

8 November 2019

Mr Paul Heithersay
Chief Executive
Department for Energy and Mining
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Working for your business.
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Dear Mr Heithersay

I write in response to your request for submissions to the State Government's consultation paper on its Energy and Mining Strategy.

Executive Summary

- Business SA welcomes the State Government's transparency about high energy prices and its focus on ensuring local businesses can access competitively priced energy supplies, both at a national and international level. We also endorse a firm and transparent price target approach, so long as it adequately caters for large customer markets
- Growing energy related exports, including to interstate, should be possible in South Australia but in developing potential markets like those being flagged for hydrogen, we must not lose sight of domestic market opportunities which are the best leverage point to build competitive advantage in export markets
- Future efforts by the State Government to support energy efficiency must include both measures which cater for both gas and electricity, particularly given gas is a much larger relative concern for business versus residential customers
- Future energy and mining development opportunities can co-exist with those which support the agriculture/horticulture/viticulture and associated food & beverage manufacturing sectors, but the State Government should consider how the land planning system can better delineate lands with high agricultural potential.

Should you require any further information or have questions, please contact Andrew McKenna, Senior Policy Adviser, on (08) 8300 0009 or andrewm@business-sa.com.

Yours sincerely,

Anthony Penney
Executive Director, Industry and Government Engagement





Why this matter is important to South Australian businesses

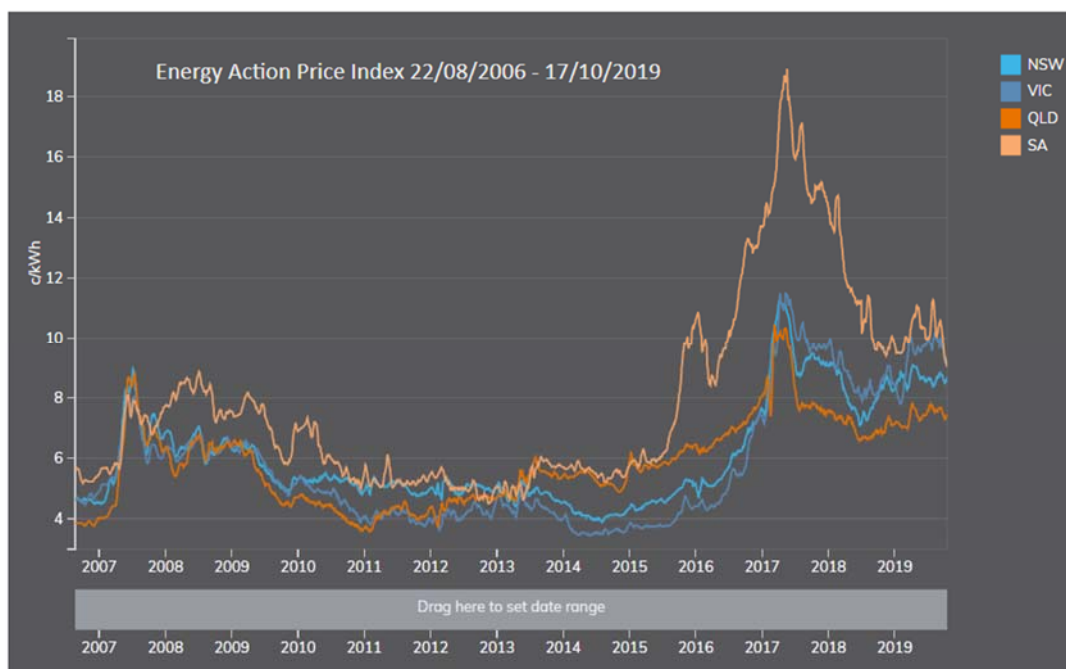
As South Australia's Chamber of Commerce and Industry, with a history dating back to 1839, Business SA is the peak business membership organisation in the State. Our 3,100 members are affected by this matter in the following ways:

- South Australian businesses have long faced the highest energy costs in the country, particularly with respect to electricity, and for these businesses to be competitive in both national and international markets they must be able to access competitive input prices
- Considering South Australia now has approximately 50% renewable energy generation and there are growing opportunities to develop green hydrogen here, local businesses also want to be able to leverage from lower carbon energy as a point of difference in global markets
- The South Australian business sector is diverse, and many of the larger employing energy intensive businesses often see energy policy as being primarily targeted at residential customers, but those residential customers need jobs and the tone of this strategy in improving the competitiveness of South Australia's energy supplies is welcome.

