

ENERGY SECURITY TARGET

STAKEHOLDER CONSULTATION

*"It's time to
take charge of our
energy future"*

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South Australian power for South Australians.



1. INTRODUCTION

The South Australian Government's vision is to source, generate and control more of South Australia's power supply in South Australia so we can increase self-reliance and provide reliable, competitive and clean power for all into the future.

South Australia's energy plan will give our state greater local control of our energy security. Implementation of this plan is already underway.

THE CORE PLAN COMPONENTS ARE:



A battery storage and renewable technology fund



A State-owned gas power plant



Local powers over the national market



New generation and more competition



South Australian gas incentives



An energy security target

The goal of the energy security target is to increase competition, put downward pressure on prices and provide more energy system stability.

It achieves this by incentivising electricity generation into the South Australian power system from new and existing clean generators, that can be dispatched on command and provide local security services of fault current and inertia. These criteria are important for the security and reliability of South Australia's power supply because:

- Generators which can be dispatched on command ensure that electricity supply can match consumer electricity demand at all times of the day. They can help when intermittent generators have a period of low output.

- System strength is a measure of the stability of a power system under all reasonably possible operating conditions. High fault current levels are typically found in a stronger power system, while lower fault current levels are representative of a weaker power system.
- Sudden events in the power system can cause frequency deviations. An unacceptably high rate of change of frequency can lead to the loss of generation or customer load. Power systems with low inertia are likely to experience a higher rate of change of frequency.

Clean generators are those fuelled by gas or a renewable energy source within the meaning of the *Renewable Energy (Electricity) Act 2000* of the Commonwealth.

Eligible South Australia generators will be able to create a certificate for each mwh of eligible electricity. Existing and new generators will be eligible to create certificates. Retailers will be compelled to purchase and acquit certificates to meet the energy security target. The price of certificates will be determined by supply and demand factors but is effectively capped at \$50 per certificate.

Retailers may recover the cost of purchasing certificates from customers through their retail electricity prices.

It is expected that the scheme will result in lower wholesale electricity prices due to the increase in competition from local dispatchable generation, and this should offset any cost recovered by retailers from consumers.

THE ENERGY SECURITY TARGET, IN GWH FOR RELEVANT FINANCIAL YEARS IS AS FOLLOWS:

17/18	18/17	19/20	20/21	21/22	22/23	23/24	24/25	ANNUALLY TO 29/30
4500	4700	4900	5100	5300	5500	5700	6000	6000

The energy security target will be implemented through amendments to the *Electricity (General) Regulations 2012* and administered by the Essential Services Commission of South Australia, which is an independent regulator.

2. CONSULTATION

The South Australian Government has developed a consultation package on the legal framework which establishes the energy security target, as set out in the *Electricity (General) (Electricity Security Target) Variation Regulations 2017*.

Stakeholders are encouraged to provide feedback, through a written submission on the consultation package.

Submissions are requested to be provided by close of business ACST on 26 May 2017.

Electronic submission are required and can be sent to DPC.ESTRegulations@sa.gov.au

Submissions will be stored with the Essential Services Commission of South Australia and may be published or shared with the Essential Services Commission of South Australia. If a submission contains confidential information (or a confidential attachment), please make it clear in writing what should or should not be published.

Any queries related to the energy security target should be directed to Rebecca Knights, Director Energy Policy and Projects via email at DPC.ESTRegulations@sa.gov.au

EXPLANATORY NOTE

ELECTRICITY (GENERAL) (ELECTRICITY SECURITY TARGET) VARIATION REGULATIONS 2017

1. LEGISLATIVE AUTHORITY

Section 98 of the *Electricity Act 1996* provides that the Governor may make such regulations as are contemplated by, or necessary or expedient for the purposes of the Act. The Act contemplates the regulation of NERL retailers. In particular, section 63AB requires a

NERL retailer to comply with any requirements imposed under the regulations relating to any other matter related to the sale and supply of electricity by retail specified in the regulations. The maximum penalty from failing to comply with this provision is \$1,000,000.

The *Electricity (General) (Electricity Security Target) Variation Regulations 2017* amend the *Electricity (General) Regulations 2012* to implement the energy security target.

