



AUSTRALIAN STEEL INSTITUTE

8 March 2018

Energy Security Board

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Australian Steel Institute (ASI) submission to Energy Security Board National Energy Guarantee - Consultation Paper

The Australian Steel Institute (ASI) welcomes the publication of the National Energy Guarantee (NEG) consultation paper and the call for public submissions.

The NEG has a real opportunity to improve reliability and put downward pressure on prices. Further, a balanced and sustainable energy solution will return certainty and security to Australian businesses, and support innovation and competitiveness.

The NEG represents a significant shift in the way that the wholesale electricity market operates. The policy must be sustainable, support an efficient and competitive market that has end users' best interests at the forefront.

Central to the ASI's recommendations around the implementation of the NEG are the following key areas:

1. Impact of the NEG on the existing wholesale contract market.
2. Cost-effectiveness.
3. Impact on competition.
4. Transparency across areas of generation, distribution and retailing of energy.
5. Accessibility for all Australians around the energy security discussion.

The Australian Steel Institute looks forward to working with the Energy Security Board, Federal Government, regulators and the States to ensure energy security and a balanced approach to support industry competitiveness.

Yours sincerely,

Tony Dixon

Chief Executive

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Energy Security Board National Energy Guarantee - Consultation Paper

Submission by the Australian Steel Institute (ASI)

8 March 2018

**Tony Dixon,
Chief Executive.**



Australia's energy security guarantee must be balanced and support industry competitiveness

The Australian Steel Institute (ASI) welcomes the publication of the National Energy Guarantee (NEG) consultation paper and the call for public submissions.

Executive summary

The ASI is concerned at the negative effect of rising electricity prices and declining reliability on the competitiveness of its members; and the flow-on effect to Australia's manufacturing, building and construction industries.

Energy costs are consistently ranked in the top three business expenses for small to medium sized enterprises alongside rental/leasing costs and staff costs. The increase in domestic gas prices since 2015 has cost Australian gas users approximately \$3.5 billion per annum. For electricity, the cost to users of rising electricity prices is over \$3.7 billion per annum.

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Central to the ASI's recommendations around the implementation of the NEG are the following key areas:

1. The impact of the NEG on the existing wholesale contract market.
2. Cost-effectiveness.
3. Impact on competition.
4. Transparency across areas of generation, distribution and retailing of energy.
5. Accessibility for all Australians around the energy security discussion:
 - a. Clear definitions and terminology
 - b. Consistent language and explanations
 - c. Reduce jargon, acronyms and political rhetoric.



Snapshot of steel in Australia

- The Australian steel industry includes all iron and steel manufacturing, fabrication and casting activities.
- The steel industry is made up of small, medium, large and very large enterprises, with an annual turnover of \$29billion.
- **Jobs** in steel:
 - Primary Metal and Metal Product Manufacturing – 52,100 employees
 - Fabricated Metal Product Manufacturing – 83,700 employees
- The **multiplier** for Australian steel products:
 - For every \$1 million, \$1.87 million in value added for the economy.
 - For every \$1 million, 16 employed FTE in the economy.
 - For every \$1 million, \$165,000 in welfare savings.
 - For every \$1 million, 590,300 in tax revenue. (*State of Steel Report, Type I and Type II, page 4 and 5*)
- The Australian structural fabrication industry is characterised by a very large number of fabricators with a total output capacity of approximately 1.6 million tonnes per annum including some product used in repetition manufacturing like lintels, truck body and trailer fabrication.
- The integrated Australian steel chain typically holds more than two million tonnes of inventory available through distributors located on over 300 sites across the country.
- Australia has one of the most dynamic steel sectors in the world.
- Australia is recognised as a world leader in the use of high tensile materials and in coating technology.
- Approximately 5.3 million tonnes of steel are produced in Australia annually.



Recommendations

The Australian Steel Institute make the following recommendations:

- 1. The transition to greater reliance on renewables balances:**
 - Affordability
 - Reliability
 - Emissions reduction.

- 2. Australian energy policy is agnostic in terms of energy generation technology and recognises true costs.**
 - Renewables need to reflect the cost of making them reliable/dispatchable.
 - All energy sources need to reflect their environmental impact.
 - Care is required in the design of the scheme to ensure the additional costs required to satisfy the reliability and emissions guarantees do not counter the improvements in affordability anticipated through increased supply.
 - Reliability and abatement should not come at any cost.
 - The cost of compliance should not be under-estimated. Compliance requirements need to be fit-for-purpose without being onerous and costly to large energy users and other consumers.