Business SA has commented on relevant topics raised in the Review's discussion paper:

1. Competitive Energy

Business SA concurs with the assessments provided about the significant increase in electricity and gas costs for South Australian business consumers over the past decade. While there has been some moderation in future electricity contract prices for large market customers, using over 160MWh per annum, we need to bear in mind that contract price levels still exceed pre-energy crisis (2015-18) historic highs.





South Australia has also just experienced its highest average wholesale spot electricity price for a financial year, \$128/MWh for 2018/19. This is three times higher than that experienced in 2014/15, \$42/MWh, the year prior to the withdrawal of Alinta's Northern Power Station.¹

Furthermore, the broader gas market situation has not markedly improved and while gas prices are generally not as high a consideration for residential customers, particularly with distribution being a higher cost component, their relative impact on gas intensive businesses is high and it is these employers which the Government also needs to consider. This is even more critical for a state like South Australia where so many of our food and beverage manufacturers are active in export markets.

2. Proposed Targets

Business SA supports the State Government having a specific target for the competitiveness of energy supplies. Being nationally competitive by 2025 and internationally competitive by 2030 seems like a reasonable goal, but the key will be how in fact the definitions are reached as to what constitutes being both nationally and internationally competitive.

For a start, the Government must ensure that both small and large market customers are nationally competitive. For many years, Governments have tended to focus on what is occurring at the residential customer level given the relatively higher level of transparency. Business SA agrees it is harder to gauge what is happening for larger businesses, although there are a range of available measures, and we note the consultation paper makes reference to future contract prices which is a useful start albeit noting the generally low levels of actual ASX contract trades in South Australia².

The National Irrigators Council price ceiling target of 8 cents per KWh for electrons and 8 cents for supply is a useful starting point for the large market electricity customer target, whereas a small market customer target might be more relevant around the 12 cent range for both metrics. Alternatively, by the Government focusing on a large customer price target, the price for small customers is likely to track accordingly; particularly in the presence of a default market offer.

Key drivers for gas costs tend to be more, but not entirely, national. However, there is still an onus on the State Government to play its part in both bringing gas costs down through promotion of both conventional and unconventional extraction, while also focusing on the promotion of gas efficiency. In terms of gas price targets, \$6/GJ for usage is probably realistic when considering the additional cost of unconventional extraction.

¹ Australian Energy Regulator, Annual volume weighted average spot prices, <https://www.aer.gov.au/wholesale-markets/wholesale-statistics/annual-volume-weighted-average-spot-prices>

² For the week ending 28th Oct 2019, distribution of volume by region: NSW 53.02%, QLD 37.42%, VIC 7.66% and SA 1.89%



3. Energy Efficiency

Business SA has previously raised the need for gas efficiency support for local businesses, particularly given the previous Energy Productivity Program excluded gas, even from the audits themselves. In our recent submission to the 2019/20 State Budget, we proposed a Gas Options Program to encourage businesses to reduce their reliance on gas for boilers and other heat and steam generating plant and equipment. Much can be done to improve boiler efficiency, such as installing steam accumulators. Other gas efficiency options include insulation, burner upgrades and condensate return. There are also many heat recovery opportunities such as installing economisers, flue gas condensers and recuperators. The GO program could also include assistance to install gas monitoring equipment and incentivise innovation around opportunities for business to find non-gas alternatives for generating heat, for example thermal energy storage or waste to energy.

The current review of the Retail Energy Efficiency Scheme (REES) is another practical way for the Government to follow interstate precedent from Victoria and New South Wales by encouraging gas efficiency activities to assist small businesses with reducing energy bills.

