



SolarCitizens

A community voice for cleaner energy and transport

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Solar Citizens Response to Capacity Mechanism Project High-level Design Paper

To the Energy Security Board,

Thank you for the opportunity to make a submission on the Capacity Mechanism Project High-level Design Paper. Solar Citizens is an independent community organisation that aims to protect and grow renewable energy in Australia.

Intervention is urgently needed to address the energy crisis and rising electricity prices that are impacting Australians already facing an escalating cost of living crisis. However, Solar Citizens does not accept a capacity mechanism that includes fossil fuel generation to be an effective or appropriate solution.

The goal: exit coal

To meet Australia's Paris Agreement commitments, and in line with AEMO's Integrated System Plan 'Hydrogen Scenario', Australia must close coal-fired power stations by 2030.

Therefore, the problem that needs to be addressed is facilitating an accelerated and orderly exit of coal by ensuring that sufficient renewable generation and storage is built to replace it and providing certainty around the timing of coal closures. A capacity mechanism that includes coal and gas generation is in direct opposition to this goal.

The current energy crisis has been driven primarily by volatile prices and unreliable supply of coal and gas. The biggest risk to Australia's ongoing energy security is coal, through both the accelerated closure of coal stations before sufficient renewable capacity is in place, and the increasing unreliability of ageing coal fired power stations in the interim.

Including payments for coal and gas generators amounts to a fossil fuel subsidy that is likely to extend their operating lives, further exacerbating the issues of volatile prices, breakdowns and disorderly closures without adequate replacement capacity. This would prolong energy insecurity and result in significant and avoidable costs to consumers.

A report by the Institute for Energy Economics and Financial Analysis and Green Energy Markets estimates that the potential costs of such a capacity mechanism to be \$2.9 billion to \$6.9 billion, or an average of \$182 to \$430 per household per year.¹

Further subsidising fossil fuel generation is also likely to discourage urgently-needed investment in renewable energy and storage, prolonging the duration of high-emitting generation, and ultimately delaying the decarbonisation of our energy system.

Yet for such significant risks to both consumers and the climate, the proposed mechanism also appears to provide no guarantee that capacity that is contracted for will actually be provided when needed.

A capacity mechanism that includes payments to fossil fuels generators cannot therefore be considered as a solution to energy instability.

Supporting new renewable generation and storage

If a capacity mechanism is implemented it must explicitly exclude coal and gas generators, and only include payments to capacity that is new, flexible, and zero emissions to ensure that it supports the goal of incentivising the build of renewables and storage needed to replace fossil field, and does not prolong the lifespan of coal and gas generation and delay decarbonisation.

A targeted storage solution

Rather than a capacity mechanism, Solar Citizens supports a more targeted solution, such as a storage target. Ensuring there is adequate low cost renewable energy generation to replace fossil fuels is the only way to provide energy stability and meet Australia's emissions targets. Significant investment in storage is needed to support the urgent roll-out of cheap renewables.

A report by the Victoria Energy Policy Centre proposes introducing a Renewable Energy Storage Target (REST)², that could operate similarly to the successful Renewable Energy Target and

¹ Institute for Energy Economics and Financial Analysis and Green Energy Markets, 'Energy Security Board's Capacity Payment: Burden on Households', (2021), p1.

² Bruce Mountain, Peter Harris, Ted Woodley and Peter Sheehan, Electricity storage: the critical electricity policy challenge for our new Government: A policy proposal, (2022).

incentivise a cost-effective and rapid roll-out of small and large-scale storage. Rather than locking Australia's energy system and consumers into an expensive and ineffective capacity mechanism that prolongs the lifespan of high emitting and volatile fossil fuels, Solar Citizens recommends that a targeted mechanism such as the REST be implemented to urgently roll out renewables and provide long term energy security.

Kind regards,

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Solar Citizens