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Via Email: DPC.ESTRegulations@sa.gov.au

Energy Security Target

The Energy Users Association of Australia (EUAA) is the peak national body representing major Australian electricity and gas users. Our membership covers a broad cross-section of the Australian economy including significant retail, mining, manufacturing, materials and food processing industries.

The EUAA is a strong advocate for energy users and firmly believe that the primary objective of energy markets should be to serve the long-term interests of the consumer as stated in the NEO and NGO.

There can be no doubt that energy users, both large and small are experiencing unprecedented increases in both electricity and gas costs while reliability of the system appears to be in some peril. This situation is clearly at odds with both the NGO and NEO.

While we welcome the intent of the South Australian government to improve system security we are concerned about the introduction of the proposed scheme. Specifically, we believe it will add significant cost to the annual electricity bills of South Australian energy users without necessarily altering the nature or structure of the local market to provide greater system security.

We understand that the intent of the Energy Security Target is to increase competition, to put downward pressure on prices and provide more energy system stability.

However, we are concerned that the current draft legislation may:

- Decrease retail/generator competition by entrenching existing participants (therefore adding a barrier to entry).
- Add additional cost regardless of its effect on spot prices (which may be limited).
- Have limited impact on system stability in the near-term, given the planned return to full operation of Pelican Point power station.
- Excludes emerging technologies that provide so called “synthetic inertia” that would increase the level of competition and provide a broader technology base.

We understand from reading the draft legislation that it will result in generators with ‘real inertia’ (i.e. gas-fired generators; solar thermal and pumped hydro storage) creating certificates that retailers will have to purchase if they do not own their own certificate-creating generation.

There will be a price cap of \$50 on the certificates with the actual price derived based on supply and demand. It is not yet known what the cost of this draft legislation will be; however below are estimates provided by EUAA member Schneider Electric based on the \$50 cap price.

Year	Requirement (GWh)	Percentage	Cost / MWh
FY18	4500	38.3%	\$19.14
FY19	4700	40.0%	\$19.99
FY20	4900	41.7%	\$20.84
FY21	5100	43.4%	\$21.69
FY22	5300	45.1%	\$22.54
FY23	5500	46.8%	\$23.39
FY24	5750	48.9%	\$24.46
FY25	6000	51.0%	\$25.52

Retailers will cover the costs of meeting the scheme through retail electricity charges levied on South Australian energy users, which could amount to more than \$200 million per annum.

The legislation appears to exclude what has been referred to as ‘synthetic inertia’ from contributing to the target, which would include technologies such as battery systems, or wind.

This leads us to conclude that existing gas fired generators (who are also retailers) are likely to be the sole participants with little opportunity for new entrants who would need to compete against existing assets largely operating in a “business as usual” mode.

As a result we do not expect a liquid market for these certificates to develop due to the size of the market, barriers to entry and restricted technology base leaving customers with few options.

If ‘synthetic inertia’ qualified for at least half of the requirement this would significantly increase sourcing options and potential supply and potentially lead to lower costs for consumers. In addition, if the scheme allows synthetic inertia for at least part of the target, we believe it is more likely to meet its goals by bringing additional storage to the market, rather than just increase cost, potentially without changing business as usual outcomes.

We would like to understand why synthetic inertia is seen as not being suited to the required task? We believe that in the search for greater energy security we should encourage all available sources of inertia and system security services, not limit them.

Given the potential of significant cost impacts on South Australian consumers we strongly recommend the government extend the period of consultation and delay the implementation of the scheme until such time that further technical and economic impact assessments can be undertaken.

We also strongly recommend the government consider broadening the scope of technologies that can participate in the scheme to include both real and synthetic inertia.

Finally, while we respect the right of state governments to make decisions within their own jurisdictions we firmly believe that a nationally coordinated response to energy, climate change and energy security issues will lead to better outcomes for consumers.

We note that Dr Alan Finkel is soon to release his final report to the COAG Energy Council and it would seem prudent to wait for this before locking in state based legislation in this area.

We acknowledge the efforts of the South Australian government to improve system security and look forward to discussing these issues from customer perspective with you in the coming weeks.

Kind regards

A handwritten signature in black ink, appearing to read 'A Richards', written in a cursive style.

Andrew Richards
Chief Executive Officer
Energy Users Association of Australia