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Submitted by email to [DPC.ESTRegulations@sa.gov.au](mailto:DPC.ESTRegulations@sa.gov.au)

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### **Energy Security Target Stakeholder Consultation**

The Australian Energy Council (the Energy Council) welcomes the opportunity to make a submission to the South Australian Government Energy Security Target Stakeholder Consultation (the Consultation).

The Energy Council is the industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

The stated aim of South Australia's energy plan is to give the state greater local control of its energy security although concerns around the implementation of this component of the plan mean it has the potential to impact customers and retailers financially. The Energy Security Target (the Target) will add more South Australian-specific regulatory obligations to retailers which will increase costs over time. In any case, whatever the merits of the Target the arbitrary and short timeframe set by the government for the commencement of the scheme is inadequate and imposes unjustified risks and costs on retailers. As an absolute minimum, the start date for complying with the Target must be deferred until 1 January 2018.

#### **National approach**

The Energy Council supports a national approach to energy policy and regulation rather than individual state based initiatives. Legislative and regulatory inconsistencies across state borders increase the administrative and compliance costs for energy retailers.

The challenge is to ensure South Australia does not exacerbate energy, regulatory and other cost pressures on consumers, industry and the economy by developing policies, programs and initiatives that are not harmonised with other regions. We recognise that the government is motivated to show it is acting to shore up energy security in South Australia. Given there are several other components to the plan, including procurement of additional capacity in battery storage, emergency gas generation, and potentially via the government's own process. However we question whether the scheme's perceived benefits of additional, synchronous dispatchable generation lowering South Australia's wholesale costs will outweigh the compliance cost on customers, particularly with rushed implementation and commencement of the scheme prior to the development of any supported certificate market. We note also that the Target is for an

annual quantity of energy supplied by qualifying generators, which does not in itself guarantee sufficient availability of generation at times of peak demand.

### **Liable entities**

We note that at present most load in South Australia is procured via registered retailers. However exempting other Market Participants from the Target concentrates costs on one set of users and creates perverse incentives for large industrial users to self-contract to avoid the cost of compliance with the Target. This will increase the costs borne by other customers. If the costs of complying with the Target become material as the Target increases, this perverse incentive will increase. It would not add to the complexity of the scheme to extend the coverage of the Target to all Market Customers, given all will benefit if energy security is enhanced.

At the other end of the scale, customers with rooftop PV will pay less towards the scheme than their neighbours without rooftop PV, even though both customers still depend on the grid for underlying energy security and so should pay similar amounts. We recognise the practical difficulties of bringing PV into the scheme, but this illustrates the problems caused by the practice of using grid-supplied electricity as a “tax base” for meeting the government’s objectives.

### **Timeframes**

The Consultation’s strict timeframes and the lack of communication from the South Australian Government on the transition to an additional state-based scheme will be onerous on retailers. Through full consultation and adequate implementation timeframes the South Australian Government could endeavour to minimise jurisdictional inconsistencies and prepare consumers for the expected changes. The Energy Council submits that the regulator should have sufficient time to design a robust compliance framework for certificate creation.

The Energy Council is concerned with the exposure draft regulations which are expected to come into operation on 1 July 2017. The Consultation is proposing a market which allows the Essential Services Commission of South Australia (ESCOSA) to create electricity security certificates. This will be in operation in less than two months. No market has yet been established for these certificates. For the proposed scheme to run efficiently and to have the perceived low cost impact on consumers there would need to be deep and liquid market for retailers to procure at the most efficient cost.

An obvious way to procure certificates in the longer term, as with similar schemes, would be to combine them with energy contracts. But a prudent retailer will already have largely hedged their expected load for 2017/18 which places certificate costs at a premium.

Customer notification requirements on retailers are onerous and retailers have already commenced their notification processes to accommodate the 1 July price changes. The Energy Council therefore believes that retailers will find it difficult to determine the impact of the Target on prices from 1 July 2017 to efficiently recover the costs of the scheme. While the impact of this uncertainty is difficult to estimate ex ante, we note that the maximum cost of the scheme is in the order of \$17/MWh, which would represent a material uplift in prices.

