

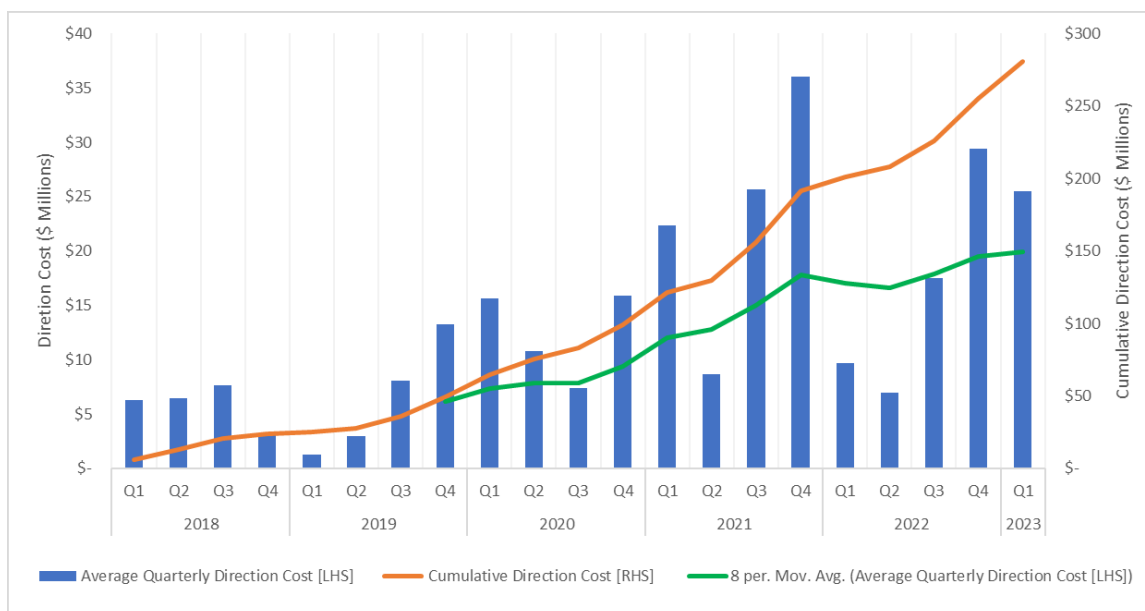
18 September 2023

## Disorderly energy transition driving up costs.

South Australian industrial companies are bearing the brunt of increasing energy bills, regulatory charges, and pass-through costs due to the State's disorderly energy transition.

In the wake of the State Government's *Energy Transition Green Paper*, the South Australian Chamber of Mines & Energy (SACOME) reiterates its call for an Energy Transition Roadmap that provides a pathway to meet Net Zero commitments while reducing the crippling financial impact on industry and maintaining our State's economic competitiveness.

Recent independent analysis commissioned by SACOME has confirmed South Australia's energy transition has cost hundreds of millions in system security costs, market interventions, infrastructure upgrades and energy transition measures since 2016, with costs continuing to escalate.

