveness and net benefits of options, which includes the cost to market participants of large and potentially disruptive system changes overtime.
- The market design needs to be fully integrated across all aspects of the market and therefore supportive of a more predictable approach to rule changes in the NEM going forward, in contrast to the ad hoc and often competing processes of the past.
- Careful sequencing and staggering of the implementation of individual reforms initiatives is needed to minimise the costs and risks imposed on market participants in terms of the large system changes required, and, to allow policy-makers to observe the outcomes of earlier stage reform initiatives and adjust (or withdraw) later stage reform initiatives, where required.
- Transparency about how relevant reform initiatives arising from this project will be coordinated with other NEM related processes already in train, such as the Integrated System Plan and the Coordination of Generation of Transmission Infrastructure reforms.

We look forward to engaging further with the ESB as the consultation process progresses. Please don't hesitate to contact me should you wish to discuss our submission.

Yours sincerely



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