



COAG Energy Council

Dear Ministers,

The national energy guarantee is designed to produce a clear investment signal so the cleanest, cheapest and most reliable generation can get built in the right place at the right time. It comprises a requirement on retailers to do two things – to make sure the energy that they are purchasing meets dispatchability requirements in each region of the National Electricity Market and meet emissions reduction targets for the electricity sector. Working together they will allow the market the opportunity to deliver reliable supply, and improve affordability. Providing long-term policy confidence and stability is critical to lowering investment risk in the NEM and bringing down electricity prices.

The guarantee is designed so that its requirements are reflected in a single wholesale energy market price. This makes sense to investors. The result will be investment in the combination of generation technologies, storage and demand response when and where it is needed to meet consumer demand and keep the lights on. There is no revenue collected from the guarantee.

The guarantee encourages investment in a least cost portfolio of energy technologies and demand response that is both dispatchable and low-emitting. By being technology neutral, it allows the market to pick the most appropriate mix to meet the reliability and emissions outcomes.

The guarantee will use existing mechanisms for the purchase of electricity by market participants. Electricity companies already buy electricity from each other to meet their requirements, and the guarantee utilises these existing arrangements and reporting obligations. There is no new trading scheme under the guarantee.

The guarantee is consistent with the policy design principles for a well-integrated energy and emissions reduction policy. It is:

- technology neutral to allow for the greatest number of technology options in the market, to increase competition between generation sources, and minimise costs
- flexible enough to adapt to whatever supply and demand conditions the future might bring
- designed to be sustainable so investors in all kinds of generation and other supporting technologies are confident in the policy instruments.

The Energy Security Board looks forward to discussing this with you at the next Council meeting on Friday 20 April 2018.

Yours sincerely



Kerry Schott AO
Chair, Energy Security Board
13 April 2018