



25 July 2022

Energy Security Board
Via email: info@esb.org.au

Dear Energy Security Board,

Response to Capacity Mechanism Project High-level Design Paper

The Nature Conservation Council of New South Wales (NCC) is the state's peak environment organisation. We represent over 160 environment groups across NSW, constituting hundreds of thousands of energy consumers who are actively engaged in energy and climate policy. Together we are dedicated to protecting and conserving the wildlife, landscapes and natural resources of NSW. We recognise that Australia's electricity system is a key driver of dangerous climate change, one of the greatest threats to nature.

NCC has strong concerns with the proposed capacity mechanism.

The problem is poorly defined

The proposed capacity mechanism is attempting to design one mechanism to both create more certainty around coal closure timing and at the same time incentivise new generation. However, in doing so the proposed capacity mechanism is likely to hinder Australia's ability to meet climate goals.

NCC recommends that separate mechanisms are required to solve these two distinct problems.

The proposed mechanism will stymie the transition to a clean energy system.

International experience shows that capacity markets incentivise existing coal and gas generators over new and/or clean generators.ⁱ

Australian government policy is projected to require an 82% renewable energy grid by 2030, many states have higher targets, and Australia's commitment under the Paris agreement is to make efforts to limit warming to 1.5 degrees, which suggests a more rapid transition. Therefore, new mechanisms must accelerate the transition to clean resources.

We acknowledge that an emissions reduction criterion is not explicitly stated in the National Electricity Objective.



Nature Conservation Council

The voice for nature in NSW

We therefore recommend that the ESB and energy ministers pursue the inclusion of an emissions reduction objective in the National Electricity Objective with urgency.

Only energy market rules that are consistent with long-term climate goals will promote efficient investment for the long-term interests of electricity consumers.

A renewable energy storage target (REST) and/or physical reserve are better options

Based on the success of the Renewable Energy Target, a REST would enable a rapid deployment of flexible capacity at household, community and grid-scale. A physical reserve made up of new flexible resources would provide market operators and governments an additional layer of certainty when capacity shortfalls are identified, without distorting market signals.

Thank you for the opportunity to participate in the consultation.

We welcome further conversation on this matter.

Yours sincerely,

Dr Bradley Smith
Policy and Advocacy Director
Nature Conservation Council

ⁱ Jacob Mays, David P. Morton & Richard P. O'Neill. [Asymmetric risk and fuel neutrality in electricity capacity markets](#). Nature Energy 28 October 2019.