

# Department of State Growth

OFFICE OF ENERGY PLANNING  
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Dr Kerry Schott AO  
Chair  
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## **Response to ESB Post 2025 Market Design Consultation Paper**

Dear Kerry,

The Office of Energy Planning in the Department of State Growth is pleased to provide feedback on the Post 2025 Market Design consultation paper, released on 7 September 2020.

Firstly, I wish to acknowledge the work done by the ESB to date to progress these important reforms, and the inclusion of participants from Tasmanian energy businesses in the technical working groups.

I am supportive of the need for reforms to the national energy market design to facilitate changes in resources and technology. The National Electricity Market (NEM) is facing significant challenges, and there is no doubt that some fundamental design elements need to be reviewed as the NEM transitions. Given that the questions posed in the consultation paper are predominantly focused on technical aspects of the reform design, I am providing high-level comments at this stage.

My primary observation is that many of the current problems being faced across the NEM are not experienced in Tasmania. Our system has a number of features that are different from the mainland NEM jurisdictions. It is not capacity constrained and does not experience the level of volatility, in either demand or price, that is a significant characteristic in other NEM jurisdictions. Given these features, my main concern is to ensure that Tasmanian customers and other participants in the energy market in our State will not be disadvantaged by the reforms due to changes that create new compliance obligations and other costs in response to problems that we do not have, without any consequent benefits to Tasmanian customers. It will be important therefore for the structure of the reforms to include capability for regional variation wherever possible.

An example of this is in relation to a key theme in the consultation paper about increasing issues relating to congestion. Whilst these issues occur, they have a much lower impact in Tasmania. It will be important to ensure that regulatory and system changes to deal with these issues do not impose unnecessary costs on all market participants, which inevitably flow through to Tasmanian customers. This is of particular concern in regard to transmission access reform given that the modelling undertaken by NERA on the costs and benefits of locational marginal pricing and financial transmission rights do not capture regional impacts. The majority of the estimated customer benefits relate to retirement of coal generation driving savings, race to the floor bidding, and anticipated competition benefits, which will be limited given our small market size. Further,

the proposed wealth transfer from generators to customers is dependent on the amount and cost of congestion, however, as stated above this is not a Tasmanian issue. The cost associated with addressing low levels of congestion is likely to outweigh the low level of benefit that will accrue to customers.

While congestion may occur from time to time in Tasmania, it is usually in relation to hydrological risk. Given that this is a much rarer occurrence and is temporary in nature, we would be cautious about this acting to trigger price signals or other market interventions.

It will also be important to understand how the reforms will fit together, and the sequencing of reforms throughout the design and implementation stages, given that the market is constantly evolving.

I observe that there is a potential lack of congruence between some elements of the reforms. This includes the imperative to reduce prices to customers while at the same time providing pricing signals to stimulate new investment in generation. Measures to reduce price volatility (particularly high price spikes) may have the effect of dampening the benefits to customers of participation in demand response.

This is a key issue – whether the reforms will send the right price signals to new generation so that reliability and system strength will be enhanced, while at the same time ensuring that there is continuing downward pressure on prices.

In considering the role and scope of customer protections in a restructured market, it may be necessary to consider the nature of electricity as an essential service, and the appropriate level of consumer protection to be afforded to customers for the expanded range of products and services, and the entities that deliver them.

The issues associated with Distributed Energy Resources (DER) and two-sided markets are complex, and a staged development process will be important. As the design work is progressed, it will be critical to clearly identify the barriers and issues arising from the current market design that are impeding DER participation. Again, this will need to consider regional variation, given that the impact is not uniform across jurisdictions. Any move to two-sided markets would need to ensure that there is a net benefit to customers.

Under current regulatory arrangements, supply of electricity to households for lighting, heating and cooling, and powering household appliances, is considered to be an essential service, and subject to a range of specific customer protections, including around disconnections. As we move to different energy delivery models, some existing assumptions need to be reviewed.

Questions to be asked include:

- Is the provision of electricity for recharging electric vehicles to be given the same level of protection, particularly in relation to disconnection for non-payment?
- With increased participation from aggregators and other service delivery agents, will these new participants have equivalent customer protection obligations to those currently imposed on authorised retailers and DNSPs?

This separation between the traditional role of the retailer and the new and potentially more flexible opportunities for new types of market participants, could assist with the development of

DER and two-sided markets, but the distinctions between the roles are neither clear nor necessarily binary. Currently credit risk, including prudential requirements, is a retailer obligation. However as more market participant categories emerge, including aggregators and virtual power plants, retailers should not be alone in carrying prudential risk, and consideration should be given to how appropriate prudential obligations could also apply to new categories of participants. In this way there will be equitable apportionment of risk and cost.

The intent of the reforms to enhance frameworks for delivery of essential system services is also supported, noting that the work currently underway under AEMC processes is already seeking market solutions to address the significant challenges facing the NEM. While the Tasmanian system has a number of distinctive different technical characteristics, the increasing penetration of wind means that the need to improve system strength is already being explored, with market solutions being developed and implemented. Of particular relevance is the work being done in relation to responsibility for inertia and fault level shortfall. Further development of market mechanisms for inertia, to ensure that the costs are met appropriately across the market, are welcomed. This should also include developing appropriate price signals so that customers do not pay a disproportionate share of the costs of providing system strength. Again, we would seek to ensure that measures to address essential system services have sufficient flexibility in application so that different technical and market characteristics across the NEM can be taken into account to ensure that compliance costs are commensurate with benefits delivered to customers.

Finally, continuing the stakeholder engagement through bilateral meetings, and the various technical working groups will be important as the design is refined towards mid-2021.

Thanks you again for the opportunity to comment on these important reforms.

If you would like any further information, please contact Sharon Raymond, on telephone 03 6166 3489 or ([sharon.raymond@stategrowth.tas.gov.au](mailto:sharon.raymond@stategrowth.tas.gov.au)).

Yours sincerely

A handwritten signature in black ink, appearing to read 'S. Terry', with a horizontal line extending to the right.

Sean Terry  
**Executive Director**  
**Office of Energy Planning**

19 October 2020