

10 February 2022



Ms Anna Collyer  
Chair  
Energy Security Board  
COAG Energy Council Secretariat  
John Gorton Building  
King Edward Terrace  
PARKES ACT 2600

Dear Ms Collyer

### **Energy Security Board Capacity Mechanism Project**

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Energy Security Board (ESB) in response to the *Capacity Mechanism Project Initiation Paper* (Initiation Paper).

This submission is provided by Energy Queensland on behalf of its related entities, including:

- Distribution network service providers, Energex Limited and Ergon Energy Corporation Limited;
- Regional service delivery retailer, Ergon Energy Queensland Pty Ltd; and
- Affiliated contestable business, Yurika Pty Ltd including its subsidiary, Metering Dynamics Pty Ltd trading as Yurika Metering.

Energy Queensland supports in principle the implementation of a capacity mechanism to ensure the reliability of the national electricity market during the transition to a low-emissions future characterised by significant investment in renewable generation and distributed energy resources. Energy Queensland also supports the ESB's approach in considering several options for the capacity mechanism before deciding on a preferred option to progress to a detailed design phase as well as the proposed assessment criteria set out in the Initiation Paper.

Energy Queensland considers that the most suitable design option for the capacity mechanism is a centralised model, with the Australian Energy Market Operator having responsibility for forecasting and determining demand and procuring capacity to meet reliability requirements. In our view, an appropriately designed centralised capacity mechanism would effectively value firm capacity and encourage investment in new generation and storage in the right locations to minimise risks to reliability of supply at least cost. Adopting a decentralised approach would, in Energy Queensland's view, place onerous compliance obligations and greater risks on retailers and potentially lead to over-contracting of capacity. Further, a decentralised mechanism would have the potential to lead to higher costs for energy consumers due to the additional costs associated with market participants being required to participate in both the capacity mechanism and the energy market.

Notwithstanding Energy Queensland's support for further consideration of a centralised capacity mechanism, we consider there remains a great deal of uncertainty regarding how the mechanism would operate in practice. Before progressing to agreement and the detailed design phase, Energy Queensland considers further clarity is required on:

- The expected costs of the capacity mechanism, how the costs to implement and run the mechanism will be passed on to electricity market participants and ultimately consumers and a comparison of the proposed solution with the current price-incentivised market; and
- Impacts on key features of the existing energy market, for example, the current market price cap which is designed to incentivise the participation of, or investment in, generation to address a shortfall in supply. Given the capacity mechanism will interfere with this market price signal by securing a certain amount of supply, there appears to be little need for such a high price cap, particularly as the two features operating concurrently would add, rather than minimise, costs.

Finally, Energy Queensland is of the view that distribution constraints must be considered alongside transmission constraints to ensure all network constraints are properly account for and included in the development of the capacity mechanism. Energy Queensland highlights that significant generation is present within the distribution networks in the form of both large embedded generators (for instance, there is currently 1.4 GW of large-scale generation connected and committed in Queensland) as well as increased levels of distributed energy resources which may also participate in the market.

Should you require additional information or wish to discuss any aspect of this submission, please contact me or Charmain Martin on 0438 021 254.

Yours sincerely

*Sarah Williamson*

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