Speech

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Delivering the state's energy transition in the interests of consumers, First Nations businesses and host communities, and creating a lasting legacy of infrastructure, jobs and skills.

Delivered by Brad Hopkins, General Manager Commercial
at Australian Clean Energy Summit

Good morning. I'm Brad Hopkins, General Manager Commercial at AEMO Services.

I'd like to begin by acknowledging the Traditional Owners of the land on which we meet today, the Gadigal people of the Eora Nation, and pay my respects to Elders past and present. I extend that respect to all Aboriginal and Torres Strait Islander peoples present today.

I would also like to recognise the responsibility we have to Traditional Owners as decision makers in the energy sector. Our projects impact Aboriginal and Torres Strait Islander Country and this must be done with consent and sensitivity.

We also have the ability to empower and transform Indigenous communities through our work and we are promoting these approaches through our AEMO Services tenders. For example, in South Africa and Chile I have worked on wind projects that provide an annual profit share to local communities, delivering income that helped transform those communities. Relatively modest sums go a long way and, if we are creative, energy transition can also be transformational for our Indigenous communities.

For anyone who is unfamiliar with our organisation, we're an independent subsidiary of the Australian Energy Market Operator, and in NSW we've been entrusted us with planning, assessing and guiding long-term investment in renewables under the state's Electricity Infrastructure Roadmap. One of our key responsibilities is the tender processes to accelerate private investment in new built energy infrastructure in generation, firming and long-duration storage.

We're taking a different approach to many transition incentive schemes around the world, putting energy customers and financial value at the centre of planning and decision-making, and providing for coordinated investment in energy infrastructure to deliver whole-of-system benefits at an unprecedented scale. We think this is important, because if you look at energy transition around the world, many schemes have achieved their energy objectives – they have hit their targets for new capacity and generation – but they have failed to meet their financial objectives – they have cost consumers and taxpayers too much.

At AEMO Services we have established financial product design, governance and decision-making to ensure that we deliver our objectives at the least cost and risk to consumers and government. Our two-stage tender design assesses the social licence credentials – such as benefits to local communities and First Nations peoples – first, before shortlisted projects move to the second step where we assess price and value for money for the state's energy consumers.

What I'd like to leave you with today is a clear understanding of how we are delivering that mandate through innovative process and product design, and an early overview of the enthusiasm we've experienced from the market.

We'll start with the process.

The Roadmap tender schedule is a decade-long program of rolling tenders for generation, firming and long-duration storage projects. Tender 1 for generation and long-duration storage concluded in May; Tender 2 for firming and Tender 3 for generation and long-duration storage are ongoing.

By 2030, we're required to secure minimum investments of 12GW of new renewable electricity generation and 2GW of long-duration storage. To meet that target, we have a set of indicative capacity targets for each infrastructure class, which are set out in our Infrastructure Investment Objectives Report. In economic terms, the Infrastructure Investment Objectives report addresses an information barrier so that investors know how energy transition will progress in NSW. We have received feedback from international investors that this simple, transparent report has triggered significant investment and long-term commitment to Australia. We have similar structures in place to meet the NSW Energy Security Target for firming and network capacity.

In our view, the tender process is unique for a number of reasons:

First, it allows repeated participation at minimal additional cost to proponents, increasing our ability to select the right projects at the right time. Recursive or repeated tenders that are predicable for investors deliver better outcomes than ad hoc interventions. We minimise transaction costs for participants.

Second, it is flexible and long-term to capture the full potential of new innovation and respond to changes in the market. We are expecting our tenders and products to look different in five years compared to today as markets change and new technologies emerge.

Third, our two-stage design assesses the social licence credentials and ability for a project to deliver first-up, before a shortlist is invited to compete on price.

Depending on the circumstances, successful bidders might be eligible for access rights to network infrastructure and/or Long Term Energy Service Agreements (LTESAs).

The LTESA is the core of our product offering, and it replaces the Contract for Difference which has been the go-to for similar incentive schemes worldwide. As I mentioned earlier, when we canvassed the outcomes of these schemes, we found that while they typically deliver on their infrastructure objectives, they often did so at a higher than necessary cost to electricity customers and tax payers.

There is a broad set of potential interventions available to support the energy transition and many of these products have been trialled in overseas markets. For example, Contracts for Difference eliminate price risk for investors, but they remove projects from the wholesale contracts market and remove upside for investors. This might have been appropriate in an era when renewables required heavy subsidies, but for a lot of the infrastructure coming through our tenders, that's not the case. In many instances, all that's required is some level of protection against the risk of long-term electricity prices being significantly lower than forecast today. Our objective is that electricity consumers and government only absorb the risks that are necessary to unlock investment. We work hard to identify those risks and to design products that specifically target those risk.

So, after extensive consultation our team came back with the LTESA, which is a swaption – a put on an option – that offers insurance against times of very low wholesale energy prices. Having dealt with that price uncertainty, projects are free to capture the full range of market upside, and critically, we obtain value for consumers because projects compete to bid down the option strike price, ensuring that only the most cost-efficient are successful.

It's a product and a process that relies on competition to deliver value, and we've been very conscious in our design to maximise the attraction for proponents and investors to ensure a high level of participation in our tenders.

Our early results show that we've been successful. Our first tender was five times oversubscribed and selected almost 1.4GW of new generation capacity, against a target of 950MW. LTESA strike prices for these projects are around 40% lower than the levelised cost of energy and an equivalent Contract for Difference – so we are well and truly delivering on our mandate for electricity customers.

Many of those proponents have returned for the next tender round, and we also have a healthy pipeline of new projects in the mix. Once again, we're significantly oversubscribed.

Our first firming tender has also attracted enough interest to warrant a substantial intervention from the Commonwealth, who are funding up to an additional 550MW of firming capacity on top of our indicative target of 380MW.

There's more to come, particularly in storage where the technology is less advanced, but we're confident that our process and product design has identified the right settings to achieve our objectives with maximum value for NSW consumers.

-ENDS-

About the speaker

Brad Hopkins, General Manager Commercial

Brad joined AEMO Services from its establishment and currently serves as General Manager - Commercial, alongside Baharak Sahebekhtiari, leading the design and implementation of our competitive tender processes.

Brad has more than 15 years' experience financing energy projects around the world, including 12 years with Macquarie Bank. Prior to joining AEMO Services, Brad played a leading role in implementing the NSW Electricity Infrastructure Roadmap and designing the policy whilst a Partner at KPMG. Since returning to Australia from the UK in 2016, Brad has led some of the largest and most complex renewable energy transactions and energy policies.