



EnergyAustralia

LIGHT THE WAY

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EnergyAustralia is one of Australia's largest energy companies with over 2.5 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own and operate a multi-billion dollar energy generation portfolio across Australia, including coal, gas, and wind assets with control of over 4,500MW of generation in the National Electricity Market (NEM).

We welcome the opportunity to comment on the Integrated System Plan (ISP) as part of our continued engagement on this issue. This submission focusses on the modelling aspects outlined in sections 1.2 and 1.3 of the consultation paper. As an initial comment, we encourage AEMO to provide more clarity around this modelling, including the limitations inherent in it so that the findings may be considered in the right context. Any long-term modelling of the NEM will be highly sensitive to the policy settings of the day, and therefore requires increased transparency around the specific elements included in the modelling.

In general, we note that the modelling exercise has a significant focus on efficient transmission investment options aimed at reducing the cost of the development of this infrastructure. While we understand that this is a key element in any strategic planning of NEM investment, we also consider that adequate emphasis needs to be placed on ensuring that this transmission investment is co-optimised with the required generation investment under each of the proposed scenarios. This includes ensuring that the costs of both transmission and generation are minimised rather than simply aiming at reducing wholesale costs.

Regarding the supply side settings, the potential for early closure of existing thermal units is an additional input that should be expanded upon. The consultation paper notes that the assumed end-of-life dates for certain larger thermal units are not fixed and that an earlier or later withdrawal is possible. This is likely to be linked to scenarios under which state-based renewable energy targets are incorporated. There have been examples of modelling exercises not adequately incorporating the fixed costs of existing units and instead focussing on the short-run marginal cost of units as a means of determining if these units would exit. We are concerned that the proposed modelling potentially classifies existing units as some form of free operator that do not make decisions based on commercial considerations beyond short-run marginal costs.

Additionally, we support further commentary on how the proposed modelling seeks to factor potential variances to the assumed end-of-life of plant into this project.

In a similar vein, we also support increased explanation of how the modelling aims to consider some of the major loads which may exit the market under certain scenarios. Large industrial participants, principally aluminium smelters, are major contributors to the demand profile of the NEM and are highly sensitive to both price and reliability impacts of changes to market conditions. The exit of some larger thermal units earlier than assumed may feedback into impacts including demand destruction and is worthy of further thought in this process. Inversely, policy settings may be such that large thermal units or large industrial loads including these smelters may remain in the market for an extended period.

Some further points we would also support AEMO factoring in to this exercise are as follows:

- We support the removal of the emission constraint in the slow change scenario as we believe that at least one scenario should provide a view of unconstrained emissions. The unconstrained case may show that emissions fall to -28% of 2005 emissions by 2030, which would be an insightful finding on its own. International permit linking may also alleviate the need for domestic abatement which would make emission constraints less relevant.
- Ensuring that coal price assumptions are based on recent data. The issue of a much lower price for coal being assumed based on historical data has been an ongoing issue in market analysis. We would note the recent AER report¹ into NSW generator bidding behaviour as being more reflective of the issues of coal pricing, particularly since the withdrawal of Hazelwood Power Station.
- Assessing the adequacy of using data from the 2017 Electricity Statement of Opportunities in respect of Demand Response (DR). This report had quite low levels of DR included and it would be useful to clarify the explicit details surrounding the level of DR. This is of particular importance given the likely firming effect that DR would have on the market.
- Expanding upon the system security requirements that are being incorporated into the modelling.

If you would like to discuss this submission please contact Chris Streets on 03 8628 1393 or at chris.streets@energyaustralia.com.au.

Regards

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¹ <https://www.aer.gov.au/wholesale-markets/market-performance/aer-electricity-wholesale-performance-monitoring-nsw-electricity-market-advice-december-2017>