In terms of actual energy productivity targets though, while these might be useful at an individual scheme level, they are unlikely to be as easily understood or measurable at a broader whole-of-economy level and should not receive the same focus as targets which mandate a specific price or cost for users across the spectrum, including small, medium and large business users.

4. Funding

Business SA is cognisant that any Government policy intervention in the market comes at a cost which must be weighed against both existing energy prices, and the likelihood that the intervention will achieve outcomes the market would not otherwise achieve in its absence.

In relation to any additional Government intervention to achieve the Strategy's proposed targets, Business SA recommends all existing programs be considered in tandem as well as spending by energy networks and the Federal Government, including its agencies. Business SA is involved in a wide range of consultation on energy related matters and we always stress that while many objectives in of themselves may appear reasonable, it is the businesses and residential consumers paying the bills and taxes which foot the cumulative cost. This has been significantly higher in recent years as State and Federal Governments have often taken alternative paths to solving the same problem.

For a start, South Australian electricity consumers are already likely going to foot the cost for a significant portion of the \$1.5 billion interconnector proposal to New South Wales as well as other existing spending by the State Government on grid-scale storage incentives, home battery schemes and the like. This is in addition to recently approved spending by the Australian Energy Regulator on four new synchronous condensers costing approximately \$180 million to be integrated within the State's electricity transmission network. We are not necessarily disputing the merits of these individual projects and we recognise the aim is ultimately to reduce prices, but we remain mindful of the need to keep watch on the collective spend being made to provide competitively priced and reliable energy and continuing to question whether that goal is being met in the most efficient manner.



5. Hydrogen

Business SA is supportive of both State and Federal Government efforts to position Australia, and particularly South Australia, to be able to take advantage of any genuine market opportunities for green hydrogen, including in both domestic and export markets.

However, we caution against getting too focused on export markets without having proven our actual capability in the green hydrogen industry, and subsequent competitive advantage. We need to be focussed on how we can first replace conventional hydrogen being used in Australia. This is the focus of a feasibility study in Western Australia's Pilbara Region with Yara and Engie working to ultimately convert an existing fertilizer plant to use ammonia made using green hydrogen. Business SA recognises the State Government's support for the Hydrogen Utility project on the Eyre Peninsula which is similarly looking to manufacture green ammonia and we support further investigation of options where green hydrogen can be used to replace existing non-renewable fuel sources in local industry. Increasing the adoption of green hydrogen in local industry would also help South Australian businesses to leverage a carbon neutral position in global markets.

6. Developing the Energy & Mining Industry in concert with Agriculture/Horticulture/Viticulture and associated Food & Beverage Manufacturing

Business SA has a broad membership base of approximately 3,100 businesses across all industry sectors, including agriculture/horticulture/viticulture, food & beverage manufacturing and energy & mining. We appreciate the strong contribution all these sectors have made to the state's economy over the past 180 years, particularly our export orientated economy. While we firmly believe that in the main, farming and mining can co-exist, we also acknowledge that at times mining may be inappropriate in certain areas.

We recognise that agricultural land can vary significantly in its productivity for a range of factors from soil types, reliability of rainfall and access to water to name a few. For background, around 2013 PIRSA conducted a range of scientific analysis to determine Primary Production Priority areas (PPPAs) across South Australia.

The previous State Government's urban growth boundary legislated in 2016 was predicated on the basis of introducing Environment and Food Production Areas across large swathes of land to the north, east and south of Adelaide, which reflected PPPAs without entirely adopting the scientific approach taken by PIRSA. However, Business SA accepts that Environment and Food Production Areas were also introduced to limit urban sprawl, another driver for the previous Government's blanket approach to protecting agricultural land.

Notwithstanding, Business SA does not support blanket restrictions on developing agricultural land, particularly as it impacts progress on important mining proposals which can deliver significant economic returns to the state, including jobs. On this basis, we opposed the Government's decision to implement a blanket ban on hydraulic fracturing (fracking) throughout the state's South East.



There will always need to be a balance between satisfying the interests of competing industries in the economy and using evidence- based logic to protect prime agricultural land is the optimum way to ensure blanket approaches to the mining sector do not unnecessarily diminish the prospects of major projects.