26 May 2017

Rebecca Knights
Director Energy Policy and Projects
Department of Premier and Cabinet

E: DPC.ESTRegulations@sa.gov.au

Dear Sir/Madam,

South Australian Energy Security Target

Origin Energy Limited (Origin) welcomes the opportunity to make a submission on the draft regulations to implement the South Australian Energy Security Target (EST).

Origin recognises that climate change is a global challenge and unequivocally supports measures to progressively reduce carbon emissions. We support the international target to limit global warming to no more than two degrees Celsius and note the strong intention of the Paris Agreement to pursue efforts to a 1.5 degree scenario. We support Australia's announced 2030 target as a minimum goal for the nation and believe that greater ambition is possible over time. We support the progressive decarbonisation of the electricity sector in Australia and an eventual goal of net zero emissions for the electricity sector by 2050 or earlier.

We support action to restore energy security, improve affordability and build sustainability. We have demonstrated this support in South Australia by:

- A recent agreement to both supply gas to Engie in South Australia and cause the return to service of the second unit of the Pelican Point Power Station (240 MW, previously mothballed) of electricity production, which we will use to supply customers in South Australia.

- A 13 year power purchase agreement (PPA) with the 220 MW Bungala solar farm in South Australia.

Generally, Origin supports nationally integrated energy and climate change policy. We have some reservations with the proposed EST, particularly around the very short period of time that has been allowed for implementation of the scheme.

Origin has substantial experience as a liable party under numerous green certificate schemes in Australia. This submission draws on that experience to provide suggestions on specific design aspects of the proposed EST, as detailed in the following table.

If you have any questions regarding this submission please contact Matthew Kaspura (Manager Climate Change Policy) 02 9503 5178.

Yours sincerely,

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Specific design features

Feature	Origin comment
Tradability of certificates	We would recommend that full tradability of certificates be allowed to increase liquidity and transparency. The draft regulations suggest that trading can only occur between eligible generators and liable retailers. This may unnecessarily restrict the transfer of certificates in what is likely to be a relatively small market.
Transfer of certificates	There should not be a fee associated with transferring certificates in the registry as this would limit tradability of certificates between parties. We note that no other tradable certificate scheme currently charges a fee to transfer certificates.
Calendar year	We would prefer the scheme to operate on a calendar year basis and to start on 1 January 2018. We note that most green schemes currently operating in Australia are based on a calendar year and aligning with this would reduce administrative costs. We also note the intention to commence the scheme on 1 July 2017, which we believe risks rushing the implementation process, so suggest that the scheme start be delayed until 1 January 2018. This will allow adequate time for the proper consideration of key scheme details and reduce the chance of unintended consequences. In particular, Origin is concerned that a rushed implementation may lead to unnecessary additional costs for South Australian electricity consumers.
Target setting	We recommend that an obligation be placed on the regulator to publish the electricity security fraction applicable for the next scheme year within one month of the end of the current scheme year, or preferably prior to the scheme year. This is required to provide certainty to retailers and allow accurate billing of customers. We note that the formula for calculating the electricity security fraction using the prior year's liable load may be problematic should the total SA load vary significantly between years. For example, if a large industry customer site is scheduled to close down the current formula would result in less certificates being surrendered than that year's target. We would suggest considering calculating the electricity security fraction based on a forecast of total SA load. This would also allow the regulator to publish the electricity security fraction prior to the scheme year.
Surrender date	Surrender of certificates should not occur until after final AEMO load has been published (up to 6 weeks later) and pool costs have been settled. Otherwise a retailer is required to use less accurate load data to estimate its liable load. Our suggestion would be to have surrender occur about three months after the end of the relevant scheme year.
Reporting date	We suggest that the annual reporting date be delayed to take into account the surrender date referred to above.
Definition of liable load	Liable load should be specified as the NERL retailers load acquired from AEMO for the SA region. Note that this provides clarity that embedded load is not included given it is not embedded load which requires the security service. This will allow retailers to calculate their liability based on AEMO settlement date for customer load which the regulator could validate by independently confirming retailer loads with AEMO.
Eligibility of generators	Assuming that some forms of renewable energy will be able to meet the criteria of providing relevant security services in the future (e.g. solar thermal) then we seek clarification of whether such a renewable generator would be able to earn both Large-scale Generation Certificates (LGCs) under the Large-scale Renewable Energy Target and at the same time also earn certificates under this scheme, for the same unit of generation. We also seek clarity over whether batteries could potentially qualify to earn certificates under the scheme. For example, batteries that are used in conjunction with large-scale solar or wind farms.
Clearing house	The price cap of $50 could be implemented through a similar mechanism to the clearing house used in the Small-scale Renewable Energy Scheme (SRES). The $50 cap price should be inclusive of any fees. This ensures certainty and market liquidity.

