



EnergyAustralia

LIGHT THE WAY

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Public Submission

RE: Energy Security Target – Stakeholder Consultation

EnergyAustralia welcomes the opportunity to make a submission to the South Australian (SA) Government's consultation on its Energy Security Target (EST) proposal.

EnergyAustralia is one of Australia's largest energy companies, providing gas and electricity to 2.6 million household and business customer accounts in New South Wales, Victoria, Queensland, South Australia and the Australian Capital Territory. EnergyAustralia owns and operates a portfolio of energy generation across Australia, including coal, gas and wind assets with control of over 4,500MW of generation in the National Electricity Market (NEM).

EnergyAustralia has been, and continues to be, a proud investor in SA energy assets, including Hallett gas fired power station, the Cathedral Rocks wind farm, as well as developing the Cultana pumped hydro project.

Despite being one of Australia's largest and most experienced energy companies, EnergyAustralia has a relatively small retail presence in SA with around 85,000 residential and business customers for electricity, as well as 55,000 gas customers.

We recognise the thinking behind the SA Government's approach to energy and understand the Energy Plan aims to improve reliability while minimising future price rises. Electricity is a vital social good and it is important that electricity is available when people need it, and at an affordable price.

While the positive intentions are clear, we believe there is potential for significant and perverse electricity price and competition outcomes from the EST in the form currently proposed. Clear or measurable benefits from this scheme have not been demonstrated.

In this regard, and on behalf of our customers, we are concerned about the magnitude of potential adverse outcomes of this market intervention, particularly given the short timeframe for market participants to consider and comment on the draft regulations. We hope our concerns are clearly articulated in our submission and that Government opts for solutions that deliver the right balance between security and stability of supply, affordability, and clean energy.

Please do not hesitate to contact us should you require anything further. Our Policy & Advocacy Lead, Sara Williams, can be reached directly on (03) 8628 1742.

Yours sincerely,

Andrew Fisher
Executive, Corporate

Is the Energy Security Target necessary?

EnergyAustralia recognises the SA Government's intention regarding the EST component of the state's Energy Plan, as announced on 21 March 2017.

The rise in intermittent generation necessitates a greater level of firm generation that can be reliably called upon to ensure system security and stability in South Australia.

We are conscious that the performance of the Australian Energy Market Operator (AEMO) has been questioned since the events of 28 September 2016. As the market body ultimately responsible for ensuring system security and stability in the NEM, it is arguable that more measures should have been in place in South Australia to help ensure the lights stayed on.

However following those events, thorough and rigorous reviews have been undertaken by a number of expert organisations including AEMO, the Australian Energy Regulator (AER), the Essential Services Commission of South Australia (ESCOSA) and ElectraNet. AEMO made 19 recommendations and has taken steps to implement the majority of them to improve the system security in South Australia. Those measures include requiring two sufficiently large SA synchronous generators to be online at all times to maintain system stability.¹

On 19 May 2017, AEMO also launched a new \$22.5 million joint-initiative with the Australian Renewable Energy Agency (ARENA) to secure 100 MW of demand response in South Australia and Victoria for the coming 2017/18 summer period. AEMO's Chief Executive Audrey Zibelman stated the program will help the electricity system to manage peak demand in real-time, without the need for new fossil fuel generation.²

Perhaps most significantly, on 29 March 2017 Origin Energy and Engie announced a 10 year supply deal that commits the Pelican Point 2 gas fired power station to the South Australian market. Not only has Origin assured Engie of sufficient wholesale demand to return Pelican Point to its full 478 MW capacity as of 1 July 2017, but Origin has also made 8 petajoules of gas available to Engie for the gas plant as well as commercial customers.

Pelican Point alone has the ability to supply about a quarter of South Australia's power needs.

In light of the significant market developments since the EST was announced, EnergyAustralia strongly believes the EST has been made effectively redundant and is no longer required.

The EST does arguably provide an additional revenue stream to marginal gas generators who may otherwise leave the market. However EnergyAustralia does not believe the imposition of up to \$50/MWh on households and businesses is necessary or worthwhile when sufficient firm generation, kinetic inertia and other ancillary services will be made available at competitive market rates irrespective of the EST.

It is worth noting that in addition to the recent Origin-Engie deal, there are a number of initiatives currently underway that will have unknown implications for the SA retail and wholesale markets. The most prominent is the Finkel NEM Security Review that is looking at NEM-wide reforms to help ensure security and stability in the electricity grid.

It is also worth considering the complementary aspects of the SA Government's Energy Plan that are already under development, such as the incentives to increase gas supplies, the deployment of 100 MW of battery storage, and the construction of a new gas peaking plant.

EnergyAustralia urges the SA Government to reconsider its Energy Security Target before imposing more than \$225 million per year on South Australian electricity consumers in a market that is already experiencing dramatic change, government intervention, and significant price rises.

¹ http://www.aemo.com.au/-/media/Files/Media_Centre/2016/SA-System-Strength.pdf

² *ARENA and AEMO Join Forces to Pilot Demand Response to Manage Extreme Peaks This Summer*, <http://www.aemo.com.au/Media-Centre/ARENA-and-AEMO-join-forces-to-pilot-demand-response-to-manage-extreme-peaks-this-summer>

Supplementary positions

As outlined above, EnergyAustralia's fundamental position regarding the Energy Security Target is that it is no longer required to provide stability in the market, at least in the short term.

