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Re: Stakeholder Consultation on the *Draft of the Electricity (General) (Electricity Security Target) Variation Regulations 2017*

Infigen Energy appreciates the opportunity to comment and makes this submission in response to the draft changes to the ***Draft of the Electricity (General) (Electricity Security Target) Variation Regulations 2017***.

Introduction to Infigen Energy

Infigen is an active participant in the Australian energy market. It is a developer, owner and operator of renewable energy generation assets delivering energy solutions to Australian businesses and large retailers.

Infigen owns 557 MW of installed generation capacity operating in New South Wales, South Australia and Western Australia and sells the energy and Large-scale Generation Certificates (LGCs) through a combination of medium and long term contracts and through the spot market.

Infigen is looking to develop further renewable energy projects in response to the strong demand for renewable sourced energy and decreasing cost of development. It has a number of projects that offer near-term development opportunities. It recently reached financial close on the 113.2MW Bodangora wind farm development project in New South Wales.

Infigen acknowledges that a number of proposed measures have been included in the South Australian Energy Plan and that the Electricity Security Target is only one component of a broader objective. Infigen supports the objective of improving energy security in South Australia and adding liquidity to the contracts market. There are some aspects of the draft guidelines that we believe could be improved to ensure the objective of the scheme is met. Discussion of these issues and recommended amendments have been provided below.



1. DO THE PROPOSED AMENDMENTS PROVIDE THE LEVEL OF TRANSPARENCY WHICH WOULD SUPPORT THE LONG TERM INTERESTS OF SOUTH AUSTRALIAN ELECTRICITY CONSUMERS?

The Electricity Security Target aims to support South Australian electricity consumers by encouraging the ongoing supply of locally sourced system security and increasing liquidity in the contract market. There is a risk, given the currently limited number of scheme participants, that the scheme may not have the desired effect of increasing liquidity and/or increasing retail competition within the state.

This certificate payment provides a clear incentive to eligible generators. Like all market schemes, changes in the market may result in the schemes objectives not being met including delivering benefits consumers in the form of improved reliability (given higher locally sourced generation) or ensuring no further increase in consumer electricity costs (through increased liquidity). The scheme as currently defined does not include review mechanisms. Given the amount of transition the market is undergoing it is recommended the State include a series of reviews to ensure the objectives are being met over the scheme's life.

1.1 Adaptability of scheme

The scheme is well defined. Some of these definitions adequately describe the existing technology and market characteristics of today's energy system but may not be adequate in defining the same energy system after a decade of transformation. The energy system is undergoing a period of rapid change that is expected to continue into coming decades. An alteration of the draft regulations to include the objectives of the scheme will allow for a more informed review process over time. Specific areas of the draft regulations that could be altered are discussed further in section 3.1.

1.2 Impact on retail competition

Increased liquidity in the contract market will be to the advantage of South Australian electricity consumers and is an objective of the scheme that Infigen supports. There is concern however that retailers who own eligible generators may be able to use the additional obligation for certificate surrender to crowd out new participants into the retail market. Owners of generation assets who are pursuing a retail strategy as a channel to market for their existing generation output may be forced to purchase electricity hedges and certificates as a bundled product from eligible generators. This may lower their incentive to participate as a retailer.

These retailers may also have a competitive advantage over non-vertically integrated retailers through their ability to pass on the real cost of certificate creation to consumers, and potentially influence the price of certificates for competing retailers. This would incentivise consumers to seek out retailers that have a larger level of control over the market thereby decreasing retail competition.

Similarly there is a risk that non-eligible generators will not be able to offer a bundled product when contracting their own generation. If certificates are being created at a low marginal cost to eligible generators, this could crowd out other participants contracting generation.

2. HAS THE ESSENTIAL SERVICES COMMISSION OF SOUTH AUSTRALIA BEEN PROVIDED WITH SUFFICIENT POWERS TO EFFECTIVELY ADMINISTER THE ELECTRICITY SECURITY TARGET?

Infigen believe that the powers granted to the Energy Services Commission of South Australia (ESCOSA) should be expanded to administer the ongoing efficient operation of the scheme. ESCOSA are in a suitable position to conduct a regular review process to confirm that the scheme is being appropriately used by both retailers and generators. ESCOSA should have the power to alter the details of the scheme to realign its operation with its objective and to suit the future electricity system. In this capacity ESCOSA would provide competition regulation, both through penalising participants who exert market power and providing an avenue for participants to comment on any such expected activity.

