



3 March 2017

Ms Lyn Camelleri  
Director  
Adjudication  
GPO Box 3131  
Canberra ACT 2601

By Email

Dear Ms Camilleri,

### **Response to submissions – A91567 & A91568 SACOME & Ors submission**

The following letter details the South Australian Chamber of Mines and Energy (SACOME) responses to the submissions received in relation to the authorisation application (A91567 & A91568). Submissions were received from:

- Ai Group
- Origin Energy
- National Irrigators Council
- Dan van Holst Pellekaan MP
- ATCO
- Business SA
- Steven Griffiths MP
- Adrian Pederick MP
- Tim Whetstone MP
- Port Pirie Regional Council
- Whyalla City Council

The majority of the submissions received were supportive and reaffirm the public benefit of the proposal. The focus of SACOME's responses is on the submission that outlined concerns with the proposal, specifically, the submission from Origin Energy ("**the respondent**").

The respondent replied to questions 2, 4, 5, 7, 8, 9, and 12 in the public consultation document provided by the ACCC. In reviewing this submission SACOME identified the following key issues:

- 1) Individuality of final contracts
- 2) Incentivizing new generation
- 3) Size of load and retailers
- 4) South Australian market

#### **1) Individuality of final contracts (Questions 2 & 7)**

As specified in the executive summary of SACOME & Ors submission (1)(a)(iii) and later in 3.1(d), individual contracts will be entered into with each Participating Member. However the proposal that the Participating Members will ultimately enter into individual contracts with the chosen electricity supplier(s) will not reduce the public benefits of the aggregated load.

The purpose of the joint electricity purchasing group is to aggregate the electricity demand for the supply of the combined loads, and the Participating Members will go to market on the basis of that overarching aggregated load. Furthermore, the proposed conduct anticipates that the individual electricity supply contract will be on substantially similar terms and conditions for each Participating Member.

SACOME concurs with the responses to Question 2 with regards to system reliability and security being the responsibility of the market operators. However, SACOME recognises that recent events where a lack of online synchronous generation have led to power disruptions have heightened the need to ensure that existing or proposed synchronous generation has enough firm load to remain online and be financially viable.

## 2) Incentivising new generation (Questions 2, 4, 8, 9, & 12)

SACOME recognises that misinterpretation may have arisen from the bullet points provided in the documentation and summarised notes in the relevant sections on public benefits. In section 6.4 on page 14 of the supporting submission the following is noted (emphasis added):

*The prospect of a joint tender may provide an **improved incentive for new market entrants or existing electricity suppliers to expand their current operations, as well as an incentive for existing electricity suppliers not to cease or roll back operations in South Australia.** This may increase the mix of generation available in South Australia, and ensure that competitively priced electricity is available for the Participating Members and for other consumers of electricity.*

Benefits from this collective load could incentivise new generation or enhance the financial viability of mothballed or underutilised generation. This proposal is not limiting the benefits to new synchronous generation, rather opening the prospect of other generation that is mothballed or underutilised due to current market economics. Additionally, advice SACOME has sought from market analysts and participants is that a firm load of 150MW or more could incentivise proposed new generation that has stalled due to a lack of firm capacity to contract.

In response to Questions 8 and 9, the displacement of existing generation under low demand growth scenarios could result in older inefficient plant retiring, thereby allowing efficient underutilised plant to re-enter the market. Particularly for gas generators a plant with a lower heat rate and higher thermal efficiency will produce power at a lower short run marginal cost than that of an older higher heat rate plant, which in turn can result in lower wholesale prices.

## 3) Size of collective load and retailers (Question 4)

In response to Question 4, last sentence, the advice SACOME has sought from market analysts and consultants suggests that a firm load of greater than 150MW in the South Australian market is sufficient firm load for the main generation retailers in the State. It is intended that the tender will be issued to a broad range of potential suppliers (both generators with appropriate licences and retailers), therefore encompassing a large cross section of suppliers that have the capacity to supply the firm load. In addition, the request for tender will be designed to elicit the broadest range of potential supply options from the market. For example, it is possible that a combination of suppliers could submit a proposal which achieves the objectives of the Participating Members.

#### 4) South Australian market (Question 5)

While South Australia is a part of the National Electricity Market, SACOME argue that there are a unique set of circumstances in South Australia. The high penetration of non-synchronous generation (42.2%, AEMO 2016) has resulted in high energy and contracting costs that do not exist in other States. Until there is a unified NEM price for electricity the South Australian market will continue to operate as a unique market subset in the NEM due to its composition and system costs.

If you have any queries in relation to any aspect of the above, please do not hesitate to contact Dr Nigel Long, Director, Industry & Government Advocacy on (08) 8202 9999 or by email [nlong@sacome.org.au](mailto:nlong@sacome.org.au).

Yours sincerely,



Rebecca Knol  
Chief Executive Officer