

19th May 2017

Ms Rebecca Knights

Director Energy Policy & Projects

DPC.ESTRegulations@sa.gov.au

Dear Ms Knights

Re: South Australian Energy Security Target – Nyrstar Port Pirie Pty Ltd submission

Executive Summary

By way of background Nyrstar Port Pirie is a large energy user and will be commissioning a new business at the Port Pirie smelter later this year which will create continued economic value for the State and nation. Nyrstar welcomes the South Australian Government's initiative to implement an Energy Security Plan for the State. However, in relation to the Energy Security Target, Nyrstar is concerned about the costs and market interaction of the proposed new scheme. We summarise the following key issues in relation to the proposed new regulation.

We note that central to the proposed new scheme is that eligible generators will be able to create an energy security certificate which retailers will be required to purchase and acquit certificates to meet the relevant annual energy security target. The price of the certificates will be determined by the market but will be capped. Whilst market mechanisms are generally better than other regulatory approaches the proposed energy security target does raise some concerns and issues:

- While the intent of the scheme is to lower wholesale prices, given the generation market structure and in particular the high concentration of generation in South Australia and the high underlying cost of the predominant fuel (gas) it is debatable whether the scheme will be effective at reducing wholesale pricing due to these factors. The regulation and policy is not supported by any wholesale market modelling or stress/scenario analysis to guide policy and regulation and provide objective evidence as to how it will lower wholesale prices. Nyrstar would recommend that market modelling be conducted to provide more information on the impact of this proposed new scheme.
- Nyrstar is also concerned of potential unintended consequences such as a decrease in retail competition through adding a barrier to entry. Prospective new retailers may abandon entry to the SA market as the proposed new scheme may be seen as another level of compliance or obstacle to surmount in addition to the existing competitive landscape and market structure.

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Nyrstar Port Pirie Pty Ltd
ACN 008 046 428

Registered address:
Risdon Road, Lutana Tasmania 7009

www.nyrstar.com

- Given the limited number of current market participants ie AGL, Origin Energy, Energy Australia and ENGIE that will create certificates. It is unclear how the new policy will incentivise new generation and reduce wholesale prices given the current barriers to entry of new conventional thermal generation are significant. Furthermore, we do not expect a liquid market for these energy security certificates to develop due to the size of the market, leaving customers with few options.
- The proposed policy will allow retailers to recover the costs from customers. This raises several issues: firstly, it may make more sense that the price cap is lowered (say \$5 or \$10) for at least the next 5 years to limit the impact of the scheme on end-users that are already struggling with record increases in energy costs. Secondly, large users disproportionately see and bear the large increases in electricity prices more so compared with residential and SMEs. As is currently the policy with the Renewable Energy Target and furthermore other schemes that have been implemented in NSW (eg energy savings scheme) large energy users which are trade exposed **must** be exempt from the scheme. If they are not exempt the additional costs from this scheme will flow to them and these businesses cannot pass-through **any** cost increases. Thirdly, large user and trade exposed business exemptions may be calibrated with the scheme operation such that if the scheme is effective and does materially lower wholesale prices then the exemption regime for large users may be reviewed and adjusted to ensure overall equity and fairness in the costs of the scheme but during the transitional phase of this scheme large users would be exempt.
- The proposed new regulations may have limited impact on system stability in the near-term, given the planned return to full operation of Pelican Point Power Station and in the medium term as the State's intention is to build a new gas fired power station and also implement a battery storage system (other elements of the SA Government energy Security Plan). Nyrstar would recommend that as a minimum, system modelling be conducted to show what impact the proposed new regulations will have on system inertia and overall security in light of the near and medium term actions.

Yours faithfully

A handwritten signature in blue ink, appearing to read "Bertus De Villiers".

Mr Bertus De Villiers

Nyrstar Port Pirie Pty Ltd

Vice President – Metals Refining