

26 May 2017

Rebecca Knights
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Dear Rebecca

re: Energy Security Target: Stakeholder Consultation

ElectraNet appreciates the opportunity to comment on the consultation package for the draft legal framework to establish the South Australian Governments' proposed Energy Security Target.

We offer the following comments on the practical implementation and potential implications of the proposed measure.

The rationale for implementing some elements of South Australia's Energy Plan by next summer is clear. For example, establishing Australia's largest battery and emergency standby generators will provide additional energy security for the State. However, the rationale for implementing the Energy Security Target by 1 July 2017 is unclear, as the measure is not expected to provide material price or system security benefits to customers by next summer.

Also, the overall benefit to customers of the Energy Security Target in the medium to longer-term is unclear, as no modelling has been released to demonstrate the expected impacts of the target on the market and customer energy prices.

For its part, ElectraNet continues to assess and model available options through its South Australian Energy Transformation RIT-T process in a transparent and rigorous manner to identify the most economical solutions to facilitate the State's energy market transition.

Increased interconnection, if shown to be economic, would deliver system security benefits by reducing the likelihood of a system disturbance leading to a major disruption to electricity supply. It would also deliver better price outcomes for customers by allowing increased access to and greater competition between a range of power generation sources, as well as opening up the market to more renewable generation developments.

As an enduring local sourcing requirement, the Energy Security Target can be expected to substantially reduce the economic case for increased interconnection from South Australia by removing the benefits of increased imports and the resulting lower wholesale electricity prices. Importantly, this may in turn also limit the capacity for new renewable investment in South Australia as local generation exceeds local demand requirements and export capacity limits are reached.

Delaying implementation of the Energy Security Target to be better informed by the outcomes of the South Australian Energy Transformation RIT-T process and current developments in national reform processes aimed at addressing system security issues (e.g. the Finkel review) may lead to more efficient outcomes and lower costs for South Australians in the long-run.

A key objective of the measure is to increase stability of the energy system. However, it is unclear to what extent the scheme as currently designed will deliver this. An accredited generator must be capable of providing fault current and real inertia, but is able to create electricity security certificates regardless of the actual level of these services provided, which are not included in the formula for the creation of certificates. The target also requires the creation of a certain volume of certificates across each year, but does not ensure that these stability services will be available as and when needed.

The ability of ESCOSA to create certificates for \$50 effectively caps the market price for certificates in the event of a potential shortfall. However, the creation of such certificates will not deliver any energy security benefit for customers when this occurs. It may be administratively more effective to allow retailers to pay a shortfall charge of \$50 in the event of a shortage of certificates, rather than requiring ESCOSA to actively intervene.

It is not clear why the draft regulations do not enable certificates to be transferred between liable parties or accredited generators to enable trading of certificates to occur. Creating a transparent market by specifically allowing for transfer of certificates between relevant parties would allow a market clearing price to be established, and to be monitored by ESCOSA.

The measure is intended to transition to a national Emissions Intensity Scheme (EIS) or Lower Emission Target (LET) if and when such a scheme is introduced. However, there appears to be no specific provision for this to occur in the draft regulations to provide for such a transition.

The ability to provide real inertia (through inertial response) is defined relatively narrowly under the draft regulations to require absorption or release of kinetic energy by a rotating mass. This would appear to preclude energy sources that could provide equivalent capability through synthetic inertia for example. A broader definition may be warranted to capture a wider range of potential technology types.

I trust this provides useful input into the design and development of the Energy Security Target. Should you wish to discuss any aspects of this response, please contact Simon Appleby, Senior Manager Regulation and Land Management on (08) 8404 7324.

Yours sincerely



Rainer Korte
A/Chief Executive