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Review Panel
Independent Review into the Future Security
of the National Electricity Market
c/o Department of the Environment and Energy
Emailed: NEMSecurityReview@environment.gov.au

Dear Dr Finkel and Panel Members,

RE: SACOSS Response to Consultation

SACOSS is the peak body for the non-government community services and health sectors in South Australia, with a long-standing interest in the efficient delivery of essential services. We thank the Panel for the opportunity to comment on the Independent Review into the Future Security of the National Electricity Market.

SACOSS appreciates the significant work already conducted by the Panel, the Preliminary Report and the opportunity to meet with the Panel over the past 2 months: we value this type of community engagement given the critical importance of the electricity market and power system in the lives of all Australians, especially South Australians.

Energy affordability and the impact on consumers

As you are aware, SA consumers are at their wits-end with paying very high electricity charges with a 'seemingly' less reliable power system at the present time. Affordable energy is an essential service and a community good that is fundamental to a fair and well-functioning society. SACOSS is disappointed that the issue of affordability has been missing from many of the thousands of opinion pieces and responses to recent reviews. Whilst acknowledging that there is always a modest cost to provide any essential service, worryingly it appears an assumption is widely held that it is the individual consumer who should ultimately foot the bill, rather than consideration of the potential for costs to be shared more widely and fairly through other available means, including taxation and/or contributions from industry.

Climate and energy

SACOSS considers that the Review offers the opportunity to better align – not integrate – climate and energy policy. It's important to remember that consumers do not determine which generation sources will be built, operated or retired – the market determines this based on appropriate and timely pricing and investment signals. Despite this, the recent discussions about the integration of climate and energy policy are almost devoid of discussion around the existing pricing signals that are (or are not) being sent. For example,

South Australia now has generally lower market prices when the wind is blowing compared to when the wind is low (which did not occur 15 years ago). This in itself is functioning as a pricing and investment signal for technologies complementary to those conditions, such as storage/ battery and other generation fuels. In this regard the market would appear to be working as is to reduce dependence on older fossil fuel technology.

If we attempt to integrate energy and climate policy rather than align them, we run the risk of not letting energy problems be solved through energy markets, and not having climate challenges solved through climate solutions. The challenge of addressing the harmful impacts of climate change applies across the entire economy, and not just to the energy industry. We believe that simply adding "lowering emissions" to the NEO objectives as some are suggesting, would only create far greater and unnecessary costs for consumers as networks use emissions reduction combined with consumer engagement to further increase their overall revenue requirement. Rather, SACOSS has a long held view that bold emissions targets combined with an emissions trading scheme are the key elements required in respect of getting climate policy right.

The changing market

We agree with the general sentiment running through the Preliminary Report that technology and consumers are driving change. However, we wish to emphasise that this change is resulting from higher pricing signals imposed across the entire energy supply chain, not just the wholesale market.

As technological developments continue rapidly across this and other industries, we note that a considerable range of technological solutions are possible, however the key questions we wish to draw the Panel's attention to are: how much will these solutions cost and who will pay, both over the short and long term?

We also note that there has been some commentary around the notion that the 'real' problem is that the market and its governance arrangements are 'broken'. Yet as recently as late 2015, Prof Vertigan noted¹ the governance arrangements were close to world class and that it was a 'strategic policy deficit' which had led to 'diminished clarity and focus'. We find it extremely hard to comprehend that the entire industry has deteriorated markedly from this point in less than two years.

In saying this we are certainly not suggesting there aren't any significant issues that need to be addressed. Rather we are concerned with ensuring that any reform (some of which could come with a multibillion dollar price tag) is based on sound analysis and justification, not self-interest, lobbyist and media influence, which is largely what we have observed to date.

SACOSS believes these issues are highly complex and are best addressed through the existing institutional arrangements. Further, SACOSS urges COAG Energy Council to fast track full implementation of the entire suite of recommendations from the 2015 Market Governance Review.

¹ Dr Michael Vertigan AC et al, Review of Governance Arrangements for Australian Energy Markets Final Report. October 2015. [Accessed March 3 2017]

Our attached response will focus mainly on the Panel's high-level observations and discussion on the NEO, the SA Case Study and Affordability Impacts on Vulnerable Consumers, leaving the technical discussions to other submissions. As requested, we have kept the response short and to the point but would welcome further discussion with the Panel on these matters.

