NATIONAL ELECTRICITY MARKET: TAIL BETWEEN ITS NEG?
OUTLINE

• The last 2 years ...
  ■ Political interventions
  ■ ACCC recommendations
  ■ AEMO interventions

• The NEG
  ■ The good, the bad and the ugly
  ■ More political interventions

• Future of the NEM
  ■ Will the energy-only market survive?

• (OpenNEM)
POLITICAL INTERVENTIONS

- South Australian Power Plan
  - Hornsdale Power Reserve
  - 'Temporary' State-owned generators
  - Emergency Powers to the State Minister
POLITICAL INTERVENTIONS

- State renewable energy targets
  - Victorian Renewable Energy Target (VRET)
  - Victorian Renewable Energy Target (QRET)
  - ACT Reverse Auction Scheme*
POLITICAL INTERVENTIONS

- "Nation building"
  - Tasmania as "Battery of the Nation"
  - "Snowy 2.0"
    - Commonwealth acquires Snowy 1.0
    - Commonwealth now the 4th largest gentailer!
ACCC INTERVENTIONS

"RECOMENDATION 4"

The Australian Government should operate a program under which it will enter into low fixed-price (for example, $45–50/MWh) energy offtake agreements for the later years (say 6–15) of appropriate new generation projects which meet certain criteria.
• have at least three customers who have committed to acquire energy from the project for at least the first five years of operation
• not involve any existing retail or wholesale market participant with a significant market share (say a share of 10 per cent or more in any NEM region)
• be of sufficient capacity to serve the needs of a number of large customers
• be capable of providing a firm product so that it can meet the needs of C&I customers.
RE-CENTRALISATION?

- State action dominating decision making and resource allocation
- Much more 'command and control' than 'market led'
AEMO INTERVENTIONS

- Reliability and Emergency Reserve Trader (RERT)
  - $52 million in total
  - Mostly paid for by Victorians
  - One event was $24 million for 390 MWh
    (...$62,000/MWh)
AEMO INTERVENTIONS

- Reliability and Emergency Reserve Trader (RERT)
  - The flipside...
    - Market wasn't at VoLL
    - Half an hour at VoLL in Vic would have cost $62 million
  - Why wasn't the market at VoLL??
    - Represents a wealth transfer from generators to consumers
    - ...Who's going to build new capacity??
AEMO INTERVENTIONS (& BEHAVIOUR)

• AEMO was intervening in South Australia for ~74% of the time in May.
• On recent times eleven occasions AEMO has allowed the power system to operate in an insecure state for more than 30 minutes
  ▪ Technically not compliant with the Rules
GETTING NEG'ED
THE GOOD (?)

"In general, the NEG is a stupendously complicated idea that isn't really designed to achieve anything - other than political agreement"

-Alan Kohler, August 2018
THE BAD
(IT'S VERY BAD)

• The modelling
  □ Contracting
  □ Demand response
  □ Missing money
AND THE UGLY ...

• Process has been truly awful
• The ESB is supposed to report to the COAG EC
  ■ (You would be forgiven for thinking otherwise)
  ■ No QRET or VRET modelled
• Not particularly broad consultation
  ■ Confidentially agreements required for those that were involved.
• Contrasts with other similar excercises
"the ESB will consult on two additional options: the inclusion of an additional trigger at T-5, and the removal of the T-3 trigger"

"proposed ability for a jurisdiction to trigger the reliability obligation as a transitional arrangement"
WHAT DOES THIS MEAN FOR THE NEM?
WHAT DOES IT MEAN FOR ENERGY-ONLY MARKETS?
The market has (arguably) been usurped:
- Has it actually every work to incentivise new capacity?

Political and institutional interventions have not *allowed* it to work
- The political cost might be too high to do so

This is not to say energy-only are "good" or "bad":
- But questions need to be asked about if it is working
- And if it *can* work
- And if not, to be consciously aware of this!
OpenNEM