

Principles to guide Capacity Mechanism development

The objective of this work is to develop the design for a market mechanism that ensures investment in an efficient mix of variable and firm capacity that meets reliability at lowest cost.

Noting that:

- Jurisdictions can derogate from the National Electricity Rules if they wish, following the process set out under the National Electricity Law.
- The Australia's Emissions Projections 2020 report anticipates emissions reductions in the NEM of approximately 50 per cent on 2005 levels by 2030, driven by increased levels of renewables and the closure of coal-fired generation, with further reductions expected beyond 2030.

The detailed design work on a capacity mechanism will be guided by the following principles agreed by Energy Ministers:

1. be consistent with the **National Electricity Objective**
2. focus on **affordability, reliability, security, and continued emissions reduction** of electricity supply
3. provide a **signal to value capacity** that best supports the needs of the NEM
4. **complement existing energy only market** design and well-functioning **markets for financial contracts**, and other reforms in development
5. **minimise regulatory burden** for market participants
6. **safeguard energy consumers**. In particular:
 - a. ensure costs and revenues are efficiently and fairly allocated; and
 - b. avoid duplication of costs to secure reliability.
7. ensure sharing of resources across the NEM by **supporting inter-regional contracting**
8. provide **greater certainty around closure dates** of exiting generation
9. **mitigate** reliability risks presented by **unexpected closures** of existing capacity
10. encourage the **timely replacement** of existing capacity through driving commitments to new investment within reasonable notice periods of closure of existing capacity
11. to the extent it does not conflict with state and territory policies, be **technology neutral** to ensure a focus on the ability of each resource to deliver generation on demand, for the periods when it is most needed
 - a. Jurisdictions must be able to determine, via their regulation, provided for in the National Electricity Law framework, which technologies are eligible for participation in a capacity mechanism in their region.

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12. recognise relevant **state and territory policies and investment schemes** to account for bespoke arrangements to retain and replace existing capacity
 13. **enable jurisdictions to opt out**, via the National Electricity Law framework
 14. **enable jurisdictions to opt in**, through triggered thresholds for the mechanism.