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Energy Security Target – Stakeholder Consultation

Thank you for the opportunity to make a submission to the South Australian Government's proposed Energy Security Target.

As you are aware Orora Ltd is a major energy user and employer in South Australia and we have 2 main concerns regarding energy supplies in SA.

1. High electricity and gas costs.
2. Unreliable power supplies.

Both of these factors weigh heavily on SA Manufacturing businesses.

We have read the information package and draft regulations provided by the SA Government in relation to the proposed Energy Security Target.

While we welcome the SA Government's initiative to improve the electricity system security, Orora does not consider that the proposed scheme will do that, or that it will actually reduce pricing pressure on SA electricity consumers.

It is in this context that Orora offers the following comments:

1. Cost of Scheme

The cost of this scheme is yet to be determined, as is its impact on wholesale electricity prices.

There has been no modelling/data published by the SA Government to indicate what the scheme cost might be to electricity consumers or its impact on wholesale electricity prices.

It is assumed that electricity retailers will pass on the full cost of this scheme to electricity customers. This will only add to SA electricity costs.

According to our energy advisors, this scheme would impose an additional cost on all electricity generated in SA of almost \$20.00/MWh in FY 2018, based on the proposed electricity security target.

2. Ability of Scheme to deliver Security of Supply

After studying the proposed legislation we are unable to determine the mechanism for eligible electricity generators to be called upon to dispatch their plant during system security periods; it seems to be merely a mechanism to reward them for generating electricity at any time they choose to do so.

If eligible generators were only be able to create certificates for the periods when they are physically dispatched to maintain system security then it may have some merit. However, it is not drafted on that basis at present.

In some years the proposed target may be more than sufficient and in other years it may be insufficient to meet electricity security requirements. We are unable to determine how these targets have been set.

What happens if the target has been met and there is a system security event? Will generators who participated in the scheme be required to run?

It is our understanding that last year there was sufficient electricity generated in SA from eligible sources to have met the 2017/18 target yet SA did encounter several blackouts; therefore it is unlikely that this scheme will have any impact in its current form.

As the scheme has an energy (MWh) target rather than a capacity (MW) target we are of the view that it will not provide energy security at all.

Unless the scheme actually requires generators to operate during system security periods/events, there is no benefit to system security from this scheme.

3. A Capacity Mechanism would be more cost reflective.

The proposed scheme averages and smears its costs across all SA electricity users based on their annual electricity consumption.

It therefore disadvantages consumers such as industrial customers with flat load profiles who use the same volume of electricity day in day out.

In doing so this therefore benefits those consumers, such as those with large airconditioning loads, who contribute significantly to the peakiness of the SA electricity demand; particularly in summer when this scheme could be of most benefit.

It would therefore be far more equitable if the liability was based on an electricity consumers' maximum demand rather than usage.

4. Some Retailers will benefit, others will not

This scheme will benefit existing retailers with gas fired generation assets in SA. They will be able to participate in the scheme at a marginal cost (if any) and pass through an amount up to the default price to their customers.

Retailers without gas fired generators in SA may be unable to purchase the required certificates from one of the gas fired generators and so will have to pay the penalty price to the SA Government's Essential Services Commission and pass this cost through to their customers. This will only serve to lessen retail competition in SA.

5. Eligible Generators

Under this scheme only gas fired generation or biogas generators are eligible to provide electricity security certificates. This discriminates against other firm electricity generators such as diesel which, although they may have higher CO2 emissions and operating costs, can never the less offer capacity that may actually be cheaper than gas fired generation into the market as they would only run when needed to meet a capacity shortfall.

Battery storage can also offer system security, at least short term security and so it should also be included. By allowing these other technologies to participate in the scheme the overall scheme costs should be lower.

Orora strongly objects to a scheme that rewards existing gas fired generators and that will probably drive up electricity prices without any guarantee of providing system security.

6. EITE Exemptions

Energy Intensive Trade Exposed Industries (EITE) that currently qualify for exemption from the Renewable Energy Target (RET) should also be exempted from this scheme. The Commonwealth Government recognised that this was necessary to ensure their international competitiveness and so the SA Government should do likewise on a similar basis for this scheme.

Yours sincerely



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