	Alternatively, the regulator should be required to create certificates if requested by a retailer and the retailer has paid the $50 price. The Regulator should not be able to create certificates in any other circumstance.
Banking/borrowing	We support the use of 10% borrowing in between scheme years to aid scheme flexibility. We also seek clarity on the rules relating to banking of certificates for later years.
Regulator discretion	ESCOSA should have a provision to waive any penalty and allow a liable retailer to make good should the retailer make an error in good faith.
Penalty Price	We seek clarity over whether a penalty price will become payable should a retailer surrender less than 90% of their liability and there are no grounds to make good due to a good faith error. This penalty could be separate to the $50 price cap. A penalty would provide greater clarity to the retailer of the consequences for failing to surrender certificates.
Certificate name	We note that certificates under the NSW Energy Savings Scheme use the name “Energy Savings Certificate” (ESC) so suggest that the South Australian scheme use an acronym other than “ESC” to avoid confusion.
Register of certificates	We suggest that the register include information regarding: • the name of the current registered owner, and each previous registered owner, of certificates; and • if the certificate was created by the Commission under 44EE, a statement to that effect The registry of certificates should allow a current owner to view all of the current holdings of certificates as well as previous transfers from buying or selling certificates.
Marginal Loss Factor	The marginal loss factor that should apply to a generator should be set by reference to the AEMO marginal loss factors. We do not see a reason why the marginal loss factors would differ to that being used by AEMO.
Accreditation / Creation of Certificates	In the first year of the scheme, certificates should be able to be created by an accredited generator from all eligible generation that occurred from the first day of the scheme. This will ensure that sufficient supply of certificates are available in the first year and that any delays in gaining accreditation do not limit the supply of certificates.
Authorised Person	The name or details of the authorised person of a generator should not be published on either the Register of Accredited Electricity Generating Plant or the Register of Electricity Security Certificates. The details of the authorised person should be kept confidential between the relevant entity and the regulator in order to maintain privacy.
Certificate Creation	We suggest that AEMO load data for the generator, or for non-market generators metering load, be sufficient evidence of sent-out generation when applying to the regulator to create certificates. For generators that use a single fuel source, additional evidence to support the percentage of eligible fuel source should not be required. This information should be included in the generator’s accreditation. For generators that use multiple fuel sources, appropriate evidence could include data such as gas metered volumes or gas invoices.
Exemptions	We seek clarity on whether any exemptions will be made for particular electricity consumers.

About Origin

Origin Energy (ASX: ORG) is the leading Australian integrated energy company with market leading positions in energy retailing (approximately 4.2 million customers), power generation (more than 6,000 MW of capacity owned and contracted) and natural gas production (1,204 PJ of 2P reserves and annual production of 75 PJe). Origin is the upstream operator of Australia Pacific LNG, its incorporated joint venture with ConocoPhillips and Sinopec, which is Australia's biggest CSG to LNG project based on the country's largest 2P CSG reserves base.

Origin also aspires to be the number one renewable and low carbon energy company in Australia. Origin is the largest contractor of large scale solar and one of the largest installers of solar systems in Australia. In 2015, Origin launched a new solar product, which allows more customers to access the benefits of solar without having to purchase a system. We believe that the market will continue to evolve and it is important that retail offerings are allowed to develop to serve consumer demand.

Origin's generation portfolio has no exposure to high-emissions brown coal. We have one black coal fired generation asset, the Eraring Power Station in NSW which accounted for 5.9% of Origin's total revenue and approximately 3% of total assets in FY2016. Its carbon intensity is lower than half of the large (>400 MW) coal fired power stations in Australia and it has a higher degree of flexibility to operate in a volatile market. We have foreshadowed its closure as part of the transition away from coal-fired power. The timing depends on the speed of Australia's transition to a low carbon economy, which we believe to be in the mid 2030s at the latest, and possibly earlier depending on Australia's transition path in response to the Paris Agreement. Further details of our portfolio can be found in our Sustainability Report:

https://www.originenergy.com.au/about/investors-media/reports-and-results/sustainability-report-20160826.html

In South Australia Origin:

- owns the Quarantine (220 MW) and Ladbroke Grove (86 MW) gas-fired power stations and part owns the Osborne combined cycle gas-fired power station (180 MW) for which we contract the full output;
- recently agreed to supply gas to Engie's Pelican Point power station in return for access to the second unit (240MW, previously mothballed) of electricity production, which we will use to supply customers in South Australia; and
- announced a 13 year power purchase agreement (PPA) with the 220 MW Bungala solar farm.