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# **South Australia's Energy Security Target Scheme**

**Submission to:**

**South Australian Government**

**From:**

**Uniting Communities**

*Note: Uniting Communities is South Australia's first accredited  
Carbon Neutral organisation/business.*

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## **South Australia's Energy Security Target Scheme**

Uniting Communities has supported and continues to support the State Governments 2017 Energy Plan and in particular the intent to create greater certainty in South Australian electricity markets, particularly generation and to focus on expanding the generation capability of the State.

We've also supported the continued focus on transition into renewable generation and continue to believe that it is not only desirable but possible for South Australia to be a world leader in renewable and (relatively) cheap electricity for households and as a driver for business.

### **Renewable + Cheaper is both desirable and possible**

We are also supportive of the notion of an energy security target.

However we are not convinced that the SA energy security target plan has got it right quite yet. The plan gives the following key aspects:

*Analysis by Frontier Economics shows that new investment generated by the energy security target will create more competition and put downward pressure on prices.*

*South Australia has advocated for a national Emissions Intensity Scheme (EIS) to incentivise investment in cleaner generation. This scheme is not supported by the Federal Government, despite widespread industry and scientific support.*

*South Australia's energy security target will transition to an EIS or Lower Emissions Target (LET) if or when national policy changes in the future.*

The following brief response deals with four aspects of the plan.

### **Customer Impacts**

The consultation document states that the scheme will create more competition and put downward pressure on prices and that any costs of the scheme "should be" offset by the "increase in competition from local dispatchable generation".

We are not convinced by the "more competition – lower prices argument" in SA energy markets. South Australian energy markets, both for electricity and gas and for both wholesale and resale are concentrated markets consistent with oligopolies, in most cases with a clear market leader that has a dominant position in the market.

Relying on competition while AGL retains such a strong market position for electricity wholesale and retail is unlikely to be effective at least in the medium term, due to the sheer scale, for SA of Torrens Island power station coupled with the State's slowly falling aggregate electricity demand.

To back this up , the AER State of the Energy Market Report 2015 states:

*South Australia's electricity sector is highly concentrated, with AGL Energy supplying 50 per cent of retail customers and controlling 42 per cent of generation capacity. Origin Energy,*

*EnergyAustralia, GDF Suez (Simply Energy) and Alinta are significant but minority players in both generation and retail.*

It is difficult to understand the benefits to consumers, particularly in the short to medium term, of the proposed energy security target without the capacity to better understand the modelling. We suggest that the modelling should be released, at least in a public form with any commercially sensitive aspects removed.

It is critical that customers and consumer organisations are able to see where and when these benefits to competition are likely to appear? We would also need to understand the incidence of the proposed scheme and specifically how any producer surplus that may be captured is distributed.

We would also like to better understand how much new capacity is likely to be created?

### **Gas Generation**

It is understood that the scheme is aimed at existing gas generators, however there does not seem to be enough room in the target trajectory for new entrants. Tables below indicate that the scheme would be met by a return to past operating levels by Pelican Point, no net benefit for the State.

We are unclear about any assumptions that have been made about the future operation of Torrens Island A, which we understand is likely to be closed soon. We also aware of public comments from AGL indicating that day might install a new turbine at Torrens Island. These are fluid times!

Gas Generation Market Shares (by GWh generated derived from SA Electricity Report 2016 Data File) give the following:

	2015–16		
Ladbroke Grove	4%		
Osborne	26%		
Quarantine	3%	Origin	33%
Pelican Point	12%	Simply	12%
Torrens Island A	14%		
Torrens Island B	41%	AGL	55%

Table 1

This data implies that all growth in energy security target can be achieved by restoring Pelican Point's capacity factor (from 14% in 2015-16 back to 60%+ as was in 2011-12 and 2012-13 would add 2000 GWh to annual output)

AEMO's South Australian Historical Market Information Report (SAHMIR) 2016 (Table 4) gives the following information:

South Australian generation and net interconnector imports (GWh)

Fuel type	2011-12	2012-13	2013-14	2014-15	2015-16
Gas	6,391	6,795	5,566	4,599	4,538
Wind	3,563	3,475	4,088	4,223	4,322
Coal	2,999	2,231	2,096	2,645	2,601
Diesel	2	5	2	2	8
Interconnector net imports	1,094	1,377	1,637	1,528	1,941
Rooftop PV	294	492	678	872	938
Small non-scheduled generation	62	58	60	59	52
<b>Total</b>	<b>14,405</b>	<b>14,433</b>	<b>14,127</b>	<b>13,928</b>	<b>14,400</b>

Table 2

If it is only the current gas fleet that is eligible to meet the energy security target, 4,500 GWh in 2017-18, then the target should keep gas generation at 2015-16 levels, as shown in chart 1 below:

