Review of Energy Market Frameworks in Light of Climate Change Policies – 1st Interim Report

Introduction

Suzlon Energy Australia Pty Ltd (SEA) is the largest turnkey constructor and operations and maintenance service provider of grid connected wind farms in Australia. We are a subsidiary of Suzlon Energy Ltd of Pune India, the world's fifth largest manufacturer of wind turbines. In Australia, we directly employ over 200 people, and are presently delivering over 450 megawatts of wind power generation across five wind farms.

We appreciate the opportunity to comment on the issues raised in the 1st Interim Report of the AEMC Review.

Summary

- We recognise that reviewing the current energy market objectives falls outside of the scope of the AEMC Review. However, we believe that this may limit the extent to which the Review can explore the changes that may be needed to ensure Australia's energy markets are equipped to meet the climate challenge.

- Facilitating demand side participation could help meet a potential capacity gap in the short-term. In the long-term, developing a sophisticated and effective approach to demand side management will better position the electricity market to manage a greater penetration of naturally variable renewable energy supply.

- SEA supports the role of the AEMC Reliability Panel to review energy market settings from the perspective of reliability.

- We support the approach outlined in the interim report to develop strategically planned hubs to facilitate the connection of clusters of new renewable energy generators to the electricity network. We see this as a nation building priority for Australia. Further work is needed to identify the best approach to strategic planning, risk management and financing of the connection hubs.

  Planning: International experience highlights the benefits of leveraging the expertise of a range of stakeholders to inform infrastructure planning. Infrastructure Australia could play a leading role in coordinating this activity as part of their broader remit to identify nation building priorities for Australia.

  Risk: To ensure that there are enough connection hubs in the right locations, some investment in infrastructure ahead of proven demand may be required. This means that there will be costs borne by consumers and/or Government in the short to medium-term. Linking the economic test to firm commitments from 'would-be' generators is unlikely to work as it is impossible to coordinate the timing of projects given their commercial nature.

  Finance: We support cost sharing between the Infrastructure Australia fund and network users to finance the construction of the connection hubs.

- Retail tariffs should be flexible enough to allow energy companies to pass through the costs of climate change policies. This needs to be supported by mechanisms to ensure that vulnerable customers are protected from energy price rises.

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Key points

Energy market objectives

In our previous submission, we reflected on the scale of transformation of the energy sector that was needed in order for Australia to move to a low carbon economy.

The Carbon Pollution Reduction Scheme (CPRS), and the Renewable Energy Target (RET) are important policies that will drive changes in the way we supply and use energy – but these policies alone are insufficient to effect the transformation that we need.

Currently the energy market objectives are focused on promoting efficient investment in, and efficient operation of electricity and gas for the long-term interests of consumers with respect to price, quality, safety, reliability and security of supply.

It could be argued that tackling climate change is a very important part of meeting the long-term interests of consumers. However, if moving to a low carbon economy is not included as an explicit objective of the energy market, then it is difficult to see how such a significant transformation can occur.

There is a still an important discussion to be had about how the overarching objectives of the energy market may need to evolve in light of the urgent imperative to both mitigate and adapt to climate change.

We recognise that reviewing the energy market objectives falls outside of the scope of the AEMC Review. However, we believe that this may limit the extent to which the Review can explore the changes that may be needed to ensure Australia's energy markets are equipped to meet the climate challenge.

Generation capacity in the short-term

In the 2008 Statement of Opportunities, NEMMCO warns of a possible capacity shortfall in the short-term.

Given the long lead-times associated with building new supply capacity, more effective demand side participation could provide an effective short-term solution to the emerging capacity gap.

This will require focused intervention by Governments – to both assess the potential, and to implement mechanisms to actively encourage demand side participation.

Establishing a framework that incentivises participation in a demand-side market in the short-term will encourage greater innovation in the market place. For example, we could see the emergence of energy contracts that reward customers that agree to install automatic load control technology in their air conditioners, or pool pumps.

In the longer-term, a flexible and engaged demand-side sector will complement a greater penetration of renewable energy generation.

Investing to meet reliability standards with increased use of renewables

SEA supports the role of the AEMC Reliability Panel to review energy market settings from the perspective of reliability. We will continue to play an active role in informing this activity.

Connecting new generators to energy networks

We support the approach outlined in the interim report to develop strategically planned hubs to facilitate the connection of clusters of new renewable energy generators to the electricity network. This should be a nation building priority for Australia. Further work is needed to identify the best approach to strategic planning, risk management and financing of the connection hubs.

Planning

The location of the connection hubs will require careful consideration and will benefit from the expertise of a range of stakeholders, including energy companies, industry associations like the Clean Energy Council, regulators and planners. The process of developing the National Planning Framework for Scotland could be a useful model for Australia to inform the selection of hub locations (see below).

Infrastructure Australia could play a leading role in coordinating this activity as part of its broader remit to identify the nation building priorities for Australia.

By taking a broader approach to infrastructure planning, synergies between infrastructure projects may be realised – for example, coordinating the extension of electricity and telecommunications infrastructure in regional Australia.

National Planning Framework for Scotland[1]

The National Planning Framework for Scotland provides guidance for the spatial development of Scotland to 2025. The development of the Framework drew on the expertise of a wide range of stakeholders, including industry, regulators and planners. When the latest Framework is finalised, it will have a statutory basis, and will provide a context for development plans, planning decisions, and the development of Government policy and programs.

The expected growth of new renewable energy generating capacity has been recognised in this process, which has informed thinking about future transmission system reinforcements.

This could be a useful model for Australia to identify the likely renewable energy input, possible locations, and potential transmission upgrade requirements to inform the selection of hub locations.

[1] http://www.scotland.gov.uk/Publications/2008/12/12093953/0

Risk

To ensure that there are enough connection hubs in the right locations, some investment in infrastructure ahead of proven demand may be required. This means that there will be costs borne by consumers and/or Government, although possibly only in the short to medium-term.

The risk of creating stranded assets can in part be mitigated by ensuring a rigorous planning process that brings in a diverse range of stakeholders. Linking the economic test to firm commitments from 'would-be' generators is unlikely to work as it is impossible to coordinate the timing of projects given their commercial nature.

Finance

We support cost sharing between the Infrastructure Australia and network users to fund the construction of the connection hubs.

Financing new energy investment

It is important that retail tariffs are flexible enough to allow energy companies to pass through the costs of climate change policies.

This needs to be supported by mechanisms to ensure that the most vulnerable customers are protected from energy price rises.

Energy retailers also have an important role to play in influencing carbon pollution reduction. While energy retailers shouldn't have to bear the cost of climate change policies, there is scope to identify policies that incentivise energy retailers to actively support and encourage their customers to reduce carbon pollution.

Conclusion

The 1st Interim Report outlines the key issues that must be addressed to enable the successful implementation of the CPRS and the RET.

We look forward to the next phase of this Review, and welcome further dialogue with the AEMC.

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