While we feel confident in the views we are expressing we also note that there is still considerable discussion taking place across our networks about a number of these issues. Given their complexity, this is hardly surprising. One of the things we think has been deeply problematic is when governments have been so quick to rule potential options out long before properly exploring their merits.

We thank you in advance for consideration of our comments. If you have any questions relating to the above, please contact me on Ross@sacoss.org.au or 08 83054222.

Yours sincerely,



Ross Womersley
Chief Executive Officer

SACOSS Response

SACOSS has been active over the past five years in the areas of electricity and gas market reforms through involvement in consultations, public forums and key advisory functions on behalf of consumers. Two of the key lessons we have learnt from this experience involve the complexity involved with the operation of the NEM, and that while change may be slow, this can also be a safeguard to making changes that take many years to materialise, let alone correct. Therefore, the comments below are mixed with a view on the past, an understanding of the present and an eye on the future.

1. Comments on High Level Issues

- A Market Designed in Different Times
 - The NEM is an overlay or construct of the physical power system designed to provide price signals to encourage investment (and divestment where required) in the necessary generation and transmission capacity over the short, medium and long term. We agree the underlying power system technologies and pricing frameworks are changing, and that this influencing the market, but that does not necessarily mean the market design is out-dated. We note for example:
 - The LNG export market was expected and forecast to have a significant supply and price impacts on domestic gas² and that this has occurred. With this high price signal, market participants are beginning to respond³.
 - Business consumers are experiencing business-changing raw energy costs and are responding by exploring new contracting opportunities with suppliers that were unknown 12 months ago⁴.
 - In the past 18 months, with significant discussion on system security, SA Frequency Control Ancillary Service prices have been a significant and imposing burden on market participants and consumers⁵. Therefore, it is pleasing to see a market response beginning to appear that will hopefully address some of these elements and subsequently bring the overall price of these services down⁶.
 - There are times the market may not deliver all outcomes at the right time. From a power system security point of view, this is why AEMO has powers of direction, with mandatory restrictions and reserve trader mechanisms within the National Electricity Rules also in place⁷.
 - Energy policy can be changed at a high level but it appears extremely hard to predict the likely outcomes. As such, we disagree with the current proposal of writing emissions reductions into the NEO. We are concerned that the cost-benefit of making the change and the subsequent consequences when conflict arises between some of the NEO elements, are far more intricate and complicated than most will understand and may only create far greater and

² Quest Energy Report, Australian Coal Seam Gas 2013 (Free Web Version) (May 2013), p 4

³ AFR, AGL Energy chief says gas imports 'important' for supply security, January 13 2017

⁴ The Australian, Major companies in SA join forces over power supply bid, February 21 2017

⁵ The latest check of the AEMO FCAS Payment Summaries data shows price increases of approx. \$100m in 2015/2016 compared to 2013/2014 for FCAS services, predominately in Regulation services

⁶ ARENA announcement on HWF2, <http://www.escosa.sa.gov.au/news/electricity-news/feb17-news-e-gla-hwf2-final>

⁷ NER cl 3.12 and cl 3.20 respectively

unnecessary costs for consumers. We affirm the AEMC remains the best place to consider these types of challenges.

- Need for System Integration
 - We agree with the general sentiment of system integration where it is economic and productive to do so: integration-at-all-costs will not always lead to the most economic and efficient outcome.
- Energy Trilemma
 - As noted by the Panel's Terms of Reference, Energy Security and Reliability is the most important aspect of this review because the cost and impact to our entire community is overwhelming when supply security is not met (see next section).
 - While we agree that reduced emissions are vital for the future, we contend that this is where technological improvements will continue to progressively provide more cost-effective and reliable solutions that will maintain energy security and reliability. Recent media comments from the Clean Energy Council note this is already well underway⁸.

