

13 July 2018

Dr Kerry Schott AO  
Independent Chair  
Energy Security Board  
c/o COAG Energy Council Secretariat  
Department of the Environment and Energy  
GPO Box 787  
CANBERRA ACT 2601

*Via email: [info@esb.org.au](mailto:info@esb.org.au)*

Dear Dr Schott

## **Energy Networks Australia response to National Energy Guarantee - Draft Detailed Design Consultation Paper**

Energy Networks Australia welcomes the opportunity to provide a submission responding to the Energy Security Board's 'Draft Detailed Design Consultation Paper' (Consultation Paper) for the National Energy Guarantee (the NEG), released 15 June 2018 and the subsequent Technical Working Papers released 22 June 2018.

Energy Networks Australia is the national industry body representing businesses operating Australia's electricity transmission and distribution and gas distribution networks. Member businesses provide energy to virtually every household and business in Australia.

Energy Networks Australia is supportive of the progress made by the Energy Security Board (ESB) in developing the NEG. Energy Networks Australia supports the integration of energy and climate policy as a way to deliver on Australia's emission reduction goals while maintaining a secure, reliable supply of electricity. It is important that the Guarantee can facilitate a wide range of technology options to reduce emissions and increase reliability, including the role of gas and the integrated planning that may be required.

Energy Networks Australia has not identified any fundamental concerns with the direction currently proposed under the NEG detailed design at this stage. We seek clarification that the Guarantee (in particular, the emissions requirement) will facilitate scale-efficient investment, whether this is generation, transmission or other forms of response.

Energy Networks Australia supports the inclusion of information from the Demand Side Participation Information (DSPI) Portal, which will include small scale Distributed Energy Resources (DER) and demand response (DR).

We recognise that there is more work to be done and encourage the ESB and its constituent bodies to continue to seek input from industry and other stakeholders.

Our detailed response is in the Attachment.

Please do not hesitate to contact Verity Watson on 03 9103 0407 or [vwatson@energynetworks.com.au](mailto:vwatson@energynetworks.com.au) if you would like further information.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Tamatha Smith".

**Tamatha Smith**

**A/Chief Executive Officer**

## Attachment

### **1. Energy Networks Australia carbon policy position**

Energy Networks Australia supports the adoption of a technology neutral approach to the emissions requirement of the Guarantee to provide the lowest impact to customers.

### **2. Forecasting accountability and methodology**

Energy Networks Australia agrees with the ESB's intention that the forecast and methodology for calculating the reliability gap is reliable and robust. Energy Networks Australia understands that this is to ensure that all market participants develop more confidence over time in the forecasts that underpin these arrangements. We also note and support the proposed accountability framework with enhanced checks and balances, including the role of the Australian Energy Regulator (AER) as an independent review body and to manage reporting.

The NEG framework must adequately account for network capacity, both in the forecast of reliability gap by region, as well as in assessment of compliance when the reliability trigger is reached, particularly where intraregional constraints are forecast to contribute to the reliability gap.

### **3. Implications of reliability on asset planning**

Energy Networks Australia seeks clarification that the Guarantee (in particular, the emissions requirement) will facilitate scale efficient investment, whether this is generation, transmission or other form of response. The identification of a material gap is expected to trigger the reliability obligation and to incentivise the liable entity through contracting and investment in resources to support the reliability of the power system. This process may require additional transmission investment to support additional generation capacity. Further consideration should be given to whether the current regulatory framework provides a barrier to investing in transmission relative to other solutions such as new generation or demand response.

Australian Energy Market Operator (AEMO) and networks have undertaken extensive work on developing the inaugural Integrated System Plan (ISP) to co-optimize the development of the National Electricity Market (NEM) as a whole and to signal strategic pathways across a range of scenarios including maximising the value of renewable generation by ensuring it is integrated within and across regions.

The Guarantee includes the ability for liable entities to carry forward a limited amount of a previous compliance year's over-achievement (5% of the emissions target for the first year of the emissions reduction requirement for each MWh of load), for use in a later compliance year. A potential impact of the proposed banking limit is that it may limit the extent to which retailers will issue contracts for large step changes in renewables associated with Renewable Energy Zones (REZs) which may have an impact on optimal scale efficient development of networks. In light of this development, it would be useful to understand the interaction between the carry-forward limit and potential scale efficient developments under the ISP.

#### **4. Competitive Markets**

Effective competition in both retailing and generation is essential to ensure that customers are delivered positive outcomes in terms of price and service standards.

Energy Networks Australia supports options that will ensure we have effective competition and for the NEM regulatory institutions to not preclude network alternatives that seek to address such concerns.

We welcome the changes ESB has made to the design to deal with market power concerns.

#### **5. Implications of demand response**

Energy Networks Australia supports the inclusion of orchestrated demand response (DR) and the inclusion of qualifying contracts for dispatchable demand response. Firm demand response can be a cost effective alternative to building further infrastructure, which may be used infrequently. This is a valuable part of the framework which may assist in reducing cost to consumers.

The Technical Working Papers note that DR contracts will need to meet the same general qualification criteria as other contracts and be registered in the AEMO DSPI Portal.

The AEMO DSPI Portal is updated in April in T-4 and will be reflected in the August T-3 Electricity Statement of Opportunity (ESOO) and the AER endorsed reliability gap in T-3 for year T. Uptake of technology and customer demand response contracts could change over the next two years reflecting a market response. The annual updated DSPI in the years T-3 and T-2 could affect the volume requirements for the procurer of last resort and thus costs to consumers.

Networks undertake a number of load control or demand response mechanisms to facilitate network deferral. These initiatives are included in the AEMO portal and should not be prevented from use to facilitate the reduction in the reliability gap either by liable entities or by AEMO.

Energy Networks Australia is working with AEMO on the development of an orchestrated demand response framework. Extensive consultation with stakeholders is currently underway and we consider it would be useful if this process could help to inform the DR component of the NEG framework to ensure that the solution implemented is optimal. If AEMO is relying on DR and DER solutions to reduce the reliability gap, then networks need to be included to ensure that the network configurations and other solutions are feasible for ongoing network operations. Energy Networks Australia would appreciate the opportunity to work with the ESB and AEMO on the DR component.

#### **6. Timing**

Energy Networks Australia recognises there may be a difference in timing between the annual publication of the ESOO and the potential endorsement of the gap by the

AER. Clearly, it would be beneficial for the AER's assessment to be timely and informed by as much reasonable information as possible.

Energy Networks Australia agrees that there may be a need to update the ESOO more regularly once a materiality gap is triggered, this may also need to extend to updating any pertinent information in the DSPI Portal. The NEG framework should preserve the flexibility to introduce new qualifying DR right up to the time AEMO takes on the procurer of last resort obligations.

### ***7. Governance Framework of the Guarantee***

Energy Networks Australia supports the implementation of the Guarantee through existing frameworks and governance arrangements to allow the Guarantee to integrate with broader energy rules, maximise consistency between the reliability and emission requirements and to reduce complexity and compliance costs.

We also note that there is a considerable amount of work and consultation to be undertaken to implement the detail if endorsed by the Council of Australian Government (COAG) Energy Council. As has occurred to date, we encourage the ESB and its constituent bodies to continue to engage and seek input from industry and other stakeholders.