The compliance by relevant generating entities and National Energy Retail Law (NERL) retailers will be reported on a financial year basis. This Energy Council notes that this is inconsistent with other

schemes such as the national SRES and LRET schemes which operate in a calendar year. Any inconsistency between compliance years adds to the compliance costs of retailers, which will be passed through to consumers.

These practical difficulties mean the 1 July start date is unrealistic, and given that the energy security goal is most pertinent during the summer demand peaks that typically occur in January-March, the obvious solution is to shift the start date to 1 January 2018. Even if the government is minded to follow a financial year cycle, there is no barrier to starting with a 6 month period with the liability being half that of the full year.

The Energy Council proposes that the South Australian Government move the first compliance year to 2017/18 (or 2018 in the case of calendar year compliance) which will also provide retailers with sufficient time to communicate to customers the price changes.

### **Regulations**

According to the *Electricity (General) (Electricity Security Target) Variation Regulations 2017* a “NERL retailer must, within 1 month after the end of a financial year (or at such other time or times as may be agreed by the Minister), surrender to the Commission the number of certificates registered under this Division that are equal to its annual liability for that financial year”. We note that certain meters will not have been read in the short timeframe which will require retailers to calculate on estimates. There seems to be little to be gained by imposing such a short timeframe – i.e. the success of the Target is not predicated on this timeframe and we recommend increasing the default timeframe to 3 months, while requiring any variation by the Minister to be later, not earlier. It follows that the reporting timeframe should be similarly extended.

The electricity security fraction which will be included in the liability calculation is based on dividing the electricity security target (for the financial year) by the aggregate of the liable load for all NERL retailers operating in South Australia in the previous financial year. The Consultation does not make it clear when this will be published which will be challenging for retailers to forecast and calculate the implications for retail costs.

### **Process concerns**

Any policy interventions by jurisdictional Governments should be subject to a timely consultation process to allow key stakeholders an opportunity to understand the proposal and to for the costs, risks and benefits to be properly evaluated. The policy was announced by the SA Government as part of its Energy Plan with scant detail and without consultation. Some weeks later, an exposure draft of the regulations has been released with a two week consultation period. This is totally inadequate and increases the chances that the policy will fail to meet its objectives and result in unforeseen consequences.

Ideally a full cost-benefit analysis should be carried out to determine the impacts on consumers, industry and the wholesale market and to test the government’s contention that the scheme will be cost-neutral for customers while increasing energy security. Even if the scheme itself does not result in higher wholesale costs (including the costs of procuring the certificates), there will be an administrative cost to retailers to manage their participation in the scheme.

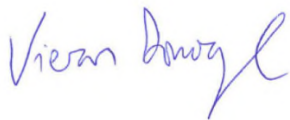
Deferral of the start date would allow the government to correct its mistake of skipping the consultation process that is an essential component of sound policymaking. It would also provide opportunity for the regulator to develop a platform for certificate creation and transfer, which will support a tradeable market.

### **An endorsement of retail competition**

Notwithstanding our concerns about the rationale for the Target and the rushed implementation, we are pleased at the implicit endorsement of the level of competition in the state's retail market. There would be no logical point in imposing this scheme on retailers unless they were considered the parties best placed to secure the outcome at the lowest cost. This in turn only follows if it is accepted that they are under competitive pressures from each other to minimise their costs. Further, since the additional cost, complexity and risk will act as a barrier at the margins to new entrants (noting there is no minimum threshold for compliance), it also follows that the government considers there are already sufficient retailers in the market to ensure vigorous competition.

Any questions about our submission should be addressed to Panos Priftakis, Policy Adviser by email to [panos.priftakis@energycouncil.com.au](mailto:panos.priftakis@energycouncil.com.au) or by telephone on (03) 9205 3115.

Yours sincerely,



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