

1 February 2018

Manager – Integrated System Plan
Australian Energy Market Operator
Level 22, 530 Collins Street
MELBOURNE VIC 3000

Dear Sir/Madam

I write in response to AEMO's request for submissions on its Integrated System Plan (ISP) Consultation, particularly in relation to input on modelling questions (1.1 and 1.2) where feedback is due first. For the purposes of simplicity, we have left aside Western Australia's contribution to the national emission reduction task when discussing emissions reductions in the NEM.

For background, prior to the state-wide blackout Business SA led a coalition of several major local representative groups calling for an independent review of the electricity market transition to low carbon to protect both reliability and affordability. This was primarily on the back of our concerns about rising prices for business following Alinta's June 2015 decision to close Northern Power Station the following year, as well as forecast reserve shortfalls expected for summer 2016/17.

Post state-wide blackout, in our submission to the Finkel Review we recommended that:

South Australian businesses expect that any cost of transitioning the NEM to low carbon to meet the national renewable energy target (RET) and carbon reduction target, or any future carbon reduction targets, should work to locate renewable or low carbon generation where it is best placed to maximise output and serve consumers needs across the NEM, with any associated costs distributed per NEM consumption unit.

Business SA acknowledges AEMO's consultation paper which states:

The ISP will present a long-term strategic development plan (considering a range of scenarios) to deliver continued reliability and security, at least long-term cost for consumers, while meeting emissions reduction targets.

Consequently, to meet that objective AEMO must consider cost impacts for consumers in 'each' NEM jurisdiction, particularly given the primary emissions target which binds Australia is set at a national, not sub-jurisdictional level.

This aligns with AEMO's statement in relation to potential Renewable Energy Zones (REZ):

Each of the developments is currently proceeding on an individual basis. Consideration of all opportunities under an integrated, strategic plan for the nation may achieve improved outcomes for all consumers.



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Key Policy Points

1. To measure whether improved outcomes are in fact achieved for 'all consumers', AEMO needs to consider how the interjurisdictional cost sharing arrangements will work in practice. While the current Inter-regional Transmission Use of System (TUOS) mechanism allows for recovery of charges from jurisdictions which use South Australia's transmission network, no mechanism exists to recover costs specifically related to infrastructure built to facilitate additional renewable energy required to meet Australia's RET.

Businesses in South Australia need more assurance than motherhood statements related to the ISP's aim to ensure required renewables are delivered at lowest cost across the NEM while maintaining reliability and security. More specifically, we need to know how the costs of new infrastructure, and other indirect costs of a higher proportion of non-dispatchable generation which cannot meet firm contract requirements, are going to be allocated to ensure least long-term costs for all consumers.

It is our view that the costs of achieving a national emissions reduction task, to the extent that is practicable, should be evenly distributed, no differently to how the existing system of horizontal fiscal equalisation of the GST works to even out GST payments to mitigate against the natural advantages one state might have over another, for example access to mineral resources. While South Australia and Tasmania may have access to superior natural resources to generate renewable energy beyond their per capita share, we should not be financially penalised for doing so. Businesses in South Australia are not against paying our way, but we need to acknowledge that South Australia has already done more than its share of heavy lifting on national emissions reductions by virtue of our state achieving 50% renewable generation in 2016, 3 times the national average of approximately 17%¹ on the way to the national 2020 RET of 23.5%. While South Australia's achievement is positive for the environment, businesses cannot typically hedge with solar or wind farms which has limited our members' ability to access firm contracts that are generally only available through high priced gas generators. Alternatively, businesses have been forced to manage on the spot market with its inherent challenges as the most volatile commodity market in the world, and in many cases involving installation of back-up diesel generators to mitigate against high priced events.

2. In response to AEMO's request for additional questions in section 1.3.1, Business SA poses the following questions:
 - a) Considering current levels of renewable generation in each NEM jurisdiction, particularly intermittent generation and its associated impacts on contract prices for businesses, how can costs associated with future transmission network upgrades under the ISP be allocated to reflect the primary driver is to meet a national, not state-based, emissions target?
 - b) Do existing state-based pricing jurisdictions impact on the assessments under the ISP?
 - c) To what extent does the existing TUOS system appropriately allocate transmission costs between NEM jurisdictions?
 - d) To what extent are AEMO's current grid management restrictions for South Australia, including restraints on wind generation over 1,200 MWs, going to impact on the development of future REZ?
 - e) How should competition issues, and their associated impacts, be addressed in the ISP modelling?

¹ AER, State of the Energy Market, May 2017



3. Business SA acknowledges that AEMO will consider:

The extent and mix of dispatchable capability required to meet consumer reliability expectations.

However, this consideration should extend to meeting consumer 'price' expectations, remembering that the whole premise of the Finkel Review was to solve the energy trilemma; providing energy security and reliability at least cost while Australia contributes to its fair share in the global climate change mitigation effort.

4. AEMO identifies the following feedback from stakeholders on potential barriers to developing REZ:

Allocating the cost of REZ transmission development within regions, or between neighbouring regions if involving an interconnector augmentation, may not appropriately reflect diversity benefits to consumers across all NEM regions.

Business SA concurs with this feedback which speaks to the need to ensure transparency about how the costs and benefits of the REZ are shared across the NEM.

We also acknowledge the feedback on state versus national priorities; *that coordinated development at a national level through an integrated infrastructure development plan may lead to a more effective and lower cost outcome for consumers.* While we agree, again when considering such propositions we need to be mindful that the NEM has state based pricing jurisdictions and AEMO needs to consider consumer outcomes at a disaggregated level, as per the Energy Security Board's advice on the National Energy Guarantee.

5. The current reality of the NEM is that South Australian futures prices for 2018, \$114/MWh, are still 33% above the eastern states average, while this declines to an average 24% premium over 2019-21.² This is despite the recent prices rises experienced in Victoria, New South Wales and Queensland which followed the initial price shock experienced in South Australia over 2015 and 2016.

It is true that weighted average spot market prices are currently lower, but even for the financial year to date South Australia still averages \$94/MWh versus the eastern states average of \$87/MWh³.

Should you require any further information or have questions, please contact Andrew McKenna, Senior Policy Adviser, on (08) 8300 0000 or andrewm@business-sa.com.

Yours sincerely,

Anthony Penney

Executive Director, Industry and Government Engagement

² ASX Energy, Cal Base Futures Prices Tue 30 Jan 2018, www.asxenergy.com.au

³ AER, Electricity Report, 7 -13 January 2018