SACOME Energy Policy 2019

South Australian Chamber of Mines & Energy

The leading industry body representing the resources sector in South Australia

1. Policy Context

The South Australian Chamber of Mines & Energy (SACOME) *Energy Policy 2019* is a product of consultation and collaboration with member companies.

It is a clear statement of energy policy principles reflecting the priorities of SACOME member companies and is intended to inform and guide Federal and State policy makers at a time when energy generation and supply in Australia is undergoing a period of unparalleled transformation.

SACOME's Energy Policy 2019 aligns with its *Powering Ahead – South Australian Resources Sector 2024 Vision* in articulating strategic investment in energy affordability. The *2024 Vision* similarly recognises that energy security and affordability are major issues for the resources sector.

The resources sector is both a creator and consumer of energy.

Historically this has been through the production of commodities like coal, oil, gas and uranium which remain integral to electricity generation both nationally and internationally; and as a feedstock to major commercial and industrial processes like cement, petroleum, steel, and aluminium production.

Increasingly, the resources sector's contribution as a 'creator of energy' is through production of the critical minerals used in the renewable energy supply chain including copper, lithium, graphite and cobalt.

The development of renewable energy generation and transmission network assets fundamentally relies upon the resources sector, without which these physical assets would not exist.

While the need for affordable, reliable energy is common to all users, the energy needs of the resources sector are distinct given the scale of operations, the quantity of energy required to power them, the consequences of an interruption to supply, and access to energy as a pre-requisite to project development.

Accordingly, the policy settings relevant to the energy supply chain are of critical importance.

Australian energy policy has been subject to more than a decade of politicisation, particularly in the space where climate change and energy policy has overlapped.

In 2017 the *Independent Review into the Future Security of the National Electricity Market* (the 'Finkel Review') argued that years of policy inconsistency on energy and climate change has

hampered investment, with financiers wary of backing energy assets where policy settings have been uncertain and politicised. This paradigm remains largely unchanged.

A lack of clear direction at the Federal level resulted in Australian States and Territories pursuing their own energy policy agendas with a range of unplanned consequences. The lack of a clear, agreed national energy policy has led to government investment in state-owned generation projects, the offer of financial incentives and subsidies for private generation and the energy market operator having to issue direction to ensure reliability and security of supply.

The outcome of this disparate approach has been the rapid, uncoordinated development of subsidised renewable energy generation; the retirement of aging coal-fired generation plants (due to the economic impact of new renewable generation); and a National Electricity Market (NEM) that has been forced to reconceptualise itself in the context of increasing amounts of non-synchronous generation and a tightening supply/demand balance.

The damaging partisanship which has characterised the debate on energy and emissions policy has operated to further delay progress on one of the most significant policy challenges in recent Australian history.

Independent of the debate over anthropogenic climate change, major companies have accepted that accounting for emissions is an operational reality. In this respect, a risked-based operational approach has resulted in corporate leadership on this issue in the absence of clear direction from government.

A decade of policy division has left the east coast of Australia with some of the highest electricity and gas prices in the advanced world, along with outages and volatile prices that have shaken industry's confidence and threatened business viability.

These effects have wide-ranging implications for the whole of the Australian economy, including future investment by major operators if the policy malaise is left unchecked. In this context prioritisation of an immediate, coordinated and bipartisan public policy approach is of critical importance.

South Australian Context

South Australia has been at the vanguard of energy change on multiple fronts, including the rising cost of gas; the transition to renewable generation; and the high energy costs that this transition and lack of policy predictability has brought.

Rising Gas Costs

The majority of electricity in South Australia is provided by gas-fired generation capacity, comprising 51.3% of total generation. Wind generation provides the next highest proportion

of total generation at 39% and rooftop photovoltaic (PV) providing 8.2% of total generation.[1] In addition, power is supplied (and sent interstate) via the interconnector with Victoria.

This use of gas in the generation of electricity means that the price of gas has a direct effect on the price of electricity as well as the cost of gas-reliant industrial processes.

The East Coast Gas Market is an integrated supply market where gas can be delivered from one state to another subject to transport capacity. South Australia has historically sourced natural gas from the Cooper and Eromanga basins, and more recently from Victoria with the commencement of the SEA Gas pipeline in 2004.

The crude oil price decrease in 2015 and 2016 saw exploration companies and gas producers limit exploration investment resulting in a smaller volume of new supply that is currently being developed from resource to reserves to replace production volumes available to the market.

In addition, recent changes to the liquified natural gas (LNG) market have resulted in changes to domestic contract dynamics such that some supply is being preferentially exported as LNG.

The export LNG market has provided gas producers with an alternative pricing structure to the domestic market, and, together with the increased cost of new production has seen domestic gas prices double since 2015.

