



Energy market redesign advice finalised

The Energy Security Board (ESB) today handed final advice on its redesign of the national electricity market (NEM) to Energy National Cabinet Reform Committee.

Developed in response to a request from energy ministers in 2019, the proposals are designed to support an orderly transition to a modern, new Australian energy system with a rapidly increasing growth in large and small scale renewable generation.

The timing for the release of the final advice will be determined by National Cabinet.

ESB Independent Chair, Dr Kerry Schott AO, said the final advice is a package of timely and interrelated reforms and actions to successfully integrate the transition to renewable generation already underway. This entry of new generation must coordinate with the exit of aging coal fuelled generation.

Maximising opportunities and managing the risks associated with this transition will deliver affordable, smart and clean energy in a seamless way for consumers.

“This isn’t just a tweak around the edges; it’s about a whole redesign of the national electricity market. We expect governments will need time to develop their responses,” Dr Schott said.

“We all know reform isn’t optional. It is not something we can choose to do; it’s something we have to do to confidently embrace Australia’s energy future while reducing the risk of price shocks and blackouts.

“The clearer and more coordinated the path, and the smoother the transition, the more confidence consumers, industry, investors and governments will have.”

The final advice is the result of consultation with a broad range of industry stakeholders, consumer bodies, academics, government bodies and interested parties over the past two-years.

Dr Schott said consistent with the options paper released in April, the final advice covers four market design reform pathways that set out what needs to be done in the short term, to address more urgent issues, as well as the medium and longer term direction for how the national electricity market needs to evolve. These are:

- **Preparing for aging coal fuelled generation retirement by giving incentives for the right mix of resources** – weather dependent renewables and firm and flexible generation. This will restore confidence that energy is there when it is needed, reducing both the risks of extreme price volatility and the need for expensive government interventions.

Dr Schott said resource adequacy is a real and present danger.

“We have had a very mild summer, and everyone has got very complacent, but we only need one hot summer in three jurisdictions together or a major unexpected outage at a big coal plant and we’ve got a real resource adequacy issue right on top of us,” she said.



- **Backing up power system security** by getting services like inertia, voltage and frequency control into the market, and optimising their procurement and dispatch to save money while keeping the lights on.

Dr Schott said these technical reforms are critical to restoring confidence in the reliability and security of the system now, avoiding costs for consumers, and setting us up for batteries and emerging new technologies.

“The lack of essential system services has cost consumers a lot of money in recent years as a result of expensive interventions by AEMO to maintain system security. These interventions come with various compensation payments. A number of these reforms are urgent and are already underway. With the reforms continuing we expect interventions will decline markedly if not disappear altogether,” she said.

- **Unlocking benefits for all energy consumers of recent changes including solar PV, batteries, and smart appliances** by putting the necessary arrangements in place to make better use of existing rooftop solar and customer batteries and open further opportunities for these and other smart appliances so all customers can benefit from not having to pay for unnecessary investments.

Dr Schott said we need to change how we manage electricity in much the same way as we have changed the way think about our telephones. Product offerings will be different and able to provide better value and more services.

“We are proposing the changes needed so consumers will be able to choose how they source the energy they need. But while a lot of the proposals are complex, they are ‘under the bonnet’, and the consumer experience will be easier than it is today,” she said.

- **Opening the grid to cheaper large-scale renewables** by reducing the costs associated with getting new, geographically dispersed generation to customers.

Dr Schott said congestion is already happening in north-west Victoria and there are other places on the grid that are going to get very congested over the next 10 years.

“We must upgrade the transmission network to realise the opportunities. We are already well progressed down this path through changes to the way we plan and develop the national grid. Further reforms are required to make the most of the new grid, manage future congestion and connect the new generation and storage needed as efficiently as possible,” she said.

Dr Schott said the ESB will continue to work with the Australian Energy Market Commission (AEMC), Australian Energy Market Operator (AEMO) and the Australian Energy Regulator (AER) to progress reforms to the National Electricity Rules while the broader advice is considered by governments.

The Energy Security Board has five members:

Dr Kerry Schott AO Independent Chair

David Swift Independent Deputy Chair

Clare Savage Chair of the Australian Energy Regulator

Anna Collyer Chair of the Australian Energy Market Commission

Daniel Westerman CEO and Managing Director of the Australian Energy Market Operator



About the Energy Security Board

The Energy Security Board reports to the Energy National Cabinet Reform Committee (ENCRC). The ENCRC and the energy ministers' meeting are ministerial forums for the Commonwealth, States and Territories to work together in pursuit of national energy reforms. The ENCRC and energy ministers' meeting were established following cessation of the Council of Australian Governments (COAG) in May 2020.

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