Australian Government
Department of the Environment and Energy

COVER SHEET FOR SUBMISSIONS

Underwriting New Generation Investments – Public Consultation

Overview

The Australian Government's Underwriting New Generation Investments program is focussed on attracting new investment in firm or firmed generation capacity to increase competition and reduce electricity prices. The new program will also improve reliability and security by increasing the level of firm capacity in the system.

The Department of the Environment and Energy is inviting members of the public and industry to provide submissions. Submissions should be provided by 5pm (AEDT) Friday, 9 November 2018.

Contact details

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Confidentiality and publication

Unless you indicate that your submission is confidential, it will be treated as a public document. It may be published in full on the Department's website, or included in a published summary report of submissions.

If you do indicate that your submission is confidential, it will not be published on the Department's website.

Is this a confidential submission? ☐ **Yes** ☒ **No**
(If yes, please clearly mark each page of your submission 'confidential')

If only a part of your submission is confidential, for example because it contains a small amount of commercially sensitive information, please provide two clearly marked versions of the submission, a full version and one with the confidential information removed, for publication.

If your submission is published, the Department will include identifying details (author name and state/territory). Contact information (such as names, signatures, addresses or phone numbers) and information may be included in published submissions.

While the Department values public consultation highly and seeks to be transparent, it is under no obligation to publish submissions it receives, and it reserves the right not to publish submissions on its website that raise legal or other concerns.

9 November 2018

Energy Division
Department of Environment and Energy
GPO Box 787
Canberra ACT 2601

Lodged by email: UnderwritingNewGeneration@environment.gov.au

Dear Sir or Madam,

Submission to Public Consultation Paper on Underwriting New Generation Investments

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to respond to public consultation paper on underwriting new electricity generation investments.

Recommendation 4 of the ACCC report, which serves as the basis for this program, intended to facilate economic investment in new generation, by enabling better access to long-term finance through longer-term generation contracts. This program must not be a vehicle for making uneconomic investments economic – this would be an inappropriate use of taxpayer funding and potentially distort otherwise efficient investment in the National Electricity Market.

PIAC notes that there is already evidence that private investors and state Governments are stepping in to provide long-term contracting support for many new generation investments. We question whether a specific, additional Commonwealth mechanism is necessary. However, if this program proceeds, PIAC recommends the following principles for the scope and operation of this program, reflecting the intent of the ACCC's recommendation,:

- It must only be eligible for new generation – not for refurbishment or extension of existing generation assets
- It must only be eligible for projects that are already economic – it must not provide additional revenue streams to make an otherwise uneconomic project viable
- It must be limited to assisting economic projects to receive sustainable, long-term funding by facilitating access to longer-term contracting arrangements.
- It must only be eligible for projects which will enhance market competition by encouraging new or smaller entrants into the wholesale market – it must not further entrench existing market concentration
- It must not seek to indemnify the generator from future risk that may have a material economic impact, such as a possible future carbon price
- The scheme should be managed by the Clean Energy Finance Corporation (CEFC), as suggested by the ACCC.

Attached are PIAC's responses to the individual consultation questions.

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Continued engagement

PIAC would welcome the opportunity to meet with Department and other stakeholders to discuss these issues in more depth.

Yours sincerely,

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<table>
<tr><th colspan="2">Submission to the consultation questions</th></tr>
<tr><td>1) Which option, or combination of options, will best achieve the program objectives?</td><td></td></tr>
<tr><td>2) Are there any alternative options, eligibility/merit criteria, and requirements that should be considered?</td><td></td></tr>
<tr><td>3) What are the key risks in relation to energy markets and investment associated with the various options?</td><td>The key risks include:
• Taxpayers and potentially energy consumers bearing increased costs and risks from subsidising and underwriting investment in otherwise uneconomic generation projects.
• Gold-plating of the wholesale generation market by building for a level of ‘100% reliability.’ This is not only unnecessary but also does not reflect the reality of new generation and demand management technology. There are various other mechanisms already in the National Electricity Market to ensure reliable and secure supply whilst balancing against affordability – such as the Reliability Standard set at 0.002% Unserved Energy.
• Entrenching market power in generation, derivatives and retail markets. PIAC supports the inclusion of eligibility criteria that successful projects must enhance market competition, and contribute to the reduction of the concentrated market power of incumbents.
• Unnecessarily delaying the efficient, low-cost transition to zero- or low-emissions generation. PIAC supports the inclusion of eligibility criteria that successful projects must result in emissions reductions in the electricity sector in line with established commitments.</td></tr>
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4) Please provide additional feedback that may impact the Government's program.	Project eligibility criteria: • Support the inclusion of eligibility criteria that successful projects must result in emissions reductions in the electricity sector, and contribute to established emissions reduction commitments. • Support the inclusion of eligibility criteria that successful projects must enhance market competition. We look forward to further detail on defining what constitutes eligible market share and contract prices. This must be defined in a clear and defensible manner to ensure the proposed program is able to address lack of wholesale market competition identified by the ACCC. Project merit criteria: • Any modelling conducted to establish a prospective project's impact on electricity market prices must be robust, defensible and consider a range of reasonable future scenarios which include factors such as changes in demand, technology costs and uptake of distributed energy resources. Merit criteria should also account for, and seek to avoid, risks flowing from likely future developments (such as increased emissions reductions targets or the introduction of carbon pricing).