We also strongly believe that an EST will have a severely detrimental impact on retail prices and competition in the SA market.

Should the SA Government choose to proceed with the EST, EnergyAustralia suggests a number of items for consideration:

1. Defer commencement for two to three years to reflect changed market dynamics
2. ESCOSA to set the certificate price
3. Pumped hydro should be exempt from EST liability

Deferral of commencement

There have been a number of significant changes in the energy market since the SA Energy Plan was announced in March 2017.

Most notably, the return of Pelican Point to full capacity from 1 July 2017 means that the first two to three years of the EST are now irrelevant.

Should the EST commence on 1 July 2017 as planned, over \$700 million will be paid by SA customers in the next three years for no additional system security or stability benefit. This comes at a time when households and business customers will already be hit with significant retail price rises driven by the wholesale market.

As outlined previously, there have been a number of significant market reviews and changes already underway that will have implications for the SA market, potentially improving the provision of inertia and system security services.

EnergyAustralia strongly recommends that South Australia defer commencement of the EST until 1 July 2020. We believe the SA Government should undertake a review in 2019 to determine whether the mechanism is still necessary and, if so, proceed with confidence.

A deferral of commencement will give the SA Government sufficient opportunity to fully consider the various initiatives that are underway and their impact on the energy market, most notably the complementary measures contained within the SA Energy Plan, as well as the outcomes of the Finkel NEM Security Review.

ESCOSA to set the certificate price

As outlined in the section above, the highly concentrated wholesale market creates a risk that the certificate price outcomes will not be competitive or reflect modelling outcomes. It is likely that generation/retailers will offer surplus certificates at \$49 - just below the suggested clearing house price of \$50.

EnergyAustralia therefore recommends that the Essential Services Commission of South Australia be responsible for setting the certificate price at an efficient market rate and provide the clearing house.

At a minimum, ESCOSA could set the price for the initial two to three years of the EST while the new market takes shape and participants become more confident in its operation. Consistent with the presentation by Frontier Economics, we believe that \$12 is an appropriate price for certificates in the first year. Otherwise, we would propose the certificate price outcome modelled by Frontier (but not shared with the market) in the first year of the scheme be used.

Pumped hydro should be exempt from EST liability

There is immense potential for pumped hydro in the South Australian electricity market. It is a clean energy source, provides real inertia, and can be dispatched on command. It is also consistent with the SA Government's desire to utilise surplus renewable energy generation to improve the security and reliability of the State's energy system and reduce price volatility.

In light of the SA Government's commitment to net zero emissions by 2050, EnergyAustralia believes that pumped hydro should be exempt from generating an EST liability in times when it is using surplus renewable energy in the grid to pump water, due to the system benefits it provides to the market, as well as the support it provides the SA Government in achieving renewable energy and emission targets.

Specific responses to the SA Government's consultation questions

Do the proposed amendments provide the level of transparency which would support the long term interests of South Australian electricity consumers?

We believe initiatives that post-date the announcement of the EST, including AEMO requirements on generators and the commitment of Pelican Point 2 to the market, render the requirement for an EST redundant - at least in the near-term.

Furthermore, it is clear that the costs to SA consumers from the scheme will be significant and retail competition is directly threatened. The EST does not support the interests of SA energy consumers in the short term, and it is arguable it may not support consumers over the longer term.

Accordingly, should the scheme be implemented, EnergyAustralia recommends a deferred commencement to allow careful assessment of the benefits of the scheme considering the significant costs, particularly following recent market developments.

Has the Essential Services Commission of South Australia been provided with sufficient powers to effectively administer the electricity security target?

We believe the concentration of the gas generation market results in a limited number of sellers to the market that compromise the market's ability to establish a fair and reflective price. We recommend that, at least for the first few years, that ESCOSA set the price at a fixed level well below the proposed market cap of \$50/MWh. This will also limit impacts on SA consumers in the short term.

Are there any changes to the draft Regulations you consider necessary to support the long term interests of South Australian electricity consumers?

Yes, the commencement should be deferred to allow proper assessment of the scheme and consider the recent developments in the market. If not, ESCOSA should set the price of certificates for at least the first year. Given the benefits to the SA electricity system, pumped hydro should be exempted from a liability when it consumes surplus energy to fill the upper reservoir.

What verifiable information could be submitted to evidence electricity security certificate creation and acquittal?

Again, we believe the scheme is not in the public interest and should not be implemented on the basis of the significant cost impacts to consumers and unclear benefits. However should the scheme proceed, given the price rises SA consumers will experience at the 1 July 2017 retail re-price, the scheme's administration needs to be extremely efficient and minimised to avoid further price impacts to consumers. Onerous administration must be avoided for the benefit of all stakeholders, especially customers. Alternatively, to reduce customer impacts, the SA Government could agree to cover the administrative cost burdens that retailers will bear as a result of the scheme.