In all the above cases, we must ensure the regulatory environment is arranged such that major obstacles to a market response that should drive prices lower can occur. Therefore, we welcome the Panel's comments on gas market reforms. Within electricity, with 40%-50% of our network costs occurring through transmission and distribution networks, which materially affect the price paid by consumers within the Australian energy supply chain⁹, we affirm that focussing solely on the wholesale electricity market would result in an incomplete focus. We would strongly encourage this review to continue to ensure recommended solutions are not enshrining 'entitlements' into areas of the market and power system that may become increasingly irrelevant or stranded as the technological change toward distributed generation and storage continues to occur. We would suggest a continued focus on TNSP and DNSP businesses and their productivity and adaptability¹⁰.

2. SA Case Study

A key driver of this review was the SA state-wide blackout on 28 September 2016, yet surprisingly we saw limited reference in the Preliminary Report and Public Sessions to the anticipated cost to the SA economy.

Based on the methodologies developed by the AEMC¹¹ and external consulting assistance¹², we have estimated that the impact of the SA blackout was at least \$500m for the first 24 hours of the declared blackout event¹³, and possibly another \$300m across the following few days. This is still without full consideration of all the external cost elements as noted by various individual organisations. As part of this independent review, we believe

⁸ AFR, "Renewables will win the race for energy investment dollars", February 21 2017

⁹ AER, State of the Energy Market 2015, February 2016, Figure 5.5

¹⁰ AER, Transmission network service providers 2015 benchmarking report, AER website [Accessed February 3 2017], p 4

¹¹ <http://www.aemc.gov.au/Markets-Reviews-Advice/Review-of-the-System-Restart-Standard>

