Initial reflections on the ESB's Capacity Mechanism & Other Options for Consideration

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Governments have set substantial 2030 +RE / -$CO_{2\text{-}e}$ targets

	RE by 2030	$CO_{2\text{-}e}$ reduction (by 2030 on 2005)
Commonwealth	82%	-43%
NSW	+34 TWh	-50%
VIC	50%	-45% to -50%
TAS	150% (contingent on Marinus)	Net zero
SA	100% (net)	-50%
QLD	50%	-30%

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Cwlth's 82% RE by 2030 is roughly consistent with ISP "Step change"

Table 1. Variable renewable energy and storage requirements to 2050 in AEMO's "Step change" scenario of its Draft 2022 ISP

	2023	2030	2040	2050
Storage (GW)[4]	3.4	18	46	59
Variable renewable energy (GW)	41	85	138	204
Storage/Variable renewable generation (GW)	8%	21%	33%	29%

Enormous & **rapid** expansion in storage and VRE needed by 2030 to meet Cwlth targets

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Policies to achieve Enormous & Rapid Expansion (E&RE) in storage and RE?

- NSW / VIC / TAS / QLD – mainly contracting private providers & some government action (QLD, TAS); small scale solar + storage incentives in some cases (Vic mainly).

- Cwlth - $20bn RNC, but no indication how it will deploy to achieve E&RE. Existing RET in runout.

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In this context, enter the ESB proposal for a Capacity Mechanism

- Does not consider GHG impact of contracted capacity
- Essential purpose is to pay existing fossil fuel generators (FF gen) to encourage them to remain in the market.
- Very likely that vast bulk of CM dollars will flow to existing FF gen.
- Subsidising existing FF gen will undermine the storage expansion needed to achieve decarbonisation and RE targets

If the objective is to achieve 82% RE by 2030 and reliable electricity supply at least cost, it is hard to imagine a scheme that could be less effective than the CM.

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If I had a magic wand …

- Bin the Capacity Mechanism.
- Disband ESB.
- Instruct the AER, AEMC and AEMO to quantify the GHG impact of all decisions and proposals they make.
- Expand RET: emissions are not priced in the market so Govt must offer incentive in order to achieve 82% target.
- Introduce NEM-wide Renewable Electricity Storage Target ("REST") to incentivise the development of storage (see vepc.org.au/ reports-and-working-papers for details).
- Encourage Vic/NSW/Qld to continue their direct contracting and development policies to replace coal & gas with storage & VRE.

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Finally, if ministers are worried about capacity shortfalls (noting such concern is not substantiated by AEMO) then …

1. Seek to negotiate standby agreements with FF gen, but from position of strength (by ensuring rapid delivery of storage to weaken negotiating position of FF gen)
2. Leave States to take the lead in negotiations (coal in NSW/QLD/VIC is quite different and States much more likely to know what is really going on in their own States).
3. Cwlth should seek to assist through suasion, facilitation and co-ordination.
4. Victoria's deal with Yallourn is a role model.

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Closing remarks

- ESB's CM is unhelpful distraction. It should be given short shrift.
- Get cracking on policy support for huge expansion in storage and VRE expansion as matter of urgency.
- Cwlth can play a critically import role through expanded RET and new REST in turbo-charging VRE and storage expansion.
- State action should be encouraged

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