

21 June 2019

The Hon Matt Kean MP  
Minister for Energy and Environment  
GPO Box 5341  
Sydney  
NSW 2001  
Your Ref: IRF19/3810

By email to [energy@planning.nsw.gov.au](mailto:energy@planning.nsw.gov.au)

Dear Minister

### **Supporting Utility Scale Generation and Infrastructure in NSW**

Thank you for your invitation to the Australian Energy Council (the AEC) to submit views on this important matter. Ben Skinner and I enjoyed our meeting on 6 May 2019, and we look forward to an ongoing dialogue about energy policy matters.

The AEC is the industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

I share your rightful concerns about the development of the NSW power system, especially in light of the expected closure of the Liddell Power station. I consider the four principles that you have listed entirely sensible and appropriate.

The AEC has long been a champion of competition to deliver the three critical pillars of the energy system, being low cost, high reliability and declining emissions. In that way, we consider your objectives can best be met by encouraging:

- competitive, market-exposed private investment in large-scale generation;
- retailer assisted development of distributed resources at customers' premises; and
- development of the monopoly transmission grid, where it is demonstrably efficient to do so.

The most valuable support that government can provide for realisation of these goals is a clear and stable policy framework, where investors consider the risks are low of their investments being undermined by intervention or changes in policy direction. I accept that such a framework has not always been forthcoming from other jurisdictions, with some resulting negative impact on NSW, however we do not consider NSW would be best served by consequentially departing from such a goal.

We see NSW' most important role as contributing to the development of the National Electricity Market through the Coalition of Australian Governments Energy Council and its subsidiary energy institutions. That provides both a robust forum for the development of good policy, but also a national approach to its delivery.

I note, by way of caution, the example of the South Australian derogation to the Retailer Reliability Obligation (RRO), which allows the South Australian minister to substitute an Australian Energy Regulator instrument with his or her own. Our members consider this will have a chilling effect on retail competition in that state, and, in turn, a counter-productive outcome by reducing generator investment in that state.

The Energy Security Board (ESB) has developed the national RRO thoroughly over many months of detailed consultation, and the imposition of any such variations from their well-prepared design will fundamentally undermine its effectiveness.

Another area in which the NSW government should exercise caution relates to providing specific supports to a competitive supplier. Such policy can be counter-productive by discouraging other private investors, or by causing them to delay commitment in the hope of becoming a beneficiary. We expressed these concerns in our submission to the Commonwealth's Generator Underwriting proposal<sup>1</sup>.

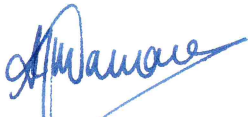
Finally I'd like to add some comments about the development of transmission. As noted above, the AEC supports the development of monopoly transmission services where it is efficient to do so. Development of the transmission network is an important enabler for the industry and its transition, but, in doing this, it can also undermine assets built in good faith around the needs of the original network.

The best way to manage this difficult trade-off is for the network to develop in an efficient, predictable and transparent methodology. The AEC considers that the Australian Energy Regulator's Regulatory Investment test for Transmission (RIT-T) attempts to achieve this. The AEC endorses the RIT-T, along with reforms underway to streamline it. We are concerned that state government actions, whilst well-intentioned, have at least the appearance of distorting these processes. Actions can appear, from the perspective of an investor in private firm generation, to encourage transmission development beyond what the well understood regulatory arrangements would achieve. Thus, proposals such as underwriting stages of development of Renewable Energy Zones should be approached with caution.

In conclusion, a government policy framework that supports private investor confidence, in combination with national developments such as the RRO and efficient network development, will create a supportive investor environment. With such an environment, the government can draw confidence that the NSW system will continue to meet the NEM's Reliability Standard after the Liddell closure. Further, in the unfortunate event that investment proves insufficient, the NEM rules empower the Australian Energy Market Operator (AEMO) to temporarily intervene to secure additional reserves without undermining important scarcity price signals.

I hope this has proved useful to your thoughts. Any questions about our letter should be addressed to Nick Leys, GM Corporate Affairs by email to [nick.leys@energycouncil.com.au](mailto:nick.leys@energycouncil.com.au) by telephone on (03) 9205 3114.

Yours sincerely,



**Sarah McNamara**  
Chief Executive

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<sup>1</sup> <https://www.energycouncil.com.au/media/14522/20181109-aec-underwriting-investments-final.pdf>