AUSTRALIAN ENERGY COUNCIL

Department for Energy and Mining, South Australia

Submitted to: https://yoursay.sa.gov.au/regulations-for-planning-and-forecast-functions

20 December 2024

Dear Sir/Madam

AEC Submission to SA Firm Energy Reliability Mechanism - Proposed Scheme Design Consultation Paper

The Australian Energy Council (AEC) welcomes the opportunity to make a submission in response to the SA Firm Energy Reliability Mechanism (FREM) - Proposed Scheme Design Consultation Paper (Consultation Paper).

The Australian Energy Council is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

The AEC would welcomes the SA government proposal to support firming generation capacity which includes generation technologies like gas and liquid fuel technologies which are critical to supporting reliability outcomes in a high renewable energy system. We support the SA government's objective to ensure there will be adequate firming capacity to minimise the risk of unserved energy events.

This submission focusses its commentary on some detailed design elements which we think warrant further attention, and includes some suggestions to better achieve the objectives of the SA Government. They key issues are as follows:

- Existing plant
- Contracting revenues and complexity
- Differentiation between long duration firm capacity types
- Transparency
- Alternative approaches

Existing plant that does not want to be part of scheme

Existing plant that is not planning on exiting the market but does not want to be part of the scheme should be able to remain completely unconstrained in how they choose to manage their asset under the NER. The scheme allows them to bid "no contract" and they are excluded from the scheme's revenue sharing and financial reporting obligations. However, they have to commit to be available in the relevant year and it is proposed that they would be subject to statutory penalties for exiting the market ahead of the year for which they have committed capacity. Hence, the SA government is proposing to exert control over how an owner manages its assets (over and above the requirements of the NER) while offering nothing in return except penalties for non-compliance.

Contract revenues and complexity

The FERM includes contract revenues for the purposes of calculating payments under the scheme. We have some concerns regarding how complex the scheme may become because of the fact that businesses often

Level 13, 575 Bourke St
Melbourne 3000
GPO Box 1823 Melbourne Victoria 3001

P +61 3 9205 3100
E info@energycouncil.com.au
W energycouncil.com.au

ABN 92 608 495 307

operate portfolios of assets and have retail businesses as well. This can then open up issues around transfer pricing and how revenue is allocated across the entire business. We suggest that it would helpful if the SA government could release some pro-forma FERMA term sheets.

While we are not sure if the scheme will adversely affect contract market liquidity we consider it to be an important risk that needs further comprehensive analysis to better ascertain what the expected outcome would be.

Differentiation between long duration firm capacity types
The Consultation paper defines long duration firm capacity as greater than 30 MW that can dispatch for a period of at least eight hours. Further information as to how technologies that offer more than this will be considered would be helpful for market participants. For example, a gas-powered generator (GPG) can run as long as the gas network can supply it and is not dependent on weather. In contrast, an eight-hour battery is limited to that and requires energy to recharge, which may not be available in a renewables drought. Our discussion with SA government officials indicated they will be taking a portfolio approach to generation mix and it would be helpful to see how this is determined.

Transparency
The costs of this scheme will be paid by SA energy users and be collected through TUOS charges. The AEC firmly believes these amounts need to be publicly reported to enable households, businesses and market analysts to calculate the full cost of the scheme and its contribution to their electricity prices.

Alternative approaches
We note from our discussion with SA government officials that other approaches were considered. In our view it would have been better if there was consultation on alternatives. The FERM is another scheme that underwrites participant generator revenues and thereby creates further distortions in the market which is already subject to other underwriting schemes for storage and renewables as well as bespoke bilateral agreements between state governments and certain coal-fired generators. We think it is important to formally review the scheme with respect to its efficacy and any other issues that need addressing, after two years of operation.

Any questions about this submission should be addressed to the writer, by e-mail to peter.brook@energycouncil.com.au or by telephone on (03) 9205 3116.

Yours sincerely,

Peter Brook
Manager Wholesale Policy
Australian Energy Council