

From: Tony Wood [REDACTED]  
Sent: Friday, 24 September 2021 6:02 PM

Subject: RE: House Environment and Energy Committee - Follow up from Inquiry into Dispatchable Energy public hearing - request for responses to questions in writing [REDACTED]

My apologies for failing to meet the requested timeline for this response.

My individual responses:

1. The purpose of our report was to provide an analytical underpinning for why a net-zero emissions grid is the right objective and how major progress could be made. The aim for 2040 is in the context of what could be achievable in terms of costs and delivery. We have not modelled any specific pathway or timeline.
2. We now have two formal reliability constraints. The first as established by the Reliability Panel on the basis of benefits and costs. Then we have a second Interim Reliability Measure imposed on the ESB by the ministerial body. AEMO reports against both in the ESOO. And, in my view, the NSW Government is effectively introducing a further reliability standard in its Electricity Infrastructure Roadmap. I fully appreciate that energy ministers are highly sensitive to any form of blackouts. This means they are inclined to place a higher value on lost load than consumers. One example is the overbuild of networks earlier this century. Governments have a role to decide levels of both reliability and emissions, both being externalities that markets do not easily incorporate. However, in both cases, setting these levels or standards should be subject to a rigorous assessment of benefits and costs.
3. The ESB's proposal can provide the investment environment that would lead to efficient investment and there is some way to go on that work. The Australian Energy Market Agreement provides a framework for these decisions to be made by the ministers acting jointly towards a common set of objectives. I cannot see any need or justification for a federal led approach or evidence that it would lead to a better outcome without even more fundamental changes to the electricity market.
4. The National Energy Guarantee was developed in response to this question and for good reason. It remains a major issue that it did not proceed. The absence of the emissions obligation is one of the reasons that the proposed capacity mechanism has met such vigorous resistance. In its absence, we have only the state-based renewable energy targets to reduce emissions in the sector. These are not coordinated, not related to the net-zero objective and not consistent in their structure and impact on the operation of the NEM.
5. Yes, that is the reference. The other major criticism of the proposal for a capacity mechanism is that the problem it is intended to address has not been defined or the case for the change soundly made. To an extent that deficiency has been taken over by the processes of the energy ministers and the ESB and the best way forward is now to proceed with the detailed design in the expectation that the benefits, costs and risks of the mechanism will emerge in the process.

Thank you for the opportunity

Tony Wood

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#### QUESTIONS IN WRITING – Grattan Institute

1. In your submission you say Governments should aim for a net zero emissions grid by 2040. Won't that be too slow to meet our Paris targets or limit warming to a safe level, given electricity is the lynchpin to decarbonise other sectors?
2. In your submission you say "...we have also noted that reliability concerns have been politicised, and therefore overstated." Could you speak more to that point? Why do you say 'overstated'? The Committee notes that AEMO's Electricity Statement of Opportunities came out this week which looks at reliability, could you speak to that?
3. In your submission you say "And that policy uncertainty and government interventions, not market design, are the greatest risk to efficient investment and achieving the desired objective of the NEM, including reliability." Will the ESB's proposed post 2025 design give certainty? Or is there still a requirement for a federal led coordinated policy?
4. A lot of this energy sector discussion has been focused on reliability, security and affordability. Where is the discussion of emissions reduction? Would we be better served with policy that integrated the emissions reduction?
5. You go on to say "In this context, it is not clear that a new and distinct reliability mechanism is required." Are you referring to the proposed capacity market or some sort of reserve mechanism?

Should you have any queries in relation to this matter, please do not hesitate to contact the secretariat via return email or on (02) 6277 4580.

Kind regards

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