The Australian Competition & Consumer Commission's (ACCC) advised in April 2019 that Commercial and Industrial (C&I) gas users in the East Coast Gas Market that have contracted supply in 2019 will pay at least $9/GJ; that most prices offered for gas in 2020 have been above $10/GJ based on an upward price trend of Asian LNG spot prices in 2018; and that gas prices remain a critical issue for C&I customers.[2]

This supply constraint created by LNG export, combined with exposure to international pricing has resulted in ongoing increases in domestic gas (and electricity) prices for customers of domestically produced gas.

Supply has been further constrained by the imposition of restrictions on coal seam gas extraction in New South Wales and a moratorium on all onshore exploration in Victoria, resulting in stranded gas resources that could be used to alleviate supply and price pressure. The moratoria imposed in South Australia compounds this issue.

[1] Australian Energy Market Operator (AEMO) *South Australian Electricity Report November 2018*, p.28
[2] Australian Competition & Consumer Commission *Gas Inquiry Report 2017-2020: Interim Report April 2019*

Transition to Renewables

The high penetration of wind and rapidly growing connection of solar photovoltaic (PV) generation in South Australia demands additional planning and investment to maintain adequate frequency control and system reliability due to its asynchronous nature.

Significant work is already underway in developing energy storage options in South Australia, including the construction of the Hornsdale Power Reserve, as well as the Kanmantoo and Middleback pumped hydro projects. Continuing development of energy storage options will continue to be a valuable mitigating force for maintaining adequate frequency control and system reliability given South Australia's increasing proportion of asynchronous generation.

Lack of Policy Predictability

SACOME has also demonstrated leadership and innovation in responding to the rising cost of energy and lack of energy policy predictability.

Its flagship Joint Electricity Purchasing Group (JEPG), authorised by the Australian Competition and Consumer Commission (ACCC), established a mechanism for collective purchasing of electricity by the SACOME consortium.

This has resulted in the proposed development of the 280 MW Cultana Solar Farm by SIMEC Energy Australia, significantly lower electricity prices for JEPG members and ultimately greater competition within the South Australian electricity market.

The JEPG can rightly be viewed as an industry-led solution to policy and market failure.

2. Statement of Policy Principles

SACOME and its member companies advocate for adoption of the following Energy policy principles:

1. **Affordability**

   Reduction of power prices is critically important in ensuring the viability of South Australian businesses.

   Affordable energy is a critical economic driver and directly impacts operational viability and international competitiveness. Public policy measures must deliver affordable energy at least cost to end users.

Many SACOME members operate in international commodity markets and compete with industry incumbents in other parts of the world. As such, local energy price comparisons are of less relevance than how these local prices are benchmarked against major competing nations.

A key policy objective must be for South Australia and the nation to regain its international energy competitiveness.

2. Reliability

Reliable energy supply is crucial in ensuring the continuous operation of business across the 24-hour cycle.

Supply interruption has resulted in severe economic losses to South Australian business as evidenced by the $367 million cost of the state-wide blackout in 2016, with approximately $115 million of this borne by major resources companies.

While development of an interconnector between South Australia and New South Wales aims to increase reliability of supply, detailed consideration must be given to potential increased energy costs for South Australian users due to increased demand for South Australian renewable energy. This potential change in market pricing has precedent in the LNG market where overseas demand means international LNG prices now set the benchmark for domestic customers.

Dispatchability of generation should be pursued as a key objective, reflecting the importance of energy reliability as a policy principle.

3. Consistent & Integrated Approach

Long-term consistency in national energy policy is needed to resolve the regulatory uncertainty that has operated as a disincentive to investment in energy generation.

Policy makers must provide a stable regulatory environment to facilitate high-cost and long-term investment in new energy generation.

Operational certainty must be afforded through stable national energy policy.

The Council of Australian Governments (COAG) Energy Council must focus on harmonisation and cohesion of energy policy and progress practical solutions grounded in bipartisanship.

An integrated policy approach to developing new energy generation should be a priority of government.

Such an approach recognises that new generation will come from a range of sources and that critical ancillary services such as frequency control, system strength and reliability and black-start capability must be maintained.

The necessary mechanisms to integrate these diverse energy sources into the NEM should be incorporated into this policy approach.

AEMO's Integrated System Plan is an important first step in this direction and should continue to receive bipartisan support.

A key objective should be a NEM framework aligned with national energy policy that facilitates a competitive and liquid energy market.

4. Removing Barriers to Energy Supply

Implementing policy settings that remove barriers to energy supply must be a priority for government.

Policy settings that increase domestic gas availability at lower cost should be a priority for government, both in terms of developing additional gas resources and the infrastructure required for its transportation.

Removal of moratoria, facilitating land access and removing constraints to investments are practical measures for pursuit by government to address supply barriers.

5. Increasing Energy Storage

Continued development of energy storage options is critical in addressing the increasingly asynchronous nature of South Australian generation and the extreme pricing events that have been experienced in recent years.

