

SUBMISSION in response to NEG Draft Detailed Design for Consultation Commonwealth Elements June 2018 – By D Gillett 6.7.2018

General Comments

The NEG as drafted is far too complex and will create the conditions for the “agency” problems so prevalent in the superannuation system.

The complexity will require/encourage the use of specialist intermediaries who only add cost layers and further complication to the system and will ensure the intermediaries thrive instead of the users of the power supply system.

Large power supply users will have the resources to access the NEM to their advantage compared with small users ... but all electric power users on the NEM will be paying elevated power prices compared to the rest of the world.

Energy and power supply cost competitiveness when compared to other countries is in the same league as corporate tax rates for determining the overall competitiveness of Australia as a major investment destination. The government is rightly determined to make our corporate tax rates globally competitive and should be equally determined to make our power supply costs globally competitive.

At best, the NEG may slow down the rate of increase of power supply cost but the existing NEM has delivered power supply costs which are already significantly higher than other countries. This is shown with reference to Markintel, US Energy Information Administration information for retail electricity prices in c/kWh we see the following country comparison in Aug 2017

US 15.75

France 24.6

EU average 29.85

UK 31.3

Vic 34.7

NSW 39.1

SA 47.13

How is the NEG going to address this increasing major Australian disadvantage?

The government must demonstrate how the structure of the NEG is not going to entrench high relative power costs or make this position worse.

The NEG appears to have a lot of support mostly from exhaustion and complete lack of any alternative but is that the reason to entrench a major competitive disadvantage for our country where historically low power supply cost has been one of our major competitive advantages.

The NEG as constructed has also been identified by the players within the power supply industry as sufficiently complex that they can participate successfully in the market (make profits that is) and there is no similar payoff for smaller consumers... large consumers are less affected because they will deal directly in the wholesale market and will have teams of power purchase expertise in their teams.

I suggested to the Finkel enquiry that a return to state-based power authorities acting as contract managers but with region power supply obligations and with overarching emission targets imposed by the federal government would be the simplest and cleanest way ahead. The state authorities would use engineering systems expertise to assemble power providers in the right mix to make state power supply available at cost and meet the commonwealth-imposed emission targets

I still believe that is the best configuration and it returns obligations onto the states which are truly state responsibilities. The NEM allows states to duck responsibility and accountability.

The existing NEM allows the states to duck and weave without accountability as shown by the SA election where those responsible for its power system debacle (see power supply table cost above) got off very lightly. State/region-based accountability for power supply adequacy would simplify the power supply problem for that region and the task of emissions measurement and audit for target assessment. The NEM claims that its distribution system is perhaps the largest in the world ... that may be one of the reasons for its problems ... so break it back into the regions.

Above all, we are largely in this power supply mess because there is, and has been, no overarching systems engineering integration for what is a complex engineered system. The NEM has had no body within it charged with overall system planning and integration and the fact that Finkel recommended that AEMO produce such an integrated plan shows that the NEM was set up without fundamental recognition that a complex engineered system needs custodial and engineering intellectual planning /oversight on an ongoing year-in-year-out basis. The NEM has been a financial arrangement mostly and power system engineering expertise has been sorely lacking at high overarching levels.

Less than 10 % of the 38 (approx.) senior managers and directors of the AER, the AEMC, the AEMO and the ESB combined are power system engineers, the others are mostly lawyers and economists ... that is a serious organisational error aside from the lack of appropriate scope coverage by those organisations.

Clearly the advice to government over a long period of time has lacked systems engineering coherence and that is probably why we are where we are with the NEM. The NEG is addressing a mess which probably is beyond recovery.

Specific Responses to Draft NEG Consultation Paper dated June 2018 – in relation to “Commonwealth Elements”

Reference Section	Proposition	Response submitted by D Gillett
1.0	Last paragraph the term “more affordable”	<p>The use of the term “more affordable” indicates a very low level of expectation on the cost of power to be supplied in Australia. It is a term which has no real or defined meaning in this paper.</p> <p>The term should be the same as that used in relation to corporate taxation ... that is the NEG should be aiming for at least a globally competitive price structure bearing in mind that Australia has had a very great competitive advantage with regard to power supply cost and we have given that up.</p> <p>The NEG paper doesn’t discuss achievement of a globally competitive (let alone least cost) power supply pricing structure in any way. The paper only discusses emissions</p>
1.1	Setting the emissions targets ... the government will achieve “a 26 per cent reduction on 2005 levels by 2030”	<p><u>This paper should set out in detail the benchmark 2005 emissions power supplied and prices paid figures which are the basis for all further derived targets. This applies to the 2020 bench marks as well.</u></p> <p>The base line 2005 emissions and matching power supplied and prices paid figures should be set out with total clarity in this paper so that people don’t have to go to other references and work it out for themselves. This applies to the emissions quantities and the associated power which was produced over 2005 and the prices paid ... we should benchmark all three at least.</p> <p>How will they be set out? Total tonnes of CO2 emitted over calendar 2005 within the Australian coastline OR within each region OR monthly over the 12 months of 2005 OR other ?</p> <p>Matching power supplied figures Total kWh produced BY region BY month</p>

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		<p>Matching prices paid figures</p> <p>The presentation of the 2005 baseline figures should be completely transparent as to how the baseline emissions, power supplied and then emissions and prices paid per MWh for the 2005 figures have been derived ... these baseline figures will be used to judge the results of the NEG over time.</p> <p>State/Region based figures should be provided to ensure that a return to a state-based power supply system in the future is possible without question as to baseline conditions.</p>
2.2	<p>“... express emissions reduction target as a trajectory of annual average emissions per MWh ..”</p>	<p>Set out the targets for emissions reductions as a derivation from the total expected emissions in 2030 followed by the expected power supplied in 2030 with the resultant calculation of the target emissions unit rate.</p> <p>Make specific reference as to how the emissions and the power supplied are measured - this should be set out in this paper.</p> <p>Note that emissions targets for the regions only would be a much simpler measurement and control problem.</p>
	<p>“.....business as usual level emissions in 2020.....”</p>	<p>Make specific reference as to how the emissions and the power supplied are measured- this should be set out in this paper.</p>
2.5	<p>“If states and territories choose to pursue their own RET, the government position is that this would not affect the emissions targets that would operate under the Guarantee”</p>	<p>The states should be accountable for the power supply and this aspect of choosing a state RET which has impact on the whole NEM is good reason for that state not to be a part of the NEM. States should be accountable for the whole power supply within the state.</p>