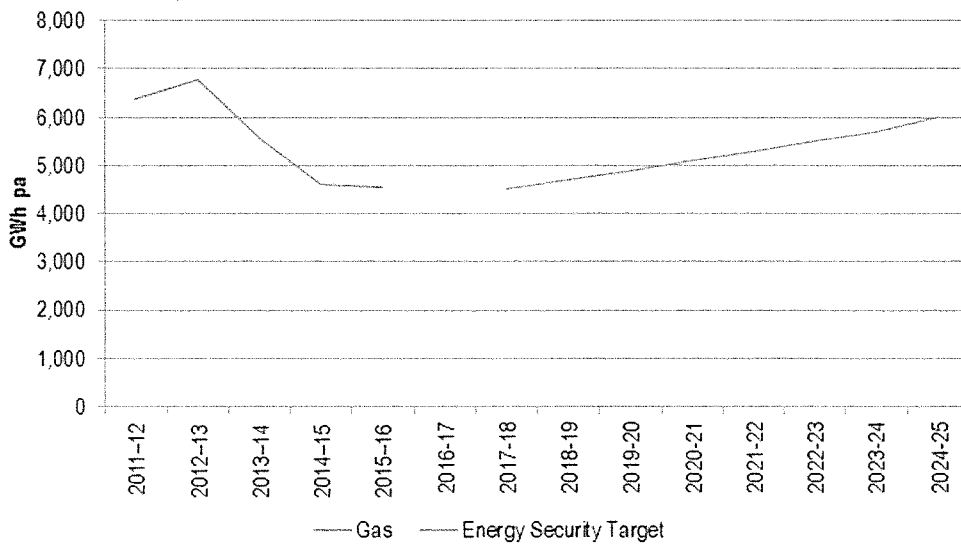


Chart 1

The main change in gas powered generation since 2011-12 is the declining utilisation of Pelican Point. The AEMO 2016 SA Electricity Report, Data Tables yield the following:

Figure 13 - Financial year capacity factors for scheduled generating systems

	Angaston	Dry Creek	Hallett GT	Ladbroke Grove	Lonsdale	Mintaro	Northern	Osborne	Pelican Point	Playford B	Port Lincoln GT	Port Stmvac	Quarantine	Snuggery	Torrens Island A	Torrens Island B
2011-12	0.1%	0.2%	0.5%	11.3%		0.7%	58.4%	74.8%	62.0%	19.8%	0.1%		3.3%	0.1%	12.5%	27.3%
2012-13			0.5%	3.8%		1.6%	64.0%	86.6%	70.8%		0.2%		7.7%	0.1%	10.6%	24.2%
2013-14		0.2%	2.1%	33.0%		1.0%	90.6%	93.3%	43.9%		0.1%		12.2%	0.6%	8.1%	20.0%
2014-15		0.4%	1.4%	26.5%		0.9%	76.2%	92.7%	24.3%		0.1%		11.0%	0.1%	4.8%	21.2%
2015-16	0.2%	0.5%	2.1%	29.3%	0.4%	1.7%	65.2%	77.2%	14.0%		0.1%	0.2%	7.0%	0.2%	15.6%	28.0%
MW Rated Capacity			205.6	80				180	478				224		480	800
Implied GWh 2015-16			38	205				1218	585				137		657	1964

Table 3

We are aware of the recent announcement by Origin and Engie (Pelican Point) of an agreement between the two companies providing greater certainty for Pelican Point in gas supply and forward prices and so wonder if the energy security target is now necessary, given that it would appear that the major impact of the target would be on Pelican Point and the new arrangements should mean that this power station will operate at higher levels than recently and with greater certainty of generation into the future. This being the core goal of the 2017 Energy Plan

The interrelationship with other aspects of the energy security target is unclear, with the new gas fired power station from the SA Energy Plan and even any impacts of the grid scale storage element of the plan (which we like very much).

### **Regulation and Enforcement**

The main question here is about the reporting obligations of the scheme and the measures for determining scheme effectiveness. We assume that the responsibility for oversight of the scheme would be with ESCoSA, which we think makes sense, but greater clarity is needed upfront about regulation, monitoring, compliance and enforcement

The energy security target, as we understand it, lacks any specific checks and balances. It could be a relatively expensive scheme to be delivered by regulation rather legislation.

### **Transition**

There are a couple of transition issues associated with the scheme:

Firstly the transition to an Energy Intensity Scheme is important and fully supported by Uniting Communities, however the uncertainty remains at national level about what an energy intensity scheme will look like, how it will operate and the timelines for implementation. We can only hope that the recommendations from the Chief Scientist (Finkel Review) will lead to much greater clarity on this very important question of national policy. This scheme may need to be re-assessed once the Finkel report is released.

The second transition issue of concern, is not surprisingly costs consumers. We suggest that it is highly likely that market incumbents will pass on costs of the scheme, plus a bit more, to consumers. Public reporting of modelling of the cost implications for customers, for households and business, is needed before implementation of the scheme.

We are more than happy to discuss any aspects of this submission, (after 21<sup>st</sup> June)