- 3. The NEG encourages and facilitates active investment in new and increased generation capacity and dispatchable, in all states if it is to succeed in putting downward pressure on prices.**
 - The NEG will need to be viewed as ‘investment grade policy’ to attract new investment in dispatchable capacity.
 - The Energy Security Board (ESB) states that a greater level of contracting with existing generation will encourage investment, offering of capacity into the spot market to meet contractual obligations; with the NEG representing a financial solution to a physical problem.
 - Mechanism to ensure clarity and greater transparency is needed to determine whether:
 - Retailers are currently over or under-hedged.
 - The market will need to be over-contracted to meet physical reliability standards.
 - Increasing contract volumes will deliver more physical capacity.

- 4. Ensure there is adequate competitive tension in both generation and retail to prevent ‘gaming of the system’.**
 - The NEG gives electricity retailers a lead role in implementing the reliability and emissions targets.
 - It will be very important that retailers (and gen-tailers) do this in a way that is transparent and lowest cost for electricity consumers.
 - The ACCC has a critical role in monitoring the effectiveness of the NEG, including ongoing monitoring of electricity prices, market behaviour and recommending reforms to ensure there is adequate competition.
 - There should be consideration to amending NEM rules where necessary to prevent gaming.



5. Exemption for emissions-intensive trade-exposed (EITE) industries

- It is understood that the imposition of carbon costs on Australian (EITE) industries (and not by international competitors) threatens Australia's trade competitiveness.
- The CPRS, carbon tax and RET all recognised this principle, by including mechanisms to shield or exempt EITE industries from the full cost of these policies.
- A similar exemption or shielding mechanism must be put in place for the emissions guarantee component of the NEG.

6. Transparency is critical for large C&I customers

- The discussion paper proposes a couple of options for imposing the liability to meet the reliability guarantee directly on C&I customers.
 1. Impose on customers who participate directly in the wholesale market, or
 2. Place it on large C&I customers who buy through a retailer.
 - These proposals and the consequences of such arrangements need considered based on the principles of cost-effectiveness, competition and transparency.
 - Whilst the intent is to provide the electricity sector with greater investment certainty, in the current volatile and high-priced environment, it is not necessarily in customers' interests to contract long-term.
 - There also need to be mechanism in place to ensured retailers don't 'double dip' – i.e. try to pass on their costs of meeting the reliability guarantee to large C&I customers, even though those customers were themselves directly liable for it.

7. A fair and competitive solution for small to medium sized enterprises

- The majority of ASI members are running small to medium enterprises, in energy intensive industries.
- There is a critical need to reduce complexity and provide greater clarity and 'fairness' around pricing and discount structures for small to medium business, particularly for those in energy intensive industries.
- ASI's Corporate Partner, Make it Cheaper, identify energy savings for eight out of 10 bill comparisons across small to medium sized enterprises, estimating these businesses can achieve on average a saving for a SME is \$950 per annum.
- This indicates that for small to medium sized enterprises:
 - There needs to be greater clarity and transparency around discount structures.
 - That many are paying too much for their energy.
 - That customers do not fully understand all the charges and struggle to compare rates to put in place a better deal.
- Further, many of companies in 'energy intensive industries' are categorised as large market customers (LMEs – as opposed to SMEs) and contract differently.
- These organisations are often small to medium sized enterprises and require a fair and competitive solution, and greater transparency through the tendering process.



8. Cost to business

- There is a risk that meeting reliability and abatement targets via the contract market could result in unintended consequences. It is essential for enterprises of all sizes that the Energy Security Board consider these as part of the NEG. For example:
 - Increase contract complexity.
 - Fragment current contract products.
 - Reduce transparency of pricing structures.
 - Decrease competition.
 - Decrease market liquidity.
- While the NEG is based on the electricity sector delivering a proportionate share of emissions reduction, it will be critical to understand the abatement policies that will be applied to other sectors and the abatement burden they will be expected to shoulder.
- The outcomes of the Federal Government's 2017 climate change policy review are critical here and should be considered as part of the NEG.

9. Clarity and accessibility of the energy security guarantee discussion for small to medium sized business owners and consumers ... as well as big business

- There is a lot of information in the media and the political sphere that is overly complex, politicised, furthers a specific political perspective or generation method - that confuses consumers and business owners.
- The fragmentation of policy across the industry adds to the confusion.
- ASI members need clarity to guide them through the jargon and perceived complexity to help identify savings for their business.
- This clarity and depoliticising of rhetoric is essential in ensuring Australian energy policy is balanced and supports industry competitiveness.

The Australian Steel Institute looks forward to working with the Energy Security Board, Federal Government, regulators and the States to ensure energy security and a balanced approach to support industry competitiveness.

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