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Background Brief: ACCC Recommendation 4 - government underwriting of dispatchable energy (*aka the 'plus' in NEG-plus*)

In June 2018 the Australian Competition and Consumer Commission (ACCC) released its inquiry into retail electricity pricing titled: [Restoring electricity affordability and Australia's competitive advantage](#). Recommendation 4 of this report proposed that government underwrite 'firm' energy generation projects by entering into offtake agreements for the latter years of projects at a low fixed price. Specific criteria would be attached to these projects.

Purpose: The ACCC determined that commercial and industrial (C&I) energy users can enter 5-year offtake agreements from new generators, but this did not provide enough certainty for banks to provide finance. Adding government offtake agreements that kick in where necessary in later years to fill this gap would assist projects to get finance, add competition and lower prices.

Status: This proposal has been flagged as a 'bargaining chip' to win support for the National Energy Guarantee (NEG) among Federal Coalition MPs. There has been a clear call by some members of the Coalition for new coal generation to be supported by this recommendation, despite it being put forward as 'technology neutral'. [It has been reported](#) that Treasurer Scott Morrison and Energy Minister Josh Frydenberg are working on options for ACCC Recommendation 4, which will be presented to the Energy Subcommittee of Cabinet in September 2018.

Concerns: This recommendation could be turned into unwarranted government support for new polluting coal generation if it is manipulated. Some Coalition figures, such as Tony Abbott, Craig Kelly and Keith Pitt, are publicly calling for the government to support new coal, even if it is not bankable. This pressure, along with the act of connecting this recommendation to the NEG as 'NEG-plus', suggests there is interest in using this recommendation for the unintended purpose of publicly bankrolling new coal projects.

Solutions: More dispatchable, 'on-demand' power is needed alongside cheap wind and solar to support the transition to clean energy. This includes solutions like large batteries installations, pumped hydro, concentrating solar thermal and demand response. And as noted by energy experts: "[Adding more on demand energy is a smart way to break the stranglehold a handful of energy giants have on the electricity market.](#)"

A set of simple, practical requirements would help ensure the ACCC proposal plays a positive role in supporting investment in clean dispatchable energy, not a perverse role in supporting dirty 'baseload' power like coal, which is not what the energy system or the climate needs.

These requirements for implementing Recommendation 4 should include:

- Projects supported must be 'firm' and/or 'dispatchable', not 'baseload'¹ power.
- The program must focus on being least cost, technology neutral and go out to tender. A more optimal solution would be for coal to be banned outright and the scheme managed by the Clean Energy Finance Corporation (CEFC) (The CEFC option was flagged by ACCC).
- Alternatives to generation should also be considered, such as demand side management as a firming option.
- In underwriting/signing a Power Purchase Agreement (PPA) for any new generation the government should not indemnify the proponent (generator) from any possible future climate risk, such as a possible future carbon price.

ACCC Recommendation 4: The Australian Government should operate a program under which it will enter into low fixed-price (for example, \$45–50/MWh) energy offtake agreements for the later years (say 6–15) of appropriate new generation projects that meet certain criteria. In doing so, project developers will be able to secure debt finance for projects where they do not have sufficient offtake commitments from C&I customers for later years of projects. This will encourage new entry, promote competition and enable C&I customers to access low-cost new generation. The program should operate for at least a four-year period, with support provided for qualifying projects. To qualify, a project proposal must:

- have at least three customers who have committed to acquire energy from the project for at least the first five years of operation;
- not involve any existing retail or wholesale market participant with a significant market share (say a share of 10 per cent or more in any NEM region);
- be of sufficient capacity to serve the needs of a number of large customers;
- can provide a firm product so that it can meet the needs of C&I customers.

¹ "Baseload refers to a type of power plant that is slow to ramp generation up and down and operates most efficiently if it runs all the time — like coal-burning power stations. More baseload is the opposite of what we need for a modern, reliable and efficient energy system... In the future, there will be little to no room for baseload power as it will be crowded out by renewable energy supply from wind and solar that operates at close to zero marginal cost. This will be supplemented by the 'on-demand', dispatchable and firm generation and storage that the ACCC report talks about, that is quick to start up and deploy" (Extract from [this](#) article).