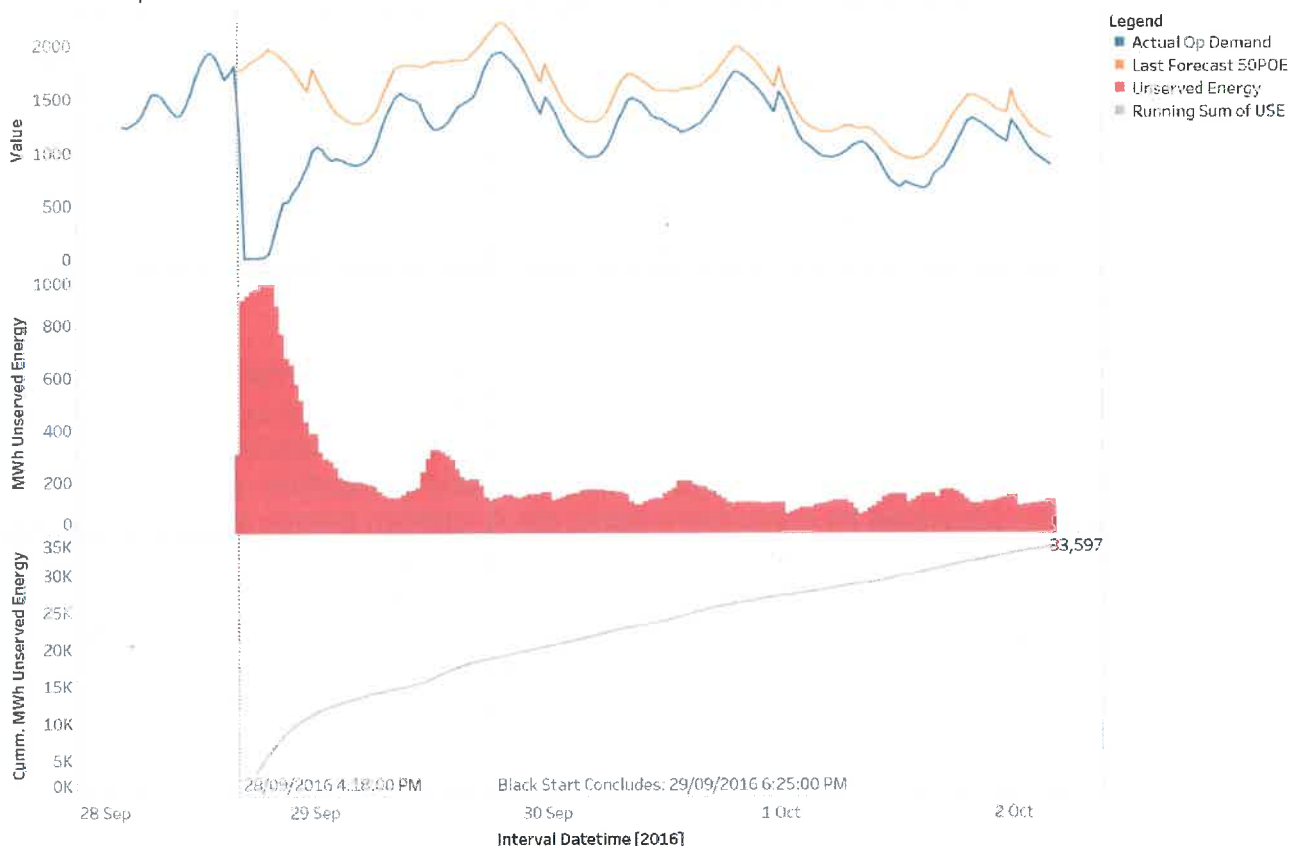
¹² Greenview Strategic Consulting

¹³ <http://www.aemo.com.au/Media-Centre/Preliminary-Report---South-Australia-Separation-Event-1-December-2016>

this number must be clearly calculated and the consequences clearly understood by policymakers, advocates, industry and the wider community.

Figure 1 shows the actual and last forecast demand prior to the event in September. It clearly shows the energy that was not served and the delay in returning 200+MW over the subsequent days.

Figure 1: SA Actual vs Forecast Demand (28 Sep 2016)