3. ARE THERE ANY CHANGES TO THE DRAFT REGULATIONS YOU CONSIDER NECESSARY TO SUPPORT THE LONG TERM INTERESTS OF SOUTH AUSTRALIAN ELECTRICITY CONSUMERS?

Section 1 of this submission listed a number of areas where there may be potential limitations in the schemes effectiveness once operating in the South Australian market. Infigen believe additional detail in the draft regulations could improve the value of the scheme to South Australian electricity consumers.

3.1 Adaptability of scheme

3.1.1 Long term certainty through a structured review process

For electricity consumers to have certainty that the scheme will continue to meet its objectives in the long-term it is important that there are clear avenues to review and adapt the scheme as the electricity system changes. A strong basis for the implementation of the Electricity Security Target and the broader South Australian energy plan has been to address concerns that the changing energy landscape is threatening the security of the South Australian electricity system ahead of the rest of the National Electricity Market (NEM). There are a number of policy (including outcomes of the Finkel Review) and technological developments that may occur over the life of the scheme that could replace or limit the effectiveness of the target

There are also a number of capital projects, both proposed by the South Australian government and external parties, which may alleviate the energy security threat in South Australia. There is a rapid expansion in the technologies that can provide system strength services both in regards to inertial and fast frequency response. It is probable that many of these technologies will come to maturity and be brought down the cost curve over the proposed thirteen year life of the target.

It is recommended the regulations should be amended to include a fixed review process that allows for the scheme to be modified if there becomes a more efficient way to achieve a range of pre-set objectives. This includes the ongoing assessment of new technologies that become available over time.

The State has noted that should a national scheme evolve this scheme would be collapsed. Whilst the particulars of any new scheme would be important to understand before a decision on whether it would meet the objectives of the State is made, Infigen believes it is important the intent to collapse this scheme should it evolve is captured within the Regulation.

It is recommended the Regulation is amended to capture the intent to dissolve the scheme at the time a National Scheme evolves.

3.1.2 Alignment with changing future demand

The use of a long-term mechanism guarantees to generators and consumers that a set proportion of load will be met by eligible generators over the life of the target. Using a fixed certificate target each year raises uncertainty among participants regarding what percentage of load will actually be met by the target due to the uncertain nature of demand forecasts. As generators optimise their own generation profiles based upon projected demand, it would be suitable to use a 'percentage of demand' target for the scheme and adjust periodically as system forecasts change.

It is recommended the Regulation is amended to a % rather than fixed target and/or include a regular review process to ensure the target doesn't over or under shoot.

3.2 Impact on retail competition

Allowing the Electricity Security Target to be subject to a regular review process as discussed above would be a valuable change in confirming to consumers and other market participants that the efficient operation of the scheme was being managed long-term. Increasing the frequency of certificate surrender could also be a method for reducing opportunities for market power and improving the provision of useful network security services.

The banking of certificates between years will encourage generating units and vertically integrated retailers to change their operational behaviour to maximise long-term revenue and competitiveness. There's no incentive in place to ensure this aligns with the objectives of the scheme to have an increasing amount of accredited generation dispatched in the South Australian market each year. Limiting the amount of certificates that can be banked each year will assist in realigning these objectives.

Certificate banking for electricity generating plant should be treated in a similar manner to the shortfall obligation that is being put on NERL retailers; only 10% of certificates should be allowed to be banked year-to-year. All other certificates should be surrendered. Both generation and retail competition is distorted by allowing the long-term banking of certificates.

Infigen recommends the Regulation is amended to limit certificate banking to 10% of certificates.

4. WHAT VERIFIABLE INFORMATION COULD BE SUBMITTED TO EVIDENCE ELECTRICITY SECURITY CERTIFICATE CREATION AND ACQUITTAL?

Infigen agrees with the current framework for Electricity Security Certificate creation and acquittal detailed in the Draft Variations Regulations, and recommends adding the date of a certificate's surrender to the public registry to assist with quantifying demand dynamics. Infigen emphasizes the importance of transparency and continuous reporting on certificate creation, trades executed and market prices similar to the Clean Energy Regulator's REC Registry.



We thank the South Australian Government for providing the opportunity to comment on the *Draft of the Electricity (General) (Electricity Security Target) Variation Regulations 2017*, and look forward to engaging in further consultation.

Please feel free to contact me directly in relation to Infigen's submission.

Yours sincerely,

A handwritten signature in black ink that reads "Ross Rolfe". The signature is written in a cursive style with a large, prominent 'R'.

Ross Rolfe AO
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