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Energy Security Board
COAG Energy Council
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Chamber of Commerce
and Industry South Australia

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Working for South Australia

Dear Board Members

I write in response to your request for submissions on the National Energy Guarantee (NEG) draft detailed design consultation paper, and provide comments subsequent to Business SA's previous submission dated 8 March 2018 and our representation on the NEG Technical Working Group via Hamish Dillon, Senior Associate at The Energy Project.

Executive Summary

- Business SA still supports the continued development of the NEG, but we are mindful that the policy remains quite complex and we do have some concerns about what that means for compliance costs which are ultimately going to fall back onto already struggling electricity consumers, particularly businesses
- From Business SA's representation on the technical working group, we are satisfied that the ESB has carefully considered all aspects of how the overarching NEG framework can be best delivered, despite there being some points of difference amongst the ESB and stakeholders
- Business SA welcomes the strong focus on transparency of tradeable instruments related to demonstrating compliance with the NEG, particularly to ensure that vertically integrated retailers do not artificially inflate the costs of reliability between their business units, increasing costs to third-party retailers and ultimately consumers
- The ESB and Governments at both a State and Federal level need to bear in mind that ultimately this policy, and others associated with it, are about protecting the long-term interests of consumers and contemporary political differences should not derail necessary long-term decisions on energy policy.

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





Key Policy Points

1. Business SA continues to support the advancement of the NEG to ensure there is policy certainty for a reliable and affordable electricity grid as Australia transitions towards a low carbon environment. While the NEG may not have been the first choice of policy solutions, setting aside the fractious political climate surrounding this policy, Business SA argues a reliability guarantee framework is necessary and the way in which it assures such reliability must be done in a manner which optimises the cost of the desired outcome.
2. Business SA supports the market transparency features of the NEG, including the liquidity provisions which are particularly relevant to South Australia. While the ACCC's recent Retail Electricity Pricing Inquiry Final Report stopped short of forcing generators to divest assets, which is not an unreasonable position to take, it is clear that if we accept the existing levels of market concentration are unlikely to change, at a minimum the NEG must increase transparency on the costs of third party retailers accessing firm hedge contracts through local generators.

Notwithstanding, the new central repository should also post 'transacted' prices, and not just bids and offers. This will ensure that the 'actual' cost of reliability can be accurately tracked and known to all parties.

3. As we argued in our previous submission, we now welcome the ESB introducing a 5MW threshold to the NEG to ensure the vast majority of small to medium sized businesses are excluded from its coverage. We accept that the policy cannot be tailored to suit every single business, no differently to any other Government policy reform, but in reality if the coverage threshold is raised too high, then the potential effectiveness of the guarantee may come into question.

Notwithstanding, if a business below the 5MW threshold has the opportunity to comply with the NEG instead of directly or indirectly paying a retailer to do so, the NEG should be structured so as to afford them this opportunity. Considering there are many businesses now operating in the spot market, albeit mostly through a retailer, if a retailer faces a cost for NEG compliance which a consumer could avoid their share of at a lesser cost, the NEG should facilitate such action as long as this does not threaten the overarching policy objective of the NEM to guarantee reliability. The corollary being that voluntary compliance would also need to be attached to penalties for failure to comply.

4. Overall, feedback from Business SA members still suggests that the NEG remains quite complex and while again this partly relates to the chosen policy being a political compromise, the ESB needs to be very mindful that the more complex the policy is, the more costs will be associated with its compliance which could ultimately defeat the overarching policy objective of assuring reliability at an affordable cost.
5. Business SA is aware that there may be instances where even if retailers are fully hedged, there may still be a reliability shortfall requiring new generation. In this instance, and assuming AEMO has to procure a reserve, there would be a cost passed back to the market and consumers. While that may not be desirable and we would anticipate the market could deliver this outcome at a lesser cost, this should be the only instance where consumers bear any cost for the NEG.

If a retailer has a known reliability shortfall and does not act to address it within the appropriate timeframes, existing customers of that retailer should not pay any associated penalty for that commercial risk taken by the subject retailer. This needs to be made explicit in the final design of the NEG.

Furthermore, if a retailer has a known reliability shortfall which they fail to address, they should pay the full 'proportionate' cost for AEMO to procure that reserve if necessary.

6. While Business SA is not advocating a capacity market, the ESB needs to be mindful to ensure the NEG is structured to provide enough notice for a commercial decision to be made to build new generation, if that is required.
7. Business SA supports the NEG's strong focus on demand response, but we are also mindful that its effectiveness will be contingent on broader market mechanisms to both facilitate and unlock all the existing value of demand response, including through third-party aggregators. It will be important for the ESB to promote progress in this area to ensure sufficient demand response is available to meet any potential reliability shortfalls under the NEG, avoiding the need for potentially unnecessary new generation construction or more costly use of existing generation.