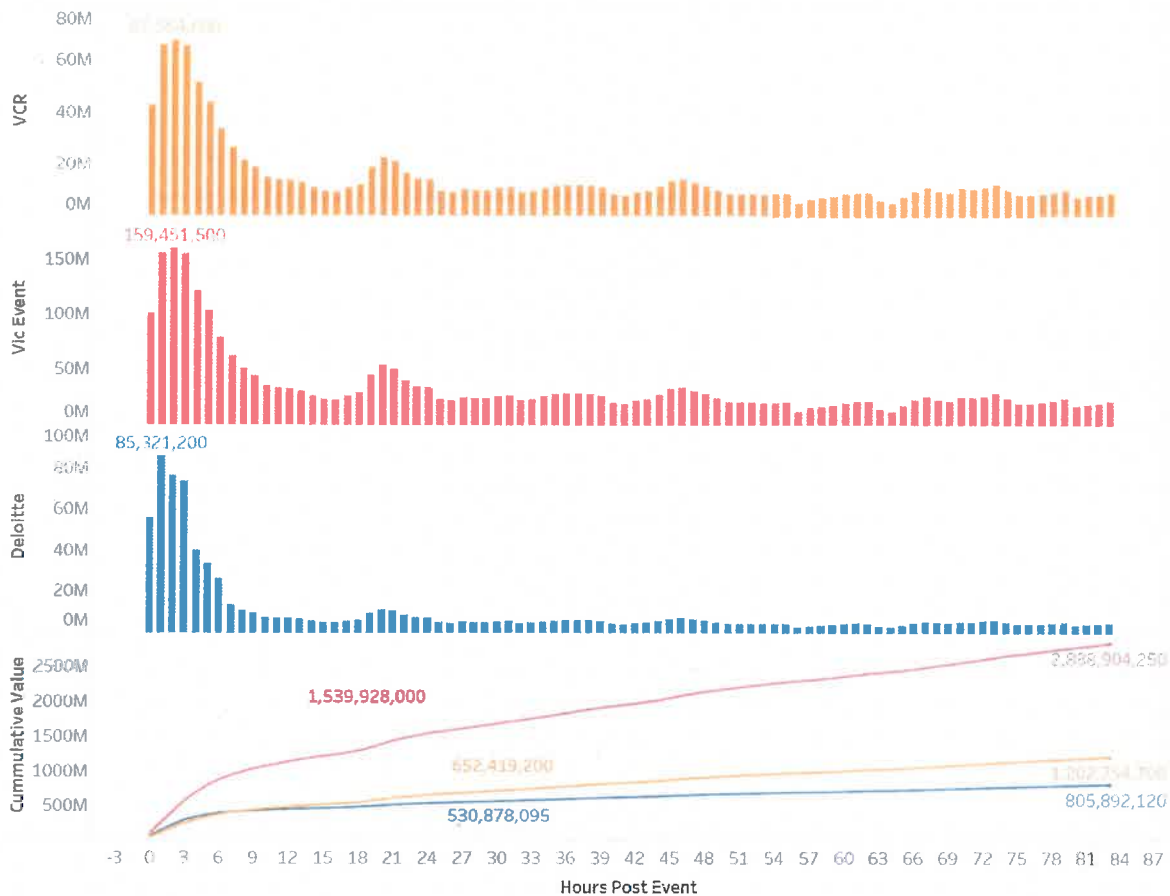


Using the methods discussed in the 2016 System Restart Standard consultation by the AEMC, a formula can be applied to the lost energy to determine an approximate impact at 24 hours and beyond, as shown in Figure 2.

Each of the two AEMC endorsed methodologies (VCR and Deloitte) adopted in the above analysis result in similar numbers. The 'Vic Event' assessment (as further explained in SACOSS' submission to the AEMC's System Restart Standard assessment in 2015¹⁴), takes a larger economic viewpoint based on work conducted in 2007 by the Nous Group. If that same method were applied across the South Australian event, the ramifications would be far more severe.

¹⁴ https://www.sacoss.org.au/sites/default/files/public/151226_Submission%20to%20Reliability%20Panel%20re%20SRAS.pdf

Figure 2: Cost Assessments for SA Blackout - 28 Sep 2017



We affirm these are incredibly important numbers to understand and appreciate, not for the purposes of blame, but because it brings into clear focus the reality of ‘messing with the grid’. Whilst the cause on this occasion was weather-related and likely outside the bounds of forecasting knowledge, it provides a historic insight into what can happen when things go wrong – irrespective of the cause.

This should not be a catalyst for a response that involves a ‘do anything, whatever it takes’ approach, but more a measure of understanding the enormous consequences of decisions.

3. Affordability Impacts on Vulnerable Consumers

SACOSS appreciates the Panel noted affordability and impacts on vulnerable consumers in its Preliminary Report.

We acknowledge there are many potential solutions to address the issues noted in the Preliminary Report, but at the end of the day, it is the consumer who will pay for these outcomes through either direct energy supply costs, taxes (including subsidy schemes) and through higher cost of products and services. Our major concerns at the moment include:

- We appear to be in danger of incentivising and building an electricity system of distributed storage capacity at household level rather than at community or industrial level: this does not seem economically efficient or in the best interests of the wider community;

- If more distributed and isolated solutions occur, the impact of supporting the existing system will fall to those least able to transition, as noted in the paper: this is an unacceptable outcome. St Vincent de Paul noted a similar consequence recently in a decision by the Victorian government to increase feed in solar tariffs¹⁵; and
- 'Regulatory frameworks' and 'policy wording' play little role in the lives of struggling families who spend a disproportionate amount of their disposable income on energy (both gas and electricity). According to the last Household Expenditure Survey¹⁶ (2009/10), the lowest income quintile household expenditure on electricity nationally (3%) was 1.5 times higher than the average household expenditure (1.96%). It's important to note that since this data was first collected we expect that the expenditure gap will have grown even larger due to the big uptake of household solar (especially in SA) among middle to high income quintiles. As household solar and battery storage become more pervasive, this disproportionate electricity expenditure gap between income quintiles is likely to keep growing. It is highly unlikely that most households across the two lowest income quintiles will ever have the means to invest in products or services which will enable them to minimise their future energy costs (for example few could afford to install a \$15k-\$20k solar/battery storage system and reap the benefits over time).

So, whilst we appreciate the need for residential consumers to retain choice and control, this needs to be balanced against the reality that many consumers are likely to be satisfied to forego some choice and control to ensure they receive low cost, reliable electricity.

Finally we note that while there are already existing provisions for hardship in most retail contracts, these existing systems and processes are not designed to cope with a doubling or tripling of 'hardship consumers' should energy affordability continue to deteriorate.

¹⁵ AFR, Victoria doubles feed-in tariff, slugs poor, to drive solar, 28 February 2017

¹⁶ ABS, 6530.0 - Household Expenditure Survey, Australia, 2009-10