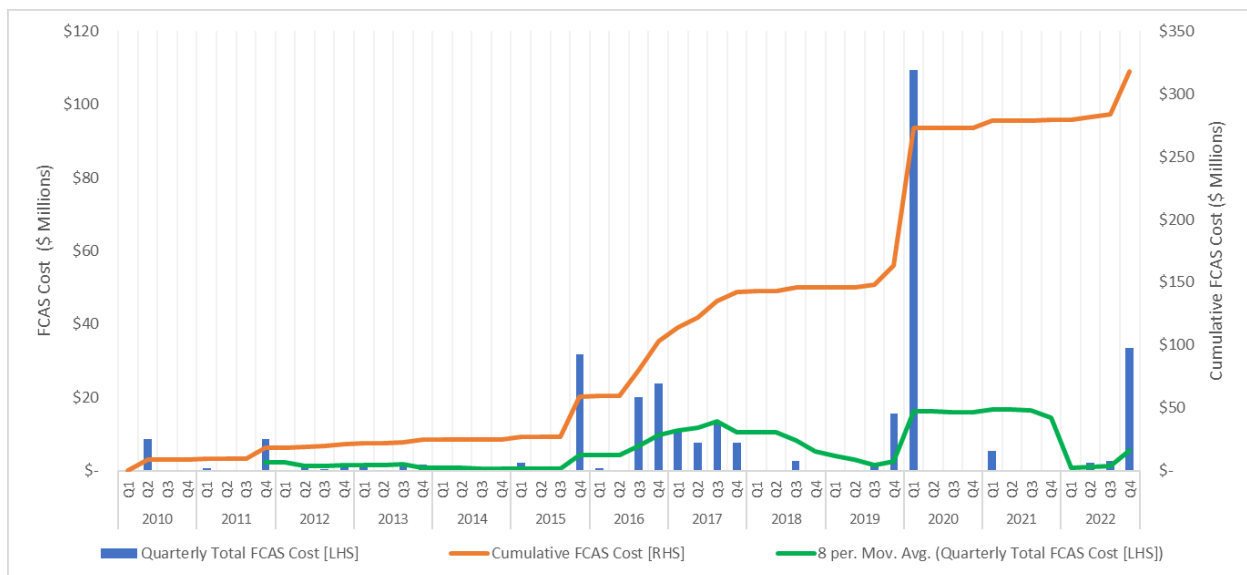


**Figure 1: SA Direction Costs, its moving average and the Cumulative FCAS Costs, 2018 to 2023<sup>i</sup>.**

Due to the disorderly transition, direction charges, largely borne by commercial and industrial customers, have increased from \$6.15 million in Q4 2019 to \$19.94 million in Q4 2022, a 224% increase (Figure 1).

These charges are being passed on to businesses - and inevitably consumers - with large industrial customers reporting that market intervention costs now account for approximately 20-30% of their electricity bills.

Costs of frequency control in South Australia, once reliably \$1 million - \$3 million per quarter, are also escalating. Data shows unpredictable costs now commonly in the tens-of-millions of dollars per quarter.



**Figure 2: SA Frequency Control Ancillary Services (FCAS) Costs (2010-2022)<sup>ii</sup>.**

Past energy policy decisions, across multiple electoral cycles, has resulted in higher electricity prices, lower system security and far greater risk and uncertainty for industry.

Acknowledging the deeply complex nature of the energy market, coupled with the need to rapidly decarbonise the economy, SACOME has long advocated to the State Government for an orderly Energy Transition Roadmap that accounts for the whole cost of the energy system and minimises the financial pain for South Australian businesses.

SACOME makes a number of other recommendations to the State Government in its submission to the *Energy Transition Green Paper*, including:

- Inclusion of a 'Resources' representative on the Premier's Climate Change Council with expanded objectives;
- Review of the Retailer Energy Productivity Scheme; and
- For all proven low-emission energy sources to be on the table, including renewable energy, natural gas, nuclear energy and carbon abatement technologies.

SACOME's submission to the *Energy Transition Green Paper* is available [here](#).

## **Quotes attributable to SACOME CEO, Rebecca Knol:**

*As a result of the unplanned energy transition, wholesale power prices are now impacted by the cost of regulator intervention, direction costs, infrastructure and transmission charges and a range of other pass-through costs."*

*"Alarming, the cost of system security directions in SA has increased by 224% over a 5-year period and there are no signs of abatement."*

*"The State target of net 100% renewable generation by 2030 sets an important decarbonisation goal but is silent on how government and heavy industry can work collaboratively to meet those targets while simultaneously achieving the State's economic ambitions."*

*"There are many pathways that can be taken to meet Net Zero. Currently we are heading down a pathway that is disorderly and extremely costly for businesses. Instead, we need to choose the pathway that will decarbonise the economy and will be the least costly for our industrial sectors."*

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<sup>i</sup> Figure 1 is calculated using the AEMO Quarterly Energy Dynamics (QED) report data and costs are exclusive of GST. The upward trend is demonstrated by the moving average of the Average Quarterly Direction Cost. The green line shows the first moving average cost from Q4 2019 is \$6.15 million and the most recent from Q4 2022 is \$19.94 million, representing a 224% increase over the approximate 5-year period. Prior to 2018, SACOME understands that interventions were previously barely a feature in the market.

<sup>ii</sup> Figure 2 presents the SA Local Quarterly Total FCAS Costs, its moving average, and the Cumulative FCAS Costs from 2010 to 2022. The costs are exclusive of GST. The graph is calculated using the SA AER Quarterly Local FCAS costs. These FCAS payments were made to meet Local SA Requirements and are separate to payments made by SA to meet Global Requirements. The moving average of the Quarterly Total FCAS Cost highlights a gradual increase in cost. The first moving average cost from Q4 2011 is \$2.26m and the most recent from Q4 2022 is \$5.55m. This represents a 146% increase over the 12-year period.