



A NEW YEAR'S NOTE TO EPIA MEMBERS

The ESB's Alarming Report on the 'Health of the National Electricity Market'

There surely cannot be any more serious message to policymakers than what the Energy Security Board (ESB) sent in its 94-page annual Health of the Market report at the end of 2018.

The ESB was formed in 2017 to support the transition of Australian energy markets in the context of technological change and to advance the long-term interests of consumers in this process. The ESB is responsible for:

- 1) implementing the recommendations from the Finkel Review
- 2) enhancing coordination between market bodies and the COAG Energy Council and
- 3) provision of strategic advice to the COAG Energy Council on energy security, reliability and affordability in the NEM.

The ESB's annual report is of the utmost candour and needs to be read in full. Its message to policymakers is alarming. It can however be succinctly explained by the undermentioned extracts from its executive summary, with the EPIA adding some underlining for emphasis in a few spots:

- *[T]he outlook for both wholesale prices and network charges is improving [but] electricity retailers are not delivering for consumers. Retail tariffs are often deliberately complex which erodes consumer trust. The complexity and confusion for customers in the retail market must stop.*
- *The NEM is no longer as resilient to disruptions as it used to be. Changes in the generation mix and patterns of consumption affect the ability of the system to operate in a secure state in the event of credible disruptive events.*
- *[A] clear plan for how to reward flexibility and essential system services is necessary in order to reduce AEMO's requirement to intervene in the market.*
- *[There are reliability] shortfalls in Victoria, New South Wales and South Australia in the medium-term but ... not any immediate gaps in the supply-demand balance except in Victoria for this summer.*
- *The NEM is ... broadly on track to meet its share of Australia's emissions reduction commitment.*

- [M]ore than 15 years of uncertainty around the integration of energy and climate policy has reduced policy confidence in the NEM and distorted generation investment and disinvestment decisions in the sector. Government schemes have encouraged investment in renewable generation irrespective of demand for electricity and price signals from the spot and contract markets. The design of these schemes has broken the link between the physical needs of a reliable power system and the economic incentives on market participants that keep wholesale energy costs as low as possible.
- Without a clear, modern, integrated and achievable electricity market design and climate policy, ad hoc government policies will continue to enter the policy and regulatory landscape at an unpredictable rate. As a result, investment in new or existing dispatchable generation will continue to be challenged by this uncertainty.
- Without change, the outlook for a reliable and low emissions electricity supply is expected to worsen ...
- The risk of government intervention and distortion of the drivers for future investment remain real, which in turn increases the likelihood of negative impacts on competition, reliability, pricing and investment decisions.
- ... high and entrenched levels of concentration in the NEM may be contributing to elevated prices and ... the current market structure is not conducive to vigorous competition.
- The launch of AEMO's first Integrated System Plan (ISP) is an important step in enhancing system planning.
- The risks to delivering a coherent and coordinated approach to energy policy in the NEM have increased during 2018 with the piecemeal approach to setting energy policy. At a time when investment is needed in dispatchable generation and to action the ISP, it is not helpful for the Commonwealth Government to be threatening powers of divestment, price setting and discretionary asset write-downs.

What should the long-term, coordinated policy changes be? At EPIA's first forum for 2019 on 22 February, 'Australia Facing Decarbonisation', EPIA members will be invited to say what they think. I hope all members will be represented.

A member discount of \$100 off registration is available via [this member link](#). (Alternatively type in "Member" when asked for a promotional code via the registration link on the [website](#).)

Robert Pritchard

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