2. PURPOSE OF THE REGULATION

The *Electricity (General) (Electricity Security Target) Variation Regulations 2017* amends Part 9A - Regulation of NERL Retailers of the *Electricity (General) Regulations 2012*, to insert a new Division 2 – Electricity security target scheme, which is made up of a series of subdivisions as follows:

Subdivision 1 – Preliminary

- grants the Essential Services Commission of South Australia with the functions and powers necessary to administer the electricity security target and ensure compliance.
- defines key terms necessary for the implementation of the electricity security target including:
 - aligning with the *National Electricity (South Australia) Act 1996* and National Electricity Rules where relevant.
 - providing for eligible fuel sources under the scheme to be gas and renewable energy sources within the meaning of the *Renewable Energy (Electricity) Act 2000* of the Commonwealth.

Subdivision 2 – Accreditation of electricity generation plant

- prescribes the criteria which electricity generating plant must meet to be involved in the electricity security target scheme. The plant must be a South Australian clean generator; connected to a power system operated in the National Electricity Market; that can be dispatched on command; and provide the local security services of fault current and real inertia.
- grants the Essential Services Commission of South Australia with the power to grant, suspend or revoke accreditation of an electricity generating plant which meets the relevant criteria.
- allows the Essential Services Commission of South Australia to define the process for an accreditation application.

Subdivision 3 – Creation of and dealing with certificates

- allows a generator to create an electricity security certificate for each MWh of eligible electricity generated from an accredited electricity generating plant.
- allows the Essential Services Commission of South Australia to create electricity security certificates.
- provides a formula for the purpose of determining eligible electricity generated by the accredited electricity generating plant, which must be electricity generated from an eligible fuel source.

- sets out the process which must be followed to create an electricity security certificate. The certificate must meet the requirements of the Essential Services Commission of South Australia and is not valid for the purpose of the energy security target scheme until registered by the Commission.
- sets out the process which must be followed for the transfer of electricity security certificates (excluding those created by the Essential Services Commission of South Australia) from the owner to a NERL retailer.
- provides for the creation and transfer of electricity security certificates by the Essential Services Commission of South Australia directly to a NERL retailer for a fixed fee of \$50.
- provides for the Essential Services Commission of South Australia to approve the surrender or cancellation of an electricity security certificate.

Subdivision 4 – Requirements of NERL retailers relating to certificates

- places an obligation on a NERL retailer to annually surrender electricity security certificates to meet its annual liability. A NERL retailer will be in breach of this obligation if it fails to surrender certificates equal to 90% or more of its liability in a financial year.
- sets out process and powers in relation to the surrender and cancellation of electricity security certificates.
- provides a formula for the purpose of determining the NERL retailers liability in a financial year. A NERL retailer’s liability in a financial year will include any electricity security certificate shortfall or excess from a previous financial year.

- sets out the electricity security target for each financial year from 2017/18 to 2029/30 in gigawatt hours.
- provides for reporting by NERL retailers to the Essential Services Commission of South Australia.
- provides for reporting by the Essential Services Commission of South Australia.

Subdivision 5 - Registers

- requires the Essential Services Commission of South Australia to maintain an electronic register of accredited electricity generating plant and electricity security certificates.
- allows accredited electricity generating plant and NERL retailers to inspect the register.

3. ISSUES FOR CONSULTATION

This Explanatory Note accompanies the *Draft of the Electricity (General) (Electricity Security Target) Variation Regulations 2017*, which is proposed to implement the energy security target.

Interested parties are invited to make written submissions of the *Draft of the Electricity (General) (Electricity Security Target) Variation Regulations 2017* and this Explanatory Note.

Interested parties are requested to consider the following questions in their feedback:

- Do the proposed amendments provide the level of transparency which would support the long term interests of South Australian electricity consumers?
- Are there any changes to the draft Regulations you consider necessary to support the long term interests of South Australian electricity consumers?
- Has the Essential Services Commission of South Australia been provided with sufficient powers to effectively administer the electricity security target?
- What verifiable information could be submitted to evidence electricity security certificate creation and acquittal?