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Energy Security Board
Level 15, 60 Castlereagh St
Sydney NSW 2000
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Capacity Mechanism High-level Design Paper

Dear Energy Security Board,

Thank you for the opportunity to provide feedback on the above paper.

By way of background, GloBird Energy has grown from start-up to over 135,000 customers electricity and gas customers across, Victoria, South Australia, New South Wales and Queensland.

GloBird has always viewed that its biggest risk to growth, indeed survival, is being able to manage its wholesale procurement costs. This submission therefore focuses on the ability for all participants to enter energy (and capacity) procurement and risk management contracts on a timely basis, with minimal transaction costs and, most importantly, on an equal footing. The questions addressed therefore are those relating specifically to this issue.

Q2: GloBird considers that the number of zones which a capacity mechanism should cover should be kept to a minimum to aid liquidity and reduce transaction costs. Albeit a single NEM zone would be preferable for these reasons, GloBird agrees with the logic of retaining the existing NEM regions at this stage.

Q11: GloBird does not believe that there should be a role for retailers in the centralised capacity mechanism. The mechanism should remain as simple and streamlined as possible, without imposing any further burdens on retailers, in order to minimise overall transaction costs. Further, as the paper states, this may result in some retailers being able to procure on “beneficial terms” which, typically, would only be available to larger participants.

Q24: GloBird supports the proposal to integrate capacity mechanism settlement with the existing NEM settlement process so minimising operating costs. Further, it is critical that costs are spread as evenly as possible across each year in order to avoid any cashflow shocks.

Q37: GloBird is of the very strong view that the MPC be reduced if a capacity mechanism is introduced. The existing capacity market operates through capacity providers selling cap products to protect buyers from extreme prices. Should these extreme prices remain then these transactions will still be required enabling capacity providers to “double-dip”.

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The MPC should be referenced to the short-run marginal cost (SRMC) of the highest cost generator as was the case when the original $300/MWh cap was devised. Given this SRMC could be dynamic (i.e. if set by a dynamic gas input cost) then there may be a requirement for the MPC to be regularly reviewed. Such volatility may be undesirable, for a variety of reasons, so aligning to the gas market price cap could be considered.

Q38: Any further imposition on retailers to take on costs to be recovered from customers should be avoided. Retailers are already take on a myriad of legislated "pass-through" obligations which they cannot guarantee recovery from customers. Further, with the imposition of regulated default offers, based on historic and/or forecast costs, there is an increasing risk of pricing, and cashflow, mismatch. Only where recovery of cost is guaranteed should retailers be required to "pass-through".

Yours faithfully,

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