All forms of energy storage should be considered, with a merit-based approach taken toward project development.

6. National Emissions Policy

Major resources companies operate in a global environment in accordance with international emissions obligations. This has resulted in the resources sector having accepted the operational reality of accounting for their emissions and meeting their responsibilities as corporate citizens in this regard.

The Australian Government's Emissions Reduction Target is 26-28 per cent below 2005 levels by 2030; a 50-52 per cent reduction in emissions per capita; and a 64-65 per cent reduction in the emissions intensity of the economy between 2005 and 2030.

While this target provides an important national goal, a coordinated national approach to its realisation continues to be thwarted by an inability to reach political consensus.

This has resulted in considerable wasted time and effort for industry stakeholders who have engaged with multiple policy development processes – the National Energy Guarantee being the most recent example of this.

Energy and emissions policy are interlinked and must be given reciprocal consideration in the public policy development process. The continued politicisation of these critical measures must be recognised by all policy makers as a threat to national economic well-being demanding a collaborative, bipartisan approach at a Federal and State level.

Industry continues to seek policy certainty, stability and coordination as an enabler of investment.

Development and implementation of any future national emissions policy should continue to occur in close consultation with industry, with consideration of the likely impacts of implementation and transition for operators.

7. Energy Infrastructure

Government should prioritise the strategic development of energy infrastructure given its importance in the development and operation of resources projects and its role as a fundamental prerequisite in project development.

National electricity infrastructure should be given government support whether by way of direct financial commitment or underwriting. Cost allocation mechanisms should be equitable and based on the notion that beneficiaries pay their net share of fixed costs where production is contributing to the economic prosperity of the State. Users should not be expected to bear all the risks of infrastructure financing.

Policy makers should pursue facilitative regulatory settings that remove barriers to investment in new energy infrastructure by the private sector, particularly where this investment is critical to project development.

Projects that provide cross-sectoral economic and social benefit in regional and remote locations should be pursued.

8. Hydrogen

The development of a National Hydrogen Strategy and its coordination through the COAG Energy Council is a positive step in laying the foundations for developing a new energy export market by 2030; and in creating opportunities for its domestic use.

SACOME recognises that the strategic development of hydrogen through the National Hydrogen Strategy can create significant commercial opportunities for industry as the global economy becomes increasingly carbon-constrained.

South Australia is well-poised to benefit from strategic development of hydrogen, with demonstration projects critical to the hydrogen supply chain already in operation. Furthermore, the abundance of renewable energy generated in the State offers a low-emissions source of electricity necessary for the electrolysis process required to produce hydrogen from water.

Hydrogen has potential for application as an energy source at remote project locations where fuel cells running on hydrogen produced on-site could replace diesel generators.

The principle of government-industry partnership underpinning the National Hydrogen Strategy is important to realising its long-term objective and is supported by SACOME.

9. Nuclear Energy

Nuclear energy should be given genuine consideration in development of all future national energy and emissions policies, taking an integrated approach across fuels, sources of generation, networks and the different requirements of customers for type, quality and reliability of energy.

South Australia is possessed of large quantities of uranium and stable geology conducive to making nuclear energy a viable low-cost, low-emissions option. Despite its export value to the State and its use in energy generation elsewhere in the world, uranium remains unavailable for domestic use, languishing as a policy option for political reasons.

The South Australian Nuclear Fuel Cycle Royal Commission was an important first-step and recommended the development of a comprehensive national energy policy which enables all technology, including nuclear, to contribute to a reliable, low-carbon electricity network at the lowest possible system cost.

3. Conclusion

Energy is an area of vital policy importance to the resources sector and SACOME's member companies.

The SACOME Energy Policy aims to provide a clear statement of policy principles reflecting the priorities of our member companies and urging action on the part of policy makers.

It is intended to inform and guide Federal and State policy makers at a time when energy generation and supply in Australia is undergoing a period of unparalleled transformation.

The resources sector is both a creator and consumer of energy, with a significant proportion of Australia's national wealth derived from energy export.

While the need for affordable, reliable energy is common to all users, the energy needs of the resources sector are distinct given:

- the importance of energy prices as a component of business viability;
- the scale of resources operations;
- the quantity of energy required to power them;
- the consequences of an interruption to supply;
- the importance of energy as a pre-requisite to project development; and
- the scale and cost of energy infrastructure investment required for project development.

Energy and emissions policy are interlinked and must be given reciprocal consideration in the public policy development process. Where energy and emissions policy intersect, partisanship must be put aside in the interests of providing clear, consistent regulatory settings for industry.

Ongoing coordination of energy policy between Commonwealth and State Governments must continue to be a priority for the COAG Energy Council.

South Australia has been at the vanguard of energy change and, along with the rest of the country, continues to experience some of the highest electricity and gas prices in the world.

This is an unsustainable operating environment for industry and requires urgent resolution.