Blueprints for the urgent reform of energy market
By RICHIE MERZIAN

The Australian
Tuesday 22nd April 2025
786 words
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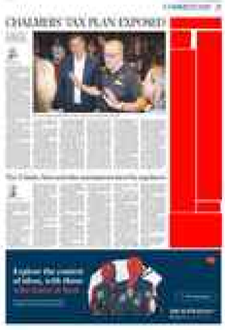


Blueprints for the urgent reform of energy market

RICHIE MERZIAN

We've got only two more weeks left of a federal election campaign that has been jam-packed with photo opps, high-vis and working families. Not to mention a focus on cost of living and, of course, power bills and batteries, nuclear ideas and gas reserves.

What you won't see is discussion about the National Electricity Market, the electricity grid that connects every state except Western Australia. It is notoriously complex and doesn't make for a great sound bite.

But all sides of politics know that it is no longer fit for purpose and without fixing the NEM, it's almost impossible to fix power prices.

Our NEM was created in an analogue age – a time when Video Ezys were in every suburb. It was originally designed to dispatch and provide investment incentives in a power system dominated by the high fuel costs of gas and coal. But the NEM's energy-only spot market is less suited to the current landscape, where wind and solar power are virtually free.

We need a system that provides the incentives and coordination to bring on massive investment across interrelated renewable generation, storage and transmission. The existing market mechanisms, both in terms of the NEM and the relatively short-term nature of the contracts market, simply don't drive the necessary investment at the necessary time to ensure system reliability. The result? Volatility, skyrocketing power prices and high risk for investors.

It's time to upgrade from VCR to streaming.

Governments have stepped in with patchwork solutions like the Capacity Investment Scheme Long-Term Energy Service Agreements and Renewable Energy Zones. They have helped, but these ad hoc interventions either rely on taxpayer funding, are temporary, or sometimes even work against each other.

What the NEM really needs is a redesign.

The Clean Energy Investor Group, in partnership with Castalia Advisors, released a report earlier this month outlining practical, easily implemented options for reform that would lower power prices, improve reliability and encourage investment.

Each proposal builds off existing market mechanisms to shorten the amount of time required to implement them and get the NEM working.

At the core of the options is a co-ordinating body to efficiently guide – but not dictate – investment in new supply, which effectively will mean lower power prices.

The first option is setting a target for renewables through a Renewable Portfolio Standard. Alongside that you can have a dispatchable capacity requirement to ensure the grid has enough firming capacity.

The mechanism ensures retailers contract enough firming capacity to meet demand – such as battery storage or hydro – and it is all backed by physical contracts to ensure reliability and investment certainty.

The second option is an RPS paired up with a Texan-style reserve margin, where if there is an upcoming gap in firming capacity, the co-ordinating entity steps in to procure the shortfall, with the cost shared across retailers who haven't contracted enough. This prevents shortfalls without distorting the market.

And finally, a third option is a co-ordinated approach for the procurement of renewables where the co-ordinating entity holds regular auctions for renewable and firming capacity, improving investor confidence and reducing consumer cost. A similar but systemised and privately-funded version of the Capacity Investment Scheme.

Fortunately, there are many good examples we can draw on. The California Public Utilities Commission has implemented a centralised procurement strategy, with a co-ordinating entity leading the acquisition of long-lead-time clean energy resources. California's model ticks the boxes – delivering long-term energy reliability, environmental benefits and lower costs.

Right now, an independent expert panel appointed by the commonwealth government is reviewing the NEM market settings in preparation for the end of the CIS in 2027. They are asking the same question: what follows the taxpayer-backed CIS? Answer, market-driven investment in firmed renewables and storage as efficiently as possible.

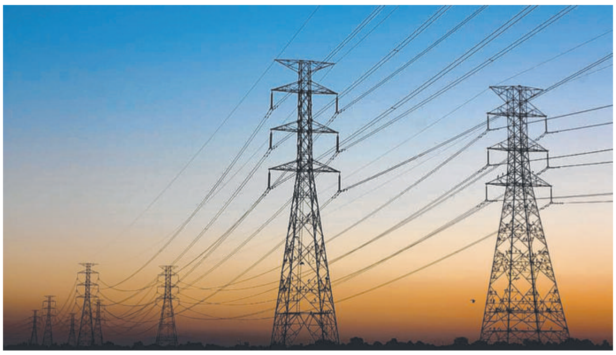
Each of our ideas achieves exactly that – delivering improved co-ordination, physical security of supply, and lower power prices as a result of improved revenue certainty for investors. They are also easy to deliver within two years, and, importantly, they don't come out of your pocket as the taxpayer.

We have provided the menu of options drawing from across the world, so now the independent panel can pick the right one for the nation.

It is about time we stop with the patchwork approach and instead design a market that genuinely delivers a stable, affordable electricity supply to every Australian.

Regardless of who wins this election, the NEM needs to be at the top of their to-do list.

Richie Merzian is the CEO of the Clean Energy Investor Group, representing investors such as Macquarie, Squadron and Blackrock.



The National